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CSR Instruments: A Guide for Policymakers

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CSR Instruments – A guide for policymakers

Anke Hassel

Globalisation has prompted two related developments: First, the distances between regions and people have shrunk with closer cooperation and integration, leading to a higher degree of political interconnectedness. Second, firms now have further-reaching economic power, and therefore, responsibilities. Both trends have changed the role of the firm in the global economy and society by raising public expectations about how firms should contribute to the social and environmental well-being of the globe.

These developments have also shaped the discussion of Corporate Social Responsibility (CSR). Traditionally, CSR involved a mixed bag of management tools designed to please the firm's stakeholders: local communities, employees and consumers. A range of activities were understood as constituting CSR. Firms donated to local schools, supported charities, ran art galleries and encouraged their staff to volunteer for community programs. Managers today continue to subscribe to a number of arguments in favour of a "business case for CSR." Employee motivation, consumer demands and the war for talents are all understood as contributing to the firm's success.

But in the context of globalisation, CSR has transformed into a much more comprehensive package, centered on the concept of corporate 'responsibility'. In today's global marketplace, CSR is about turning firms' negative externalities into positive contributions to communities and the environment, in a way that reaches far beyond the structures of national and global governance. The benchmark for a globally responsible firm is no longer limited to whether it cares for the communities in which it operates and behaves as a good employer, but also to what extent its value chain and business model creates or reduces problems for the environment, the wider community and democratic processes around the world.

This more comprehensive take on CSR – which simultaneously increases the responsibility and the legitimacy of the firm as a global actor – has in the last two decades transformed CSR into a public policy issue. Many arguments motivate policymakers to engage in the CSR debate: Firms can contribute to the provision of public goods and the solution of policy problems at a global scale; they can support governance in areas of limited statehood, and play a role in the achievement of social and environmental aims. Governments today are forced to handle increasing numbers of policy problems, and with fewer and more limited resources. The spread of the

market has unleashed productivity and growth. This, in turn, has generated the need for a more satisfactory definition of the role of the firm in global governance.

This handbook on CSR instruments outlines the evolving role of firms in solving policy problems.[1] It discusses various types of CSR instruments designed to support or develop firms' socially responsible behaviour. It is based on the assumption that policymakers and analysts working in CSR-related areas of public policy require a better understanding and awareness of the instruments at their disposal when designing CSR development strategies.

The contributions in this handbook, although wide ranging, do not cover all available instruments in the CSR toolbox. For instance, product certification and labeling are not covered in the book. On the other hand, some of the instruments that are covered, such as the Dow Jones Sustainability Index and the Equator Principles, are business initiatives that require little input from public policymakers. The Global Reporting Initiative is also a private initiative, run by a non-governmental organisation (NGO), as is the ISO26000 norm. The Global Compact and the OECD Guidelines for Multinational Enterprises, by contrast, are initiatives of international organisations. At the level of national governments, the Extractive Industry Transparency Initiative and Sustainable Procurement Policies are presented.

The aim of this handbook is not to single out any one best approach. Nor does it attempt to draw conclusions about the relative value of voluntary agreements versus hard regulation. In our view, the question of the voluntary nature of CSR, which has long dominated the debate, misses the crucial point about the new role of the firm in the global economy. The success of corporate responsibility requires interaction between CSR as a management approach with expectations about firms' behaviour established within the political and civil society arenas. Many firms have adopted codes of conduct and internal management processes in which they define standard operating procedures on social, environmental and political issues. These practices coincide and interact with a number of regulatory bodies, from self-regulatory bodies such as the Equator Principles, to learning platforms such as the GRI or Global Compact, or hard regulatory tools such as the OECD Guidelines.[2]

Global firms need to redefine their political, ethical, social and environmental standards, and should use CSR practices in doing so. The more active firms engage in learning platforms, where they exchange ideas, problems and potential solutions with each other. Governments can use these platforms to forward their own expectations regarding desirable private sector behaviour.

Private self-regulation and learning platforms are flexible tools, since standards are usually set by few actors. On the other hand, implementation is weak and depends on the credibility of the participants. After some time, voluntary codes, self-regulation and

learning platforms must consider implementation and monitoring; otherwise, participants might reap the benefits of signing up, but not deliver on their commitments.

Government regulation interacts with self-regulation and voluntary codes. Export credit guarantees, social public procurement and ethical investment requirements for publicly subsidized pension funds give indirect support to CSR standards. As a result, self-regulation, private regulation and indirect government regulation complement each other, creating a web of rules and mutually reinforcing standards. Each of these elements serves a different purpose: codes of conduct to educate management, self-regulation to experiment with standards, and indirect government regulation to extend these standards to those firms which so far have been absent from the CSR agenda.

Which CSR instruments policymakers should focus on therefore depends on the stage of development of CSR instruments in their country, region or sector. There is no 'one size fits all' policy recommendation. In a business community distanced from CSR, multi-stakeholder forums and learning platforms are a helpful starting point. If firms have already embraced a comprehensive CSR agenda, but are reluctant to deal with problems in their supply chain, an appropriate approach may be to sharpen the teeth of OECD Guideline implementation.

From a public policy perspective, it is important to underline the importance of governments' approach. Even if governments decide not to regulate CSR, they have ample opportunity to lay down a CSR agenda. Governments can legitimize self-regulation and private regulation by cooperating with voluntary standards, by funding private agencies and by applying voluntary standards when purchasing goods or giving credit guarantees. They can jointly develop criteria for such standards with private agencies. They can also express the expectation that firms contribute more to the monitoring and evaluation of business practices; firms monitor their main competitors closely, and often have a superior knowledge about the true standards in the industry than they reveal to public authorities. Finally, governments can set up or support watchdogs for corporate compliance with voluntary standards and insist that those firms which repeatedly use blue-wash strategies not be represented by global industry associations.

In developing an effective CSR strategy, policymakers cannot hope to deal comprehensively with the range of actors currently in the field. Governments and policymakers will have to decide who to back as leaders in the market for voluntary standards. In doing so, they will help concentrate the initiatives currently on the market. This guide for policymakers does not suggest that the initiatives it presents will become or remain market leaders. However, by giving an overview, it should help policymakers select the most relevant initiatives for their circumstances.

OECD Guidelines for Multinational Enterprises

Viacheslav Shelegeiko

The OECD Guidelines for Multinational Enterprises are a set of voluntary recommendations for multinational enterprises (MNEs) operating in and from forty adhering countries.[3] They address all major areas of business ethics, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. The participating countries account for 85 percent of world investment flows.[4]

The Guidelines are one of four annexes to OECD Declaration on International Investment and Multinational Enterprises, a broad political commitment adopted by OECD Governments in 1976 to facilitate direct investment among OECD Members. The other three annexes are instruments through which adhering countries commit to treating foreign-controlled enterprises in at least the same way as national ones, avoid imposing conflicting requirements on enterprises from different countries, and improve cooperation on measures affecting international direct investment.

At the time of their publication, the Guidelines engendered one of the first attempts to produce a multilateral code of conduct for companies operating in diverse environments. Promoting "rules of the game" in areas where multilateral agreement is necessary for individual countries to progress in a globalized economy, their purpose is to help MNEs operate in harmony with government policies and societal expectations through positive contributions to economic, environmental and social progress.

The Guidelines were substantially revised in 2000, and adopted following two years of consultations involving business and trade union committees to the OECD, BIAC (Business and Industry Advisory Committee) and TUAC (Trade Union Advisory Committee), respectively, as well as NGOs. Important revisions included its extension to the global scale (rather than only to the OECD world as before), coverage of both multinationals and their local subcontractors, and explicit inclusion of internationally recognized human rights and core labour standards. Chapters on corruption and consumer interests were also added. Moreover, the revised Guidelines assign a distinct role to civil society/NGOs, along with governments, businesses and trade unions. The 2000 Guidelines establish general policies that multinationals are expected to follow in eight policy areas: disclosure of information, employment and industrial relations,

environment, combating bribery, consumer interests, science and technology, competition and taxation. Each policy area is accompanied by implementation procedures and commentaries.

Institutional structure and implementation

The institutional set-up for promoting and implementing the Guidelines is described in the OECD Council Decision and its Procedural Guidance. It consists of five main elements: National Contact Points (NCPs); the OECD Investment Committee; the business representative body BIAC; the trade union representative body TUAC; and NGOs, especially OECD Watch, an international network of civil society organisations. These elements are briefly described below:

- NCPs are government offices responsible for encouraging observance of the Guidelines within countries, and for ensuring that they are well-known and understood by the national business community, investors, employee organisations, NGOs and other interested parties. NCPs translate the Guidelines into national languages; organize promotional activities; handle inquiries; discuss and assist in solving problems at the national level; gather information on national experiences with the Guidelines; and report annually to the Committee.
- The Investment Committee, consisting of member states and observers, is responsible for overseeing the functioning of the Guidelines and to take steps to enhance their effectiveness. Its functions include: responding to requests on specific or general aspects of the Guidelines; organizing exchanges of views on related matters with social partners and non-members; issuing "clarifications"; reviewing the Guidelines and/or procedural decisions in order to ensure their continued relevance and effectiveness; organizing promotional activities; and reporting to the OECD Council. The non-binding nature of the Guidelines precludes the Committee from acting as a judicial or quasi-judicial body.
- BIAC, TUAC and OECD Watch (and other NGOs), as representatives of business, labour and civil society, are regularly consulted by the Investment Committee on matters relating to the Guidelines, and on other issues concerning international investment and multinational enterprises. They, in turn, may request consultations with NCPs. They are also responsible for informing their member federations about new developments in the Guidelines and for seeking their members' inputs on implementation procedures. They may also participate in promotional activities organized by NCPs or the Committee on a national, regional or multilateral basis.

When issues arise concerning implementation of the Guidelines in relation to specific instances of business conduct, NCPs are expected to help resolve them. Generally, issues are dealt with by the NCP in whose country the issue has arisen, but bilateral contacts between NCPs may also be pursued. After making an initial assessment of whether the issues raised merit further examination, the NCP will offer its good offices to help the parties involved to resolve the issues. Where no agreement can be reached on the issues

raised, the NCP issues a public statement or makes recommendations. Any person or organisation may approach an NCP to enquire about matters related to the Guidelines.

Clarifications

As the Guidelines are drafted in general terms, under certain circumstances clarifications of meanings may be necessary. The purpose of such clarifications is to provide additional information about whether and how the Guidelines apply in a particular business situation. Although clarifications may arise in connection with the activities of a specific enterprise, they are not intended to assess the appropriateness of that enterprise's conduct.

The clarification procedure is as follows: If a party is uncertain about the Guidelines' applicability in a particular context it should approach the NCP. Parties may include enterprises, businesses, labour organisations, NGOs or any other interested party. If an enterprise is directly concerned, the NCP informs the enterprise that an issue has been raised. The NCP, business and labour representatives and other interested parties then try to clarify the matter. The NCP may contact other NCPs if the issue under consideration concerns more than one adhering country. In case of any doubt or divergent views, the matter is brought to the attention of the Investment Committee. Final responsibility for clarifications lies with the Committee. A request for clarification may be referred to the Committee by government authorities, TUAC or BIAC. The Committee discusses the matter, and consults with BIAC and TUAC. If an enterprise is directly concerned, it may express its view to the Committee orally, in writing or through BIAC. Following deliberations, the Committee may issue a clarification of how the Guidelines apply under the given circumstances. Clarifications do not constitute a judgment on the behaviour of an individual enterprise, and thus do not refer to them by name.

Compliance

The Guidelines are unique amongst CSR instruments in that they constitute an inter-governmental agreement. This has serious implications for their implementation. First of all, it implies a duality in coerciveness: the Guidelines are binding for governments and non-binding for companies. Second, this duality translates into two analytically distinct phases of compliance: governments have to comply with their international commitments, while companies can choose to comply or not. Thus, the ultimate goal of changing firm behaviour in such a way that their practices "contribute to economic, social and environmental progress with a view to achieving sustainable development" depends heavily on governments' efforts in implementing the Guidelines. The two phases of compliance are elaborated below.

Government compliance

Signatories' main commitment under the Guidelines involves setting up NCPs to handle promotion and implementation activities. NCPs can take different forms: a single

government agency, an inter-ministerial body or a tripartite (government, labour and business) arrangement. Whichever form is chosen, labour, business and NGOs must be informed about the NCP's existence, and the NCP itself is expected to develop and maintain relations with these groups. In this way, governments are pressured to uphold their commitments by domestic actor engagement.

Company compliance

The Guidelines are not legally binding for companies. Any interested party believing a company to be in violation of the Guidelines can raise the case with the NCP. The NCP then attempts to resolve the issue by seeking advice from authorities, experts and relevant stakeholders, consulting NCPs in other countries, seeking guidance from the OECD Investment Committee, providing a forum for discussion between affected parties, and offering conciliation or mediation. If the parties are unable to agree on how to solve the problem, the NCP is required to issue a public statement on the case and/or make recommendations to the parties on how the Guidelines apply in the given context. Companies are expected to voluntarily change their behaviour, or, if the NCP fails to solve the problem, change it under public pressure following publication of their non-compliance.

Policy Discussion

The policy discussion surrounding the implementation of the Guidelines is largely driven by NGOs; most notably, OECD Watch, Friends of the Earth, Corporate Watch, Human Rights Watch and NGOs from the Clean Clothes Campaign. The most outspoken critics among them argue that the OECD is a "crude, lumbering think-tank of the most wealthy nations, bulldozing over human dignity without pause for thought"[5]; that the Guidelines are "a non-enforceable 'gentlemen's agreement', [which] is utterly useless"[6]; and that "there is the crucial defect that the Guidelines still are merely recommendations [which] will remain politically ineffectual."[7]

In addition to substantial skepticism about the effectiveness of voluntarism for companies, NGOs also point to deficiencies in the operation of NCPs in adhering countries. NCPs are said to adopt widely differing approaches in the way they handle complaints, with some critics pointing to "the increasing use of procedural devices by some NCPs to disallow complaints."[8] NCPs are also accused of being slow and cumbersome. According to OECD Watch, the average time taken by NCPs to conclude specific instance procedures is about 10 months, with some NCPs – such as in the UK – taking more than twice as long. The Austrian NCP rarely takes responsibility for dealing with complaints, often delegating issues to other NCPs.[9]

The Dutch NCP, by contrast, is singled out as the best performer: "decisions on admissibility are usually taken within a reasonable period of time after a couple of months; the complainants soon thereafter have a meeting with the NCP and other government representatives to discuss the case; after these meetings the NCP circulates

minutes. After an exchange of information between the parties the NCP convenes a further (and usually) final, meeting after which a decision is made."[10] This procedure is especially exemplary in light of commonly cited failures of NCPs to communicate appropriately with all stakeholders, regarded in NGO reports as a serious obstacle facing the Guidelines' implementation.[11] The Dutch NCP is also commended for playing a proactive role in helping identify points of agreement as well as areas of disagreement.

Another point of contention in civil society concerns supply chain responsibility. Although the 2000 revision of the Guidelines extended the scope of the document to MNEs' supply chain partners and sub-contractors, the Guidelines remain inapplicable at many points along the supply chain. In 2003 the OECD Investment Committee held that the Guidelines had been developed in the specific context of international investment by MNEs, and that their application rests on the presence of an "investment nexus"; that is, investment rather than trade gives companies leverage over their partners, so investment activities alone should be covered by the Guidelines. NGOs expressed dissatisfaction with the decision, saying that it entailed a re-interpretation of the document. They argued that companies had other ways of influencing their partners, such as market power and certain business practices (certification, product tracing systems). Accordingly, OECD Watch maintains that "no artificial distinction between trade and investment should be made in the interpretation or implementation of the Guidelines. The scope of application … should be interpreted as recommendations for responsible international business conduct."[12]

From the perspective of trade unions, the Guidelines are primarily the responsibility of governments. Governments should improve their NCPs' capacities to pressure businesses, to ensure that they follow certain standards of corporate responsibility and accountability and provide labour with fair conditions. According to one TUAC representative, potential improvements could include enhancing awareness-raising activities, both inside and outside of adhering countries, and providing timeframes for dealing with cases.[13] In addition, trade unions have joined NGOs in calling on governments to link services to companies, such as subsidies, export credits or political insurance through export credit guarantees, to individual firms' compliance with the Guidelines.

Recommendations

The Guidelines are a potentially effective CSR instrument. A number of unique strengths put them in a privileged position among other instruments. In particular, the Guidelines' legitimacy is supported by the governments of forty countries, accounting for a majority of the world's investment flows. Additionally, the Guidelines apply to MNEs *and* their supply chain partners in both adhering and non-adhering countries. This almost global coverage, combined with their comprehensive thematic coverage, make the Guidelines an instrument of prime reference for companies. Finally, the Guidelines provide for institutionalized interaction between businesses, unions,

governments, NGOs and society as a whole as an integral part of their implementation procedures.

However, comprehensiveness comes at the cost of specificity. The Guidelines establish a set of useful normative benchmarks, but company managers require more practical guidance if they are to make use of the Guidelines in their day-to-day business practices. This is particularly important because the Guidelines are voluntary for companies, which leaves them at risk of becoming yet another set of principles, void of meaningful application. A further problem is the Guidelines' lack of identifiable targets and indicators with which to monitor company compliance; the Guidelines fail to provide for systematic monitoring, leaving it to "interested" parties to engage in ad hoc monitoring efforts instead. Clearer company performance indicators could regularize this system. Finally, although trade activities are not explicitly beyond the Guidelines' scope, they are effectively circumscribed by the investment nexus. When coupled with NCPs' unwillingness to act, as documented in many NGO reports, these weaknesses could render the instrument completely ineffectual.

The recommendations below address the Guidelines' most prominent weaknesses: NCPs' inadequate performance, the lack of systematic company compliance monitoring, the lack of practical guidance for managers, the narrowness of application to investment only, and weak incentive structures.

Enhance promotional capacity of NCPs. The OECD should play a more active role in coordinating the promotional activities of NCPs, and making sure that all are equally active and working as a network. It could also provide technical assistance to less developed NCPs. The capacity of NCPs also depends on the efforts of respective governments.

Establish a clear timeframe for complaint-handling process. This would make the process more predictable and easier to follow. The OECD should coordinate efforts of governments so that timeframes between NCPs are similar.

Connect the Guidelines with more specific reporting (e.g. the Global Reporting Initiative). This would provide managers with practical guidance on how to act on the Guidelines. Furthermore, it would establish concrete targets and indicators against which NGOs and other concerned parties could more consistently judge companies' performance.

Encourage regular company performance monitoring by NGOs. This measure is especially important in the absence of real enforcement. It constitutes a compensatory mechanism for the voluntary nature of the Guidelines.

Link the Guidelines to stronger incentives (e.g. export credit guarantees). Governments should consider such connections as a powerful motivating factor for companies to comply with the Guidelines.

Expand the Guidelines' scope to cover trade. This recommendation is likely to face substantial opposition from companies. But once achieved, it would ensure the Guidelines' applicability to all types of international business conduct and at every level of the supply chain.

ISO 26000 "Guidance on Social Responsibility"

Tobias Hausotter

Projected for release in 2010, ISO 26000 is an international standard on social responsibility[14] currently being developed by the non-profit International Organisation of Standardization (ISO) under its 5 year strategic plan (2005-2010), "Standards for a Sustainable World."[15]

Entitled "Guidance on Social Responsibility," ISO 26000 will provide SR guidelines for all types of organisations – public and private – around the world. As such, it will not contain any requirements and is intended neither for third-party certification nor as a management system standard.[16] In the realm of CSR, ISO 26000 may thus be characterized as an instrument of voluntary self-regulation.

Aside from setting standards, the instrument will provide for learning and stakeholder interaction via its comprehensive development process. Because ISO 26000 is still in its infancy, the following report can only provide a preliminary overview of the instrument and reflects the state of affairs at the time of writing (spring 2008).

Background
A private, non-profit organization established in 1947, ISO is a network of national standards institutes from 157 countries, with a secretariat based in Geneva. In 2001, discussions began within ISO as to whether or not it should develop an SR standard.[17] The subsequent debate culminated with the establishment of an ISO Working Group on SR and the initiation of the ISO 26000 development process in 2004.

The ISO Working Group on SR is composed of experts from ISO members (i.e. national standardization bodies) and liaison organisations. ISO members may send up to six representatives to the Working Group, while liaison organisations may send two. In March 2008, 408 experts and 133 observers from 80 member countries and 40 liaison organisations were participating in the Working Group.[18] In order to ensure developed and developing country representation, the Working Group is jointly led by the Brazilian (ABTN) and Swedish (SIS) ISO members. In order to ensure the balanced representation of stakeholders in the development process, six main stakeholder groups are represented in the Working Group: consumers, government, industry, labour, NGOs, and SSRP (service support, research and others). Finally, the Working Group also takes geographical and gender-based balance of participants into account.

At the time of writing, work on ISO 26000 was at the second stage of the ISO standard development process outlined below:[19]

Table 1: ISO standard development process

Stage	Working item
1	A New Work Item Proposal (NWIP) is issued by the ISO Technical Management Board (TBM) and approved by ISO members.
2	A Working Draft (WD) is developed by a Working Group (e.g. the ISO Working Group on SR) and circulated among Working Group experts for comments and further elabouration.
3	The Working Group continues its work until a consensus on a Committee Draft (CD) is reached. The CD is sent out to all ISO members for comments and voting, as well as to participating liaison organisations for comments.
4	Work on the CD continues until there is agreement to accept it as a Draft International Standard (DIS). The DIS is then circulated to the whole membership of ISO for a five months commenting and voting period. It represents the final possibility to submit modifications.
5	If the DIS receives a favourable vote from ISO members, it is circulated to them again as a Final Draft International Standard (FDIS). The voting period on a FDIS is two months and is only for yes/no/abstention vote.
6	Publication of the final standard.

Where traditionally experts participating in the development of an ISO standard funded their own participation, the Working Group on SR identified this practice as a barrier to participation by two categories of experts: those from developing countries representing government, industry and civil society, as well as those from non-profit organisations (e.g. NGOs, think tanks etc.) based in developed countries.[20] Thus, a funding mechanism for the development of ISO 26000 has been adopted to ensure the broadest possible stakeholder engagement.[21] The fund's key objectives are to "(1) ensure balanced representation among diverse stakeholders in the development of the ISO 26000, (2)

increase and broaden stakeholder involvement to ensure the credibility of the ISO 26000 and its development process, and (3) enable effective participation in the ISO 26000 standardization process."[22] Private companies and foundations, as well as other donors, such as governments, are invited to contribute to the fund.[23]

Rationale

The rationale underlying the work on ISO 26000, including the basic assumptions as to why the instrument's use could change firms' behaviour, is twofold: First, ISO 26000 combines the benefits of a common global standard with the expertise and legitimacy embodied in the multi-stakeholder approach to its development. ISO is the world-leader in the development of international standards and generally only embarks upon the development of a new international standard if it responds to market demand. ISO's success in meeting the practical needs of businesses and other organisations is evidenced by the thousands of ISO standards already used world-wide. The ISO 26000 standard could therefore benefit from the success of other ISO standards. Second, recognizing "that social responsibility involves a number of subjects and issues that are qualitatively different from the subjects and issues that have traditionally been dealt with by ISO,"[24] ISO has for the first time adopted a multi-stakeholder approach that is meant to ensure broad and deep stakeholder engagement throughout the standard development process. By doing so, it is expected that the ISO 26000 will be widely accepted by all key stakeholders.[25]

While there are already numerous CSR instruments in existence, the ISO Advisory Group on Social Responsibility found that an ISO standard could add value to the current instruments landscape. Once agreed, ISO 26000 would be the first global international standard on SR. As such, ISO 26000 would provide guidance to organisations around the world, facilitating their understanding of the concept of social responsibility and its integration into their day-to-day operations. In addition, guidance contained in the final document is expected to cover issues ranging from human and labour rights to environmental protection, how the various existing standards might be understood and linked, and how stakeholders may be engaged and public communication undertaken. The ultimate goal and added-value of ISO 26000 is to develop an international consensus on what SR means and which SR issues organisations need to address, to provide guidelines on how principles can be translated into action, and to identify and spread existing SR best practices.[26]

Content and Implementation

While ISO 26000 is still being developed, its objectives as an international standard on SR have already been defined. Beyond assisting organisations to address their social responsibilities, it should provide practical guidance for the operationalization of SR, identifying and engaging with stakeholders, and enhancing credibility of reports and claims made about SR. Furthermore, ISO 26000 is meant to promote a common

terminology in the SR field and to emphasize performance results and improvements. Finally, it should be consistent, and not in conflict with existing SR instruments.[27]

While the structure of ISO 26000 has been agreed, its content is still being negotiated. According to the latest Working Draft, the proposed structure is composed of the following sections:[28]

Table 2: Proposed design of ISO 26000

	Section	**Description of content of sections**
0	Introduction	Gives information on the content of the guidance standard and the objectives promoting its preparation.
1	Scope	Defines the subjects covered by the guidance standard, its coverage and the limits of its applicability.
2	Normative references	Lists documents which must be read in conjunction with the standard. The inclusion of such a section remains subject to review.
3	Terms and definitions	Identifies terms used in the guidance standard that require definitions and provides such definitions.
4	Understanding social responsibility	Describes factors, conditions and issues that have influenced the development of SR and continue to affect its nature and practice. In addition, it describes what the concept of social responsibility means and how it applies to organisations.
5	Principles of social responsibility	Introduces and explains the fundamental principles and practices of SR. These are: accountability, transparency, ethical conduct, recognition of stakeholders and their concerns, legal compliance, respect for fundamental human rights, respect for international norms.
6	Practices of social responsibility	Introduces and explains the practices of social responsibility. Practices are: identifying SR, stakeholder identification and engagement, integrating SR into the organisation, and communication.
7	Guidance on social responsibility core subjects	Explains the core subjects involved in SR: organisational governance, human rights, labour practices, the environment, fair operating practices, consumer issues, and

		social and economic development of the community.
8	Guidance for organisations on implementing social responsibility	Provides practical guidance on implementing and integrating SR practices, e.g. policies, practices, approaches, issue identification, performance assessment, and communication.
9	Guidance annexes	Annex A: Annex on social responsibility initiatives - a comprehensive list of existing SR initiatives.
	Bibliography	Includes references that might be useful in understanding and implementing SR in an organisation.

Questions concerning which organisations and supply chains will adopt ISO 26000, why they would do so, and under which circumstances, are yet to be answered. One key problem concerning the implementation of the new SR standard is its guidance character, i.e. the avoidance of third-party certification.[29] Research shows that ISO guidance documents are often widely unknown, and their purposes unclear. This could reflect on ISO 26000 and hamper its adoption.[30] A second possible implementation issue concerns the extent to which ISO 26000 will provide benefits to organisations adopting the standard. Opinions on the benefits of existing ISO management standards differ, ranging from assurances that they are beneficial to claims that their implementation was ineffective.[31] It remains to be seen whether the implementation of ISO 26000 will in fact enhance organisations' social responsibility.

Policy Discussion and Evaluation

Literature on ISO 26000 is still rare. The current policy discussion focuses on the instrument's development process, and takes place primarily within the ISO Working Group and amongst experts concerned. However, three main issues can be drawn from the discussion so far.

The first is whether ISO should engage in the development of an SR standard at all: Is SR like other standardization fields? Is a private organisation competent to set SR standards, or is it rather an issue of public policy requiring government initiative? The report of the ISO Advisory Group on Social Responsibility emphasizes that ISO does not have the authority or legitimacy to set social obligations or expectations which are properly defined by governments and inter-governmental organisations.[32] The report underlines that ISO needs to recognize the difference between instruments adopted by authoritative global inter-governmental organisations, and private voluntary initiatives that may or may not reflect universal principles contained in international treaties and conventions.[33] Industry representatives, by contrast, oppose the development of a SR standard on the grounds that a new management systems standard would impose considerable costs on industry. Other stakeholders maintain that SR is a fast-evolving

and complex subject, and that it is therefore not feasible to harmonize substantive social responsibility commitments.[34] In its resolution 35/2004, the TMB acknowledged "that social responsibility involves a number of subjects and issues that are qualitatively different from the subjects and issues that have traditionally been dealt with by ISO."[35] It nevertheless decided that ISO should start developing a SR standard. The adoption of a holistic multi-stakeholder approach to the development of the new standard may be interpreted as a response to this widely held skepticism, and as a means to create the legitimacy necessary for the ISO 26000 project.

Second, the envisioned character of ISO 26000 as a guidance document, as opposed to a certifiable standard subject to third-party auditing, is debated. Originally the new SR standard was to be developed along the lines of ISO 9000 and ISO 14000 management system standards, both of which include third-party certification.[36] However, the ISO Advisory Group on Social Responsibility recommended that a guidance document be developed. As indicated above, guidance standards are often widely unknown and their purposes tend to be unclear, a fact that could reflect on ISO 26000 and hamper its adoption. Accordingly, it has been argued that a standard involving some kind of auditing could furnish confidence necessary to upgrade the credibility of the standard.

Third, the role of developing countries in the development of ISO 26000 has obtained particular emphasis. While about 70 percent of all ISO members come from developing countries, they are usually rather minor actors in the development of new standards. ISO sought to account for this disparity in the development of the new standard, which partially explains the dual leadership of the Swedish and Brazilian national standardization bodies in the development process. The desire to ensure developing country representation was also a motivation behind the establishment of the ISO SR Trust Fund. At the 2004 ISO Conference in Stockholm it was argued that ISO engagement in the area of SR would actually ensure the participation of developing countries in devising a new standard on SR; should ISO not move forward, the work would be taken up by other private initiatives that probably would not support the participation of developing countries to the same degree.[37] ISO has gained a reputation for being highly supportive developing country participation in the development of the new standard.

One of the objectives of ISO 26000 is to be consistent, and not in conflict, with existing SR standards and requirements. Amid the plethora of existing CSR instruments, it is intended to generate consensus on what SR means, and to provide guidance on how organisations can actually translate SR principles into action. Likely success on this objective is reinfoced by the fact that many organisations already very active in the field of CSR and sustainable development, such as the UN, the OECD, GRI, SAI, and AccountAbility, are participating in the development of the standard. Likewise, ISO has signed a memorandum of understanding with the International Labour Organisation (ILO) and the United Nations Global Compact Office (UNGCO) to enhance their

cooperation in the development of the future ISO 26000 standard.[38] While the participation of other key CSR advocates might be explained by them wanting to protect, at least in part, their own interests,[39] it also underlines their interest in the development of the standard. At this stage of the process, no direct competition between ISO 26000 and other already existing initiatives can be identified. However, much will depend on the final product's design, as interaction effects with other instruments have yet to be seen.

Concluding Remarks

Still in its early stages, ISO 26000 is a promising instrument in the area of SR. Its development has been undertaken in a transparent manner, involving a large number of stakeholders, representing a plethora of interests – all important to ensure the legitimacy of the final product. If it meets its own ambitions – i.e. of creating consensus on what SR is and providing guidance how SR can be implemented in practice – the standard could indeed add value to the landscape of existing instruments. But it remains too early to make any final judgments.

Much will depend on the extent to which the chosen approach to standardization – that is, as a guidance standard as opposed to a standard requiring third-party certification – can have real impact on firms' behaviour. As a guidance instrument, ISO 26000 risks becoming like other guidance standards: a document undermined by low credibility and eroded confidence. It therefore seems necessary for the new standard to find some means besides third-party certification to ensure that it is not misused. Only then will it enjoy the confidence and credibility ratings it needs to live up to its expectations.

Further research is needed to fully assess the instrument. The following areas of inquiry are recommended in particular:[40]

- In order to shed more light on the role of ISO 26000 in the SR field, studies into its likely diffusion patterns – with particular emphasis on which organisations may be expected to adopt the standard, why, and under which circumstances – would be useful.
- Given that ISO 26000 is intended as a guidance standard, research on its ability to influence the socially responsible behaviour of organisations would yield valuable insights into its potential effectiveness. Such research might also help determine whether the standard carries any value for the organisations that adopt it.
- Finally, future research should also focus on how ISO 26000 actually fits and interacts with other CSR initiatives. This would help determine if it indeed adds value to existing initiatives, and if so, how and to what extent.

United Nations Global Compact

Henry Haaker

On January 31, 1999, UN Secretary General Kofi Annan announced the creation of the United Nations Global Compact (UNGC) at the World Economic Forum. The announcement came as a reaction to cases of child labour, disregard of environmental standards, and other human rights abuses in developing countries, which showed that companies from developed countries did not uphold their home countries' standards when operating abroad. Due to global supply chains, the classical nation state had lost its capacity to monitor and enforce labour, environmental and human rights standards across borders. Secretary General Annan argued that multinational companies, governments, public sector entities, cities and other societal stakeholders carry responsibility for the development of globalization – it was up to them to ensure that less advantaged parts of the world benefit as much as the developed world. Hence, a new international, multi-stakeholder approach was needed to tackle the problem.

Conceived as a means to react to the growing challenges of globalisation and liberalisation and their unequal distribution around the world, the UNGC was officially launched on July 26, 2000. It derives its normative foundation from four major international treaties: The Universal Declaration of Human Rights, the ILO's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the UN Convention Against Corruption. Based on these treaties, the UNGC is founded on ten guiding principles:

Human Rights
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.
Labour Standards
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.
Environment
Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.[41]

The UNGC is a learning forum where societal actors can exchange best practices, develop common standards, organize themselves in local networks and engage in regional and sectoral partnership projects. The aim is a continuous process of learning and improving working conditions for the sustainable conduct of business.

In 2007, UNGC headquarters in New York wielded an annual budget of USD 8.1 million, of which USD 4.5 million consisted of in-kind donations.[42] The money is raised through the Foundation for the Global Compact, a non-profit organisation founded in 2006 to help raise funds from countries, companies, unions and private donors. Most of the donations come from the developed world.

Implementation
The UNGC is a purely voluntary institution with no direct regulatory power. The main strategies for influencing decision makers involve policy dialogues, mutual learning, local network and partnership projects (e.g. advocacy and awareness raising, social investment and philanthropy, and core business). The only element of the UNGC that could be understood as constituting a soft monitoring mechanism is the so-called COPs (Communication in Progress) mechanism, by which businesses inform their stakeholders of their progress and best practices. Every UNGC member must agree to submit at least one annual COP. However, COPs are not verified by the UNGC office, and companies alone have access to the information proving that improvements reported are indeed achieved.

More than 5,200 participants (including 4,000 companies and 120 countries) had joined the UNGC at the time of writing, and the number is constantly growing. This makes the UNGC the CSR tool with the biggest and most diverse membership. Participants come from the business world (individual companies and associations), labour unions, civil society groups, academic institutions, the public sector, cities and six UN agencies (OHCHR, ILO, UNEP, UNODC, UNDP and UNIDO). Generally speaking, most UN countries are represented in at least one of these groups. Nevertheless, there is some divide along development levels. Members from emerging and developing countries constitute a majority of stakeholders in most branches, except among national civil society actors. This is not surprising since these members are responsible for the biggest share of the world economy, as well as for a majority of violations of UNGC standards in their chains of production and business activities abroad.

Participants meet and discuss on specific topics irregularly, develop common guidelines, form alliances to tackle common problems and learn from each others' best practices. All

actions and partnerships have to focus on beneficial sustainable outcomes for the developing world.

Policy Discussion and Evaluation

Is the UNGC a success? The question is difficult to answer, as impact is hard to measure. A study by McKinsey[43] (an important UNGC donor) and the Global Policy Forum[44] finds a positive correlation between sustainable business conduct and membership in the UNGC. Of the companies questioned, 40 percent stated that the UNGC had impacted their business behaviour. But 34 percent of those claim the changes would have happened anyway and the UNGC only facilitated and accelerated the process. Changes included measures to counteract discrimination in human resources departments and discussions about human rights considerations or the implementation of partnership projects. Asked whether they changed their suppliers or undertook other drastic changes in their business operations, a relatively small number of business leaders responded positively. This was true both outside OECD countries (2nd deciles) and inside OECD countries (3rd deciles).

Another way to assess the impact of the UNGC involves testing whether there is a correlation between consumer behaviour toward companies and their membership in the UNGC, which would indirectly incentivize companies to join the UNGC. This seems to be intuitively true, at least for companies in very brand- and consumer-sensitive markets. GlobeScan, a UNGC member and international opinion survey institute, studied this relationship.[45] They found that for 75 percent of the global population the image of a company increases once it is associated with the UNGC.[46]

Critics of the UNGC, however, dispel the notion that UNGC membership automatically translates into positive change. A number of NGOs (e.g. Greenpeace[47], ActionAid,[48] CorpWatch,[49] SOMO,[50] Berne Delegation,[51] and Human Rights Watch[52]) have exposed cases of companies participating in the UNGC violating its principles. These critics disapprove of the voluntary and non-binding nature of the Compact. They demand stronger monitoring, more honest communication about failures and a decrease in false promises. They insist on the necessity of an enforcement mechanism and have suggested that members of the UNGC be made accountable for pressuring countries in which they operate to sign relevant international treaties. They also argue that every COP with a list of planed improvements should be accompanied by an implementation timetable.

John G. Ruggie, former chief advisor for strategic planning to Kofi Annan and one of the minds behind the Compact, counters these criticisms. He sees the world in a new era of globalisation, which needs to be better mediated and regulated, but lacks an agency competent to do so. The Secretary General, he maintains, would not have been able to get hard legislation through the UN General Assembly and does not have the capacity to monitor international businesses, not to mention all their branches and subcontractors. An additional barrier to legislation is that businesses would instinctively object to such

measures if attempted. Ruggie contends that private companies have to take up some of the responsibility for socially responsible globalization, and sees the UNGC as an attempt to motivate them to do so. He argues that a learning network is an effective and modern tool for international governance, and provides the most likely means to reach a consensual understanding of CSR. [53]

Beyond his pragmatism, Ruggie also sees a "stronger intellectual case" to be made for the UNGC.[54] First, since there is no consensus about CSR practices, the blanks in the debate will be gradually filled by businesses themselves. Second, he expects that instead of simply adhering to formal criteria – as they would be likely to do if subjected to hard legislation – businesses under the voluntary regime will be prompted to internalize a broader understanding of CSR into their corporate culture. This would engender a much more lasting and effective impact of UNGC ideals. Finally, "the accumulation of experience itself is likely to lead gradually to a desire for greater codification, benchmarking and moving from 'good' to 'best' practices."[55] Over seven years since the initiation of the UNGC, with more than 5,000 participants, proof of those assumptions and prognoses has yet to surface.

Steve Waddell perceives the Compact as a "new organisational form […] a global action network (GAN)."[56] According to Waddell, a GAN is the perfect structure to deal with complex multi-stakeholder issues on a global scale. He identifies a number of challenges facing the operation of GANs. The first is a clear definition of stakeholders; the diversity of stakeholders should be taken into account, and there needs to be an intrinsic normative motivation for actors to work together. This should be easily fulfilled since the UNGC is based solely on values. Waddell sees three main stages (with 12 sub stages) of GAN development: issue definition, solution design and implementation. Waddell argues that the Compact is still stuck somewhere between issue definition and solution design, as the general principles are clearly defined but need to be made more concrete if they are to become part of the solution. The solution design is also still in the making, as evidenced by widespread protest amongst crucial stakeholders, i.e. NGOs.

GANs need to "develop four competences […] if they are to be effective": participation, ethics and values, operations and communications.[57] The first competence entails that GANs need to influence a sufficient number of participants in order to have an impact on the whole market/society/universe of potential actors. This is clearly achieved with the UNGC. The second core competence, ethics and values, seems also to exist within the UNGC, but here the gap between promises and reality needs to be bridged.[58] The operations competence highlights the importance of connecting the vast amount of data collected by the UNGC in order to make it useful for internal and external users. The Compact runs the danger of becoming the victim of its own popularity; the overwhelming number of participants, with their COPs and other data, might be too much to handle in a useful manner. The final competence concerns the GAN in its role as a facilitator that makes it possible for all stakeholders to communicate with one

another. Waddell contends that the Compact so far performs quite successfully in this domain.

In sum, the UNGC is, due to its high number of participants from many sectors and countries, one of the most legitimate tools for the articulation and development of international standards for CSR. It is also the most adaptable tool prepared for future learning processes in the field, and provides one of the most useful normative foundations for a modern understanding of CSR. On the other hand, the UNGC lacks, by its own intention, an effective monitoring and enforcement mechanism.

Recommendations

The UNGC should continue to pursue and intensify its co-operations with other CSR institutions mentioned in this handbook. By doing so, it can make their standards more usable in practice than they are today. Policy dialogues, regional co-operations and partnerships should be pursued, in order to concretize the ten principles for application in specific regions and sectors and in view of developing a set of best practices and specific standards for various regions and sectors. Such specialized formulations of the UNGC principles would make their application much more feasible in practice.

Even though the UN claims that UNGC membership does not certify perfect adherence by all participating companies, it should adopt measures to discourage companies from using their membership as a marketing instrument without complying. The COP initiative is useful for supervising improvements and developments in companies' behavior, but should be monitored by external auditors. Such auditors should be commissioned by the UNGC office, but paid for by the companies. In this manner, the UNGC can ensure that only truthful COPs get published on its website. In addition, the UN should publicly list the wrongdoings of companies that do not adhere to their commitments. The categorization of participants that stop communicating about their progress as "non-communicating companies" on the homepage does not suffice.

The immense expertise within the UNGC network offers an opportune source of criteria and standards for good monitoring and enforcement. Policy dialogues involving all stakeholders should be used to develop a guidebook on how to effectively monitor and enforce UNGC compliance.[59] Such a guidebook could in turn serve participants or external experts as a blueprint for the effective monitoring of their companies.

Extractive Industries Transparency Initiative

Natalya Pak

Concerns about the practices of big corporations operating in countries blessed by natural resources have become part and parcel of the CSR agenda. Observers noting the enormous economic and social powers wielded by large multinationals are bewildered by the fact that these companies are no longer deterred by territorial and legal barriers.[60] The debate surrounding oil and gas companies operating in countries whose governments are corrupt and politically unstable is particularly acute.

Corruption is one of the major causes of poverty, human rights violations, environmental degradation, and violence. In the extractive industries, corruption and mismanagement are endemic. Companies in these industries commonly bribe state officials, and governments frequently lower environmental and human rights standards and engage in other corrupt practices in order to attract foreign investors. These problems are not the sole responsibility of resource-rich developing countries, but also a concern for the developed world. Meeting the challenge involves engagement by the public sector and the private sector alike. This realization has prompted discussions amongst governments and civil society keen on developing solutions to the problems of corruption in the extractive industries.

History of the instrument

The Extractive Industry Transparency Initiative (EITI) began as an upshot of Publish What You Pay (PWYP), a coalition of 120 NGOs led by the UK-based NGO Global Witness.[61] In 2002, around the same time that the International Monetary Fund and the World Bank began addressing transparency issues in lending to resource-rich countries, Global Witness initiated dialogues with major British oil companies, requesting them to publish what they pay to governments in countries in which they operate.[62]

Many companies took interest in PWYP's calls for disclosure on the grounds that the promotion of public accountability could improve political stability in host countries. But their enthusiasm came with a number of caveats. Companies worried that disclosure of payments could put them at a competitive disadvantage. Many also found themselves constrained by confidentiality provisions in their contracts with host governments, which prohibited them from disclosing certain types of information without the government's consent.[63] It became clear that governmental support would be needed to push the initiative forward.

Supported by then-Prime Minister Tony Blair, the British Government stepped in, creating a multi-stakeholder dialogue involving other governments, leading NGOs, international organisations (including the IMF and the World Bank), and oil companies. The parties were asked to work together to develop a framework for revenue transparency. The outcome of these dialogues was the launch of EITI at the World Summit on Sustainable Development in Johannesburg, South Africa, in September 2002.

On June 17, 2003, the British Government held a conference on EITI, where its 12 Principles were developed and announced. The Principles are the following:[64]

1. The shared belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts;
2. An affirmation that management of natural resource wealth for the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interests of their national development;
3. Recognition that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent;
4. Recognition that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development;
5. Underlining the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability;
6. Recognition that achievement of greater transparency must be set in the context of respect for contracts and law;
7. Recognition of the enhanced environment for domestic and foreign direct investment that financial transparency may bring;
8. Belief in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditures;
9. Commitment to encouraging high standards of transparency and accountability in public life, government operations and in business;
10. Belief that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and to use;
11. Belief that payments' disclosure in a given country should involve all extractive industry companies operating in that country;
12. Belief that all stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry companies, service companies, multilateral organisations, financial organisations, investors, and non-governmental organisations.

In sum, the EITI Principles hold that the disclosure and publication of companies' payments and of governments' revenues from oil, gas, and mining can enhance accountability and reduce corruption in resource-rich countries.

Instrument Rationale
There are several reasons for the adoption and support of EITI.

For companies, participation in EITI is a means to be recognised as good corporate citizens. Another advantage is the fact that companies and governments adhering to EITI are discouraged from paying and accepting bribes, which is in companies' economic interest.

For host governments, EITI offers a means to establish a favourable investment climate. Countries prone to corruption, internal conflict and political and social instability are less attractive to foreign investors. Countries in which governments are committed to transparency and accountability are perceived as being more stable, both economically and politically.

Increasing transparency also implies increasing governments' accountability toward the citizens whose interests they are meant to defend. Thus, EITI also serves the interests of NGOs and civil society groups acting on behalf of citizens and advocating their rights.

A 'Voluntary' Approach
A major characteristic of the Publish What You Pay initiative was its insistence on 'mandatory' disclosure of companies' payments to host governments. EITI, by contrast, opted for a voluntary approach, given country-specific requirements for its implementation. It is considered 'voluntary' because states choose whether or not to endorse it. However, a closer reading of the EITI criteria reveals a number of 'mandatory' provisions within the initiative. The six EITI criteria, which serve countries and companies as guidelines for EITI implementation, are the following:[65]

1. Regular publication of all material oil, gas and mining payments by companies to governments and all material revenues received by governments from oil, gas and mining companies to a wide audience in a publicly accessible, comprehensive and comprehensible manner;
2. Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards;
3. Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator's opinion regarding that reconciliation including discrepancies, should any be identified;
4. This approach is extended to all companies including state-owned enterprises;
5. Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate;

6. A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints.

While it is at the discretion of governments to develop and introduce their own model of implementation,[66] the criteria require a government endorsing EITI to ensure that companies in the extractive industries regularly submit payment data for independent audit and publication. Hence, when a country implements EITI it becomes mandatory *de facto* for the companies operating within its borders to 'publish what they pay' to the government, in exchange for the right to extract natural resources. The government must similarly publish information about the revenues it receives.

Implementation

There are three major stages of EITI implementation: initiation, implementation and review.

Initiation begins when a country endorses EITI. It involves engagement between the government and various stakeholders, which should agree on a working plan. All necessary arrangements should then be made to put revenue transparency into practice.

In the implementation stage, a country should be able to demonstrate that a legal or regulatory framework for revenue transparency is established. Revenues should be regularly published in 'a credible and comprehensible manner'.

In the third stage, review, states and other stakeholders should review EITI implementation, taking new circumstances and experiences into consideration in view of making improvements.

Countries which are participants of EITI but have not yet fully implemented its criteria are considered *candidate* countries. Countries which have fully implemented EITI and are able to demonstrate compliance with its 20 indicators are deemed *compliant*.[67] A country should become compliant within two years of becoming a candidate.

Once a country is compliant, it should be assessed by an independent validator every five years. The EITI Board,[68] through its Secretariat, monitors the validation process and reviews/assesses Validation Reports. If the board assesses that a country has met all criteria it is designated as EITI Compliant. Alternatively, if the Validation Report reveals that the country has not made any meaningful progress, its candidate status may be revoked. Notwithstanding the significant progress demonstrated by some candidates,[69] no country has yet attained status as EITI Compliant.

Obstacles to Implementation

Research has identified four main obstacles facing EITI implementation: first, lack of political will amongst candidates to become compliant; second, legal problems associated with implementation; third, lack of enforcement and monitoring; and fourth, problems associated with civil society involvement. These obstacles are detailed below.

Full implementation of EITI relies on political will in candidate countries. States must be truly interested in coordinating companies' behaviour for the initiative to carry any clout. When this condition holds, and there is constructive dialogue between government and industry leaders, voluntary standards can be sufficient to ensure company compliance. Unfortunately, such progress is often undermined by states or particular elite groups with vested interests in retaining ambiguity around extractive industry revenues.

According to the fourth EITI criterion, 'all companies including state-owned enterprises' should disclose revenue information. However, EITI does not specify how disclosure should be carried out. Moreover, contracts between companies and host governments in extractive industries typically contain confidentiality clauses prohibiting financial information disclosure. Thus, in order to meet requirements it may be necessary to adopt new laws or regulations. This can prove a major challenge, especially in developing countries where governments may be corrupt or autocratic.

Civil society involvement is crucial to ensure that all stakeholder interests are taken into account during implementation. It is also instrumental for effective monitoring and evaluation. However, in many countries civil society may be restricted from taking part in these processes. For example, civil society activists may not be willing to participate for fear of reprisal, lack of resources or capacity. Such barriers undermine the legitimacy of EITI commitments in such states.

Scope of the instrument

EITI is unique in its mandate and the scope of its application since it addresses a very specific issue in a very specific business sector. EITI therefore has direct implications for resource-rich countries, and does not compete with other instruments. Its applicability is perhaps best evidenced by the broad support it has received.

Developing countries participating in EITI include Azerbaijan, the Democratic Republic of Congo, Equatorial Guinea, Ghana, Indonesia, Kazakhstan, Mozambique, Nigeria, Sierra Leone, Timor-Leste, Trinidad and Tobago.[70]

Governments in developed countries, including Australia, UK, USA, France, Germany, Italy, Norway, the Netherlands, Canada and Belgium support the initiative either through direct financial contributions to the EITI Secretariat or support to implementing countries.[71]

Companies having endorsed the EITI Principles include: British Petroleum, Chevron Corporation, Exxon Mobil, Mitsubishi Materials, Rio Tinto, Shell, Total and others.[72]

Institutional investors and international organisations have also signed onto EITI. These include the World Bank, IMF, OECD, European Bank for Reconstruction and Development (EBRD), and over 70 global investment institutions managing over USD 13.2 trillion.[73]

Finally, a range of NGOs also support EITI. These include: Global Witness, Open Society Institute, Publish What You Pay Coalition, Transparency International, Human Rights Watch, and others.[74]

Recommendations
As noted earlier, one of the major problems currently facing EITI is the slow pace at which endorsing countries have been backing their commitments with concrete action. Meanwhile, these countries have often used their affiliation with EITI to help further their political and economic purposes. Possible ramifications of this exploitation of the EITI 'brand', if not hastily addressed, include the loss of credibility of EITI and a slowdown in civil society engagement. This has the potential to drive full implementation of the initiative out of reach.

The recommendations below are envisioned to improve EITI:

Provide technical and financial assistance to governments implementing EITI. Governments endorsing EITI typically lack adequate resources and suffer from weak government structures. Therefore, financial assistance from developed countries and international institutions like IMF and the World Bank could be used to support EITI implementation. Accompanied by appropriate accountability mechanisms, such contributions would also raise recipient countries' commitments and political will toward EITI. Technical support may be provided by means of information sharing on best practices and/or trainings.

Encourage governments to promote adequate civil society involvement. As long as governments repress interested civil society groups, attempts to implement EITI will remain futile.[75] EITI and international institutions should encourage governments to support civil society involvement. The IMF and the World Bank could pressure governments to dialogue with civil society via conditionalities on future financial support. EITI could support the engagement of local civil society groups by financing their research and full participation in the EITI implementation process.

Encourage governments to establish accountability mechanisms. Although the main objective of the EITI is to promote transparency surrounding the revenues earned by governments through the sale of natural resources, governments must be held

accountable for the mismanagement of such revenues. Hence, appropriate accountability mechanisms should be researched and established.

Encourage other countries and companies to promote revenue transparency. EITI's reach should be extended beyond the governments implementing the initiative. Companies involved in natural resource extraction and the countries in whose jurisdictions they are established should also be encouraged to promote EITI's principles. This would strengthen mutual commitments.

THE GLOBAL REPORTING INITIATIVE

Nora Gatewood

The Global Reporting Initiative (GRI), a non-profit foundation, is the pioneer of the most widely used sustainability reporting framework. Published in 2006, the G3 Guidelines are the cornerstone of GRI's reporting framework. They outline principles and indicators by which organisations can measure and report on their economic, environmental and social performance. Describing the Guidelines as a "free public good," the GRI is a self-regulatory tool for Non-Financial Reporting (NFR).

History

GRI was established in 1997 as a joint project of the Coalition for Environmentally Responsible Economies (CERES), a multi-stakeholder coalition aimed at making companies more accountable to social and environmental concerns, and the United Nations Environment Program (UNEP). According to CERES, GRI's mission was to develop "globally applicable guidelines for reporting on the economic, environmental, and social performance of corporations, governments and non-governmental organisations."[76]

Two years after its inception, GRI published its first guidelines. These were initially tested by 20 companies, including General Motors, Procter and Gamble, Novo Nordisk, and Shell International.[77] In the same year, the CSR movement gained momentum when UN Secretary General Kofi Annan urged corporations worldwide to "embrace, support and enact a set of core values in the areas of human rights, labour standards, and environmental practices."[78] The GRI galvanized international attention in 2002 at the World Summit on Sustainable Development in Johannesburg. Shortly thereafter, it incorporated as an independent non-profit organisation in Amsterdam.

Governance and Funding

GRI's governance structure encompasses a board of Directors, a stakeholder council, technical advisors, organisational stakeholders and a small secretariat. As a multi-stakeholder initiative, the GRI is funded primarily by its organisational stakeholders, which also participate in the development of the guidelines. GRI receives additional funding for specific projects like the G3, as well as grants and in-kind donations from countries, organisations and foundations.

Rationale

Although many companies use NFR as a PR tool, GRI's objective is to increase organisational learning and prioritize CSR concerns within companies. According to a report by the Berlin-based think tank, Global Public Policy Institute (GPPi), the "initial driver behind NFR is stakeholder pressure on companies to become more transparent and accountable about their environmental and social behavior."[79] The report also highlights that NFR helps companies manage their non-financial risks. Finally, the "compliance factor" – which argues that companies want to comply with adopted guidelines and procedures, even if they are voluntary – is another key rationale underlying NFR.

At the core of GRI's rationale is its multi-stakeholder approach. Multi-stakeholder input and endorsement ensures a usable, industry- and country-specific tool for NFR and, crucially, legitimizes the tool for companies. Given that NFR is voluntary for companies in most countries, organisational stakeholders have a specific incentive to jointly develop guidelines which they feel comfortable implementing in their CSR strategy.

Why are companies interested?	Why does it work?
Owner / Stakeholder pressure	The "compliance factor."
Improved assessment of non-financial risks.	The multi-stakeholder approach fosters buy-in, trust & legitimacy.
PR, Brand development & differentiation	GRI offers a usable, industry and country-specific tool for NFR.
First mover advantage in developing guidelines	Increases credibility, consistency, & comparability of CSR activities
Management tool for sustainability benchmarking & costing	

In sum, the rationale behind GRI is twofold: first, self-interest relating to PR, strategic brand placement and risk assessment; and second, multi-stakeholder development of the guidelines as a means to legitimize GRI in target organisations. Appropriately

constituted, NFR reporting mechanisms force companies to pay greater attention to the effects of their activities on environmental, social and labour issues.

GRI in the CSR Landscape

NFR has gained increasing precedence over the past decade, amid an impressive profusion of CSR tools and their scope. Within the increasingly complex CSR landscape, GRI has emerged as the leader in NFR. This is owed to the fact that the GRI Guidelines provide a unique, turn-key solution for NFR: they are universal enough for implementation across industries, yet their Sector Supplements and Protocols and National Annexes provide custom-fit solutions. An additional feature is that, unlike stronger instruments which include sanction mechanisms or legal direction, GRI reporting is completely voluntary, as is the information provided within the reports.

One advantage of GRI's approach is that it bridges gaps left in the CSR landscape by other leading instruments. As Georg Kell points out, "embracing the same international conventions, the Global Compact and the GRI are complementary. One defines values and operational principles for sustainable development; the latter, a disclosure framework that provides organisations a practical basis to communicate their sustainability performance. Now, under the G3, there is a greater foundation for convergence and user-friendliness between the two."[80]

Dissemination

The GRI stakeholder network encompasses more than 1,500 companies in over 60 countries. However, although the GRI Guidelines are a global tool they are mostly used by MNCs based in OECD countries.[81] A 2005 KPMG study highlights that the majority of companies participating in NFR are based in the USA, UK and Japan. But it also indicates a trend emerging in developing countries, particularly South Africa and Brazil.[82] This trend has identifiable sources: the South African government recently imposed NFR requirements on publicly listed companies, while companies in Brazil, increasingly concerned with brand development, have been capitalizing on CSR in an environment of rather lax regulation and extreme disparity in wealth distribution.[83]

Unsurprisingly, those sectors with the highest environmental impacts publish the highest number of GRI reports. These include utilities, oil and gas, trade and retail, but also the financial sector, which is a leader in NFR.[84] The dominance of the financial sector perhaps signifies interests beyond stakeholder pressure: GRI sustainability reports are increasingly used by investors to gauge individual companies' risk positions.

NFR has increased significantly in the last decade. GPPi states that reports have increased from 50 to 1,902 between 1992 and 2005. A clear majority of these involve reporting according to GRI Guidelines.[85] Further, several governments, the EU, OECD, UN, and the World Economic Forum have referenced the GRI Guidelines to their constituents. The GRI's communication network includes 20 thousand stakeholders.

Academic studies

In a 2002 study on the usefulness of the GRI Guidelines in Swedish companies' communication, Carl-Johan Hedberg and Fredrik von Malmborg found that reporting itself, and the GRI Guidelines in particular, are more important for internal than for external communication. This may indicate that NFR is achieving its objective of organisational learning, but it also raises questions about the usefulness of NFR outside of organisations. While financial reports provide easily disseminated data of profits and losses, NFR has yet to develop strong indicators and benchmarks which are useful to readers and can be compared across sectors.

In 2005, Alan Willis identified one of GRI's key challenges: how could GRI accommodate the broad variety of disclosure needs and the expectations of a wide range of report users and company stakeholders, while still remaining relevant and specific enough to ensure comparability? This raises a critical issue for GRI's continued success; that is, the need to broaden the tool's audience to include consumers and investors, and to provide intelligible benchmarks for industry cohorts.

Policy Discussion

The policy discussion on CSR is broad. The concept of CSR itself, the advantages of regulation versus the organisational learning approach, and the emergence of CSR in the context of globalisation are among the issues most debated. The following paragraphs highlight the main topics occupying the policy discussion on GRI:

Multi-stakeholder approach

The success of GRI can be directly linked to its multi-stakeholder approach. NGOs commend the GRI for facilitating dialogue between diverse actors affected by business activities, and for engaging them in the mutual development of sustainability reporting guidelines. From the business and industry perspective, this approach is the source of GRI's legitimacy and heightens the guidelines' relevance for specific sectors.

The glossy brochure

NGOs frequently accuse companies of using GRI reporting for PR and "window dressing" purposes. Proving their point, they have cited numerous examples of unethical behaviour by companies boasting their social responsibility standards in glossy sustainability reports.[86] The extent of organisational learning through NFR often depends on the location of the CSR department within the organisation. If situated in the communications or PR department, CSR activities and GRI reports in particular may be exploited for brand development and differentiation. Policymakers and business proponents stress that if CSR is to be taken seriously by a company and integrated into its business case and overall culture, CSR departments should be moved to the executive level and made a responsibility of operations managers or even the board.[87] Where

sustainability reporting is integrated into operations and executive demands, CSR activities have a greater chance of becoming part of everyday transactions.

Future growth uncertainties
A recent report commissioned by the UNEP is pessimistic about GRI's future prospects. It forwards several reasons for this, the most critical being a decreasing growth trend in NFR. Contributing to this is the fact that NFR remains a niche practice, primarily performed by MNCs in OECD countries. Even among MNCs, only five percent of companies report according to the GRI, and within the OECD, reporting is prevalent in only a few countries: USA, UK and Japan.[88] The lack of participation by SMEs and developing countries is a source of concern. In most countries, SMEs contribute far more to national economies in terms of income and jobs than large multinationals. In Germany, for example, about 99 percent of companies are SMEs. While many SMEs practice corporate citizenship-type activities in the areas of employee training, health and safety, and employment growth, many lack the required financial and human resources to implement CSR tools, especially reporting. Developing countries also pose a challenge for GRI growth since they often lack appropriate regulatory frameworks, and wide income disparities offer companies a broad range for CSR implementation. Still, GRI's growth curve has recently leveled amid new measures targeting SMEs and developing countries.[89]

Usefulness
Policy analysts question the usefulness of GRI and NFR in general. Many business actors and academics argue that CSR is "old wine in a new bottle."[90] This attitude may prevent companies from implementing new CSR tools, particularly NFR according to GRI, since companies believe they already uphold CSR values. Another concern is that "mainstream investment analysts – contrary to popular belief among NFR advocates – do not care about non-financial issues."[91] However, this view seems to ignore the emerging popularity of Socially Responsible Investing (SRI). A final concern is that while the G3 Guidelines offer a standard for NFR and establish a format facilitating comparison of reports among industry cohorts, the reports fall short of indicating how sustainably companies are operating. GRI has recognized this critical shortcoming and prioritized SME and financial market usefulness as areas of future concentration.

Users
One challenge raised above concerns GRI's ability to accommodate the broad variety of disclosure needs and expectations of a wide range of report users and company stakeholders, while still remaining relevant and specific enough to ensure comparability. The question, in short, is whether GRI should expand in scope or concentrate on its sectoral expertise? Obviously, if GRI wants to remain the standard for NFR, it needs to do both. Through its extensive multi-stakeholder network, GRI is well positioned to accomplish this feat. But it will need to improve its reporting guidelines to do so successfully. It will also need to find new users for its reports. While the GRI only

publishes guidelines on reporting, and can't guarantee quality of individual reports, GRI could develop guidelines for summary reports for benchmarks and comparable indicators to target new stakeholders and actors. These could be disseminated to new audiences, such as consumers, the financial sector and industry cohorts. Finally, it has also been suggested that government ministries and international organisations should report according to the GRI Guidelines. This practice has been increasingly common among public entities striving to lead by example in the sustainability and CSR area, and constitutes a valuable addition to the GRI network.[92]

Underdeveloped assurance process

Another policy discussion centers on the GRI reports' assurance process; in other words, assuring that what is in the reports is actually implemented and impacts a company's sustainability performance. While consultancies are becoming increasingly specialized in this area, and most companies utilize independent auditors to proof their reports, the non-financial content of GRI reports makes assurance difficult. How can GRI help companies implement a CSR strategy with tangible results, which is rational and efficient, while avoiding a plethora of strategies which make it almost impossible to focus efforts? One option for GRI could be the development of industry-specific best practices and efficiency indicators. These could be reported in a simple and straightforward manner that showcases the best strategies for enhancing companies' (or sectors') competitive advantage. This would provide a way to rank initiatives. It would also improve "CSR-returns" by allowing other companies to adopt established best practices.

Recommendations

The GRI is an important CSR tool due to its vast stakeholder base and implementation scope. Its current development priorities showcase the organisation's ability to address challenges. Whether or not NFR becomes mandatory in the future, as a tool for organisational learning it is central to institutionalizing CSR in organisations.

The following recommendations are envisioned as means to improve the GRI in view of ensuring its continued growth and relevance:

Organisational learning should become a measurable indicator or otherwise benchmarked in GRI reports.

- Develop internal organisational mechanisms for the dissemination of GRI reports to ensure the entire organisation is aware of and following sustainability developments;
- Develop sophisticated assurance mechanisms both within the organisation as well as externally in audit companies.

GRI's continued relevance should be secured and improved by broadening the usefulness of the reports for other actors/stakeholders.

- Develop summary reports showcasing indicator developments over time and in comparison across industry cohorts;
- Summary reports should target new audiences including consumers, the financial sector and industry cohorts.

Current priorities on SME's and emerging economies should be reinforced by the development of appropriate guidelines and benchmarks.
- GRI should engage its stakeholder base in view of establishing broad partnerships with SME's and emerging economies, defining CSR priority areas, and developing sector-specific benchmarks for CSR activities;
- GRI Guidelines should be adapted for application in emerging economies and SME's.

GRI should reaffirm its relevance in CSR.
- GRI's stakeholder network should be engaged in view of creating sector-based CSR benchmarks and sustainability priorities;
- GRI should engage in further advocacy with governments, international institutions and CSR networks.

The Dow Jones Sustainability Indexes

Christina Hanley

Launched in 1999, the Dow Jones Sustainability Indexes (DJSI) is the world's first tradable index series ranking publicly traded companies according to their sustainability performance. By evaluating companies against widely accepted best practice principles and benchmarks, DJSI encourages firms to improve their sustainability rating in order to join and stay on the lists. In addition to creating a competitive setting for sustainable corporate behavior, DJSI enables asset managers to consistently follow sustainability portfolios in the stock market, and fulfills consumer demand for socially responsible investing options. Borne in collaboration between the Dow Jones Indexes (DJI), Sustainable Asset Management (SAM) Group and STOXX Limited, the DJSI umbrella now encompasses over 24 different global, European and North American indexes.

Dow Jones & Company (DJ&Co.)

The Dow Jones Indexes is a subsidiary of Dow Jones & Company, an American global business news and information corporation famous for publishing *The Wall Street Journal*. Its index division is, "a leading full-service index provider that develops, maintains, and licenses indexes for use as benchmarks and as the basis of investment products."[93] Best known for its Dow Jones Industrial Average, the company provides

more than 130 thousand equity and fixed income indexes. It also measures hedge fund and commodity markets. The DJI strives to maintain its indexes through unbiased, transparent and methodical practices.[94]

STOXX Limited

Founded in 1998 by the Deutsche Börse, SWX Swiss Exchange and DJ&Co., STOXX Limited, which creates and manages tradable market indexes, has become Europe's premier index. More than 800 firms hold DJI or STOXX licenses, and STOXX's collaboration with DJI facilitates inclusion of all major markets beyond Europe. Licencees use the indexes as underlyings for Exchange Traded Funds (ETFs), which are tradable baskets of stocks, bonds or futures.[95]

SAM Group

A Zürich-based independent firm specializing in sustainability asset management, SAM Group serves customers around the globe, including insurance companies, foundations, pension funds, banks and individuals. SAM conducts independent research, combining sustainability and future-oriented criteria in order to classify companies so money can be managed transparently, safely and with returns.[96] SAM Group is responsible for analyzing, marketing and publishing the DJSI, as well as maximizing transparency and index accessibility.

DJ&Co., STOXX and SAM fund the creation and maintenance of the DJSI. An expensive but profitable private sector initiative, DJSI now manages assets valued at USD 5.5 billion.[97]

Sustainability Indexes[98]

The DJSI[99] operates three main types of indexes under identical criteria. The overarching goal for each category is to "measure the stock market performance of the top 10 or 20 percent [depending on index type] of the leading sustainability companies in all sectors… [and to] provide a liquid base for a variety of financial products."[100] DJSI members are chosen on the basis their economic, environmental and social performance. Appendix A provides a table of the index types and their subcomponents.

Dow Jones Sustainability World Index (DJSI World)

DJSI World Index, opened September 8, 1999, is the world's leading sustainability-oriented index. It assembles the leading 10 percent of the 2,500 companies listed on the Dow Jones Global Index (DJGI) into one composite and five subdivided series, which either include or exclude firms profiting from firearms and armaments, tobacco, alcohol or gambling.

Dow Jones STOXX Sustainability Index (DJSI STOXX)

Launched October 15, 2001, DJSI STOXX lists the top 20 percent of sustainable firms from the Dow Jones STOXX SM 600 Index. DJSI STOXX is the core performance-tracking index in Europe. Its subcomponent, the Euro STOXX Sustainability Index (EURO STOXX), follows business performance within the Eurozone. DJSI STOXX index groupings include four narrower sub-indexes that exclude firms profiting from armaments and firearms, tobacco, alcohol, gambling and adult entertainment. Launched on January 31, 2006, Dow Jones STOXX Sustainability 40 Index (DJSI STOXX 40) and Dow Jones EURO STOXX Sustainability 40 Index (DJSI EURO STOXX 40) are blue chip indexes listing DJSI STOXX outstanding performers.

Dow Jones Sustainability North America Index (DJSI North America)

The newest of the indexes, DJSI North America, was launched September 23, 2005. The North American index is structured much like the European set, listing the most sustainable 20 percent of North America's largest 600 DJGI firms. Subgroups include DJSI United States and indexes that exclude firms profiting from firearms and armaments, tobacco, alcohol and gambling.

Customized Indexes

The DJSI design enables investors to create individualized sustainability indexes by industry sector, region, currency and other dimensions. Examples include the DJ Islamic Market Sustainability and World Water Indexes. This report does not attempt to cover customable indexes as they are relatively uncommon and lie on the margins of DJSI's core business.

Methodology[101]

Corporate Sustainability Assessment

SAM defines corporate sustainability as, "a business approach to create long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments."[102] Many asset managers recognize sustainability as a cornerstone success factor and as a "catalyst for enlightened and disciplined management."[103] This has led to a recent profusion of investors seeking to diversify their portfolios through sustainable investing. In order to choose firms for each index, SAM applies its Corporate Sustainability Assessment (CSA) as outlined below.

Index Creation

The DJSI World and North America indexes stem from the DJGI, and DJSI STOXX from STOXX 600. Any firm listed on the sustainability index is fully integrated with its respective matriarch index. In order to become a member of DJSI, a company first undergoes general STOXX or DJGI procedures (depending on where it is listed) and CSA evaluation. Outcomes determine if and where the firm will be listed. For example, an American firm may perform well compared with its Mexican and Canadian competition and be listed on the DJSI North America, but its score may be too low to qualify for listing on DJSI World.

Evaluation Criteria
In order to reflect prevailing best practice and auditing methods, the CSA heeds recommendations from private consultants and industry specialists in developing its principles. The assessment considers sustainability in three dimensions: economic, environmental and social. It evaluates impact according to *general* principles, which apply to all companies, as well to additional *sector-specific* principles.

General principles account for 50 percent of the evaluation. They include widely accepted standards for:
- Environmental management and performance;
- Supply chain management;
- Corporate governance;
- Human rights;
- Labour; and
- Risk and crisis management.

The remainder of the assessment score is based on *sector-specific* sustainability performance principles. Evaluation yields a numerical score for each company, which determines industry leaders by sector.

Data Collection
Information for quantitative measurement is obtained via questionnaires, documentation, media and stakeholder analysis, as well as company contact. If a firm fails to complete the questionnaire, SAM bases its analysis on the other criteria.

Table 1:

Information Sources:	
Questionnaire	• Sector-specific • Signed by a senior-level employee • SAM analysts validate responses • Verified by Pricewater House Coopers (external source)
Documentation	• All public information; e.g. financial, sustainability, environmental, social, health and safety reports • Internal documentation and special reports
Media & Stakeholder Analysis	• Press releases, articles, employee and investor feedback
Company Contact	• Discussions and phone conversations with company representatives

Score Determination
Following data collection, SAM applies a pre-determined weighting and scoring system in which each question carries an individual maximum score value and weight within

the CSA's economic, environment or social assessment section.[104] SAM's database thus quantifies corporate sustainability performance and assigns a numerical score to each firm.

The evaluation methodology is applied identically to all firms on the DJGI and the STOXX 600. The only difference is the percentage of firms selected for each index; the CSA selects the leading 10 percent from the DJGI for listing on DJSI World, whereas the top 20 percent make the North America indexes. Similarly, the top 20 percent from the STOXX 600 are listed on STOXX sustainability indexes.

Monitoring

Daily Monitoring

Once accepted onto the indexes, companies are subject to daily performance supervision. The Corporate Sustainability Monitoring Department is responsible for gauging whether a firm is partaking in economically, environmentally or socially risky behaviour that could be detrimental to its business objectives, values and reputation. Basing its monitoring on publicly available information, obtained through the media and via stakeholders, the department verifies that corporate behaviour meets the principles laid out in its policies.

Issues Monitored Include[105]:
• **Conduct Codes**; e.g. tax fraud, money laundering, antitrust, corruption, bribery • **Corporate Governance**; e.g. balance sheet fraud, insider trading • **Customer Relationship Management**; e.g. product recall, customer complaints • **Risk and Crisis Management**; e.g. accidents, fatalities, workplace safety issues, technical failures • **Supply Chain Management**; e.g. major price fixing, unfair competition cases • **Environmental Management**; e.g. ecological disasters, hazardous substances, grossly mismanaged long-term pollution • **External Stakeholders**; e.g. cases indicative of company systematically exploiting weak governance in emerging countries • **Labour Practice Indicators**; e.g. cases involving discrimination, forced resettlements, child labour, workplace accidents, occupational health and safety

This ongoing review process, conducted by Pricewater House Coopers, can lead to index exclusion. A firm that exhibits poor performance in one of the tracked issues may be dismissed even if its annual CSA scores were exceptional. In the event of a crisis, analysts evaluate the impact of the crisis on the firm's core business and reputation. In large crises, analysts consider issue management quality according to the firm's reaction, stakeholder communication, minimization of effects and steps taken for future prevention. If reputation management is deemed lacking relative to crisis severity, SAM will recommend that the firm be removed from the index. SAM Group notifies the corporation if exclusion is imminent.

Annual and Quarterly Reviews
In order to ensure accurate inclusion of the top 10 or 20 percent of the most sustainable firms, DJSI conducts annual reviews in which SAM essentially repeats its CSA. This five-month process concludes with an announcement of index additions or deletions. Since companies on the DJSI World, North America and STOXX indexes stem from larger sources, the base indexes are reviewed annually and quarterly. The specific quarterly review process is ambiguous, but its main purpose is to remain up-to-date as firms create spin-offs, merge, go bankrupt and issue initial public offerings throughout the year.

Instrument Rationale
DJSI provides a "bridge between companies implementing sustainability principles and investors wishing to profit from their superior performance and favorable risk/return profiles."[106] The overarching goal is to devise, develop and construct functional, accurate and tradable indexes, adding value to index operators, listed firms, investors and society at large.

Index managers and DJSI operators benefit from diversifying and providing a niche market "sustainable" product. "Greenness" and sustainability are thought to be long-term trends, and investors increasingly perceive such features as crucial components of a well-managed business.[107] The DJSI caters to the trend of socially responsible investing (SRI), supplying clients with additional information on sustainability trends as a means to encourage further investment.

As a business tool, DJSI financially quantifies risks, opportunities and costs reflected in a company's sustainability strategy. Listed firms gain positive recognition from leading finance management companies and benefit from increased investment in their products. The competitive ranking of firms encourages them to set their own benchmarks and to act progressively towards the environmental, social and economic welfare of society.

DJSI in the CSR Landscape
DJSI differs from other CSR instruments inasmuch as it is a ranking rather than a guideline or rating tool. In contrast to most other CSR tools, it uses positive corporate behaviour to propel profit generation for investors and index operators alike. It drives change not by imposing specific principles on member companies, but by prompting firms to compete to improve their sustainability. Interaction with other CSR tools is therefore generally complementary: many DJSI members use other tools in this handbook, which help them develop the high standards that enable them to join the index.

One amongst hundreds of indexes available on the stock market, DJSI shares even the niche market for sustainability and CSR indexes with several comparable products. Typically these correspond to either their associated stock exchange or to specific sub-niche markets. DJSI's main competitor is the FTSE4Good series. Sponsored by FTSE, FTSE4Good selects corporations based on their environmental sustainability, human rights records and stakeholder relations. FTSE, like Dow Jones, is one of the world's largest index providers and lists a number of the largest MNEs.

Whereas the FTSE and DJSI are global in scope, the Johannesburg Securities Exchange Socially Responsible Investing (JSE-SRI) Index focuses on firms in emerging economies. The JSE-SRI Index adheres to the "triple bottom line" concept, evaluating business practices according to their environmental, social and economic sustainability. Companies from the index voluntarily submit information about their business practices and the JSE ranks their impact.

Indexes focused on CSR sub-niche markets include the SIX/GES Ethical Index, which leads analysis in Northern Europe, and the MAALA SRI Index, which focuses on CSR activities of organisations listed on the Tel Aviv Stock Exchange. The German Natur-Aktien-Index, by contrast, compares renewable energy companies across several international stock indexes.

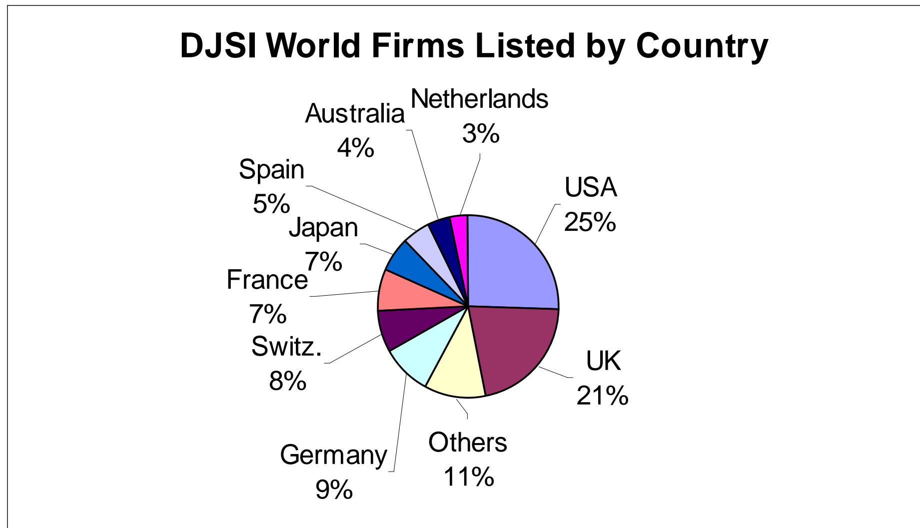
Broadly speaking, DJSI has established its position within the SRI Index market by specifically targeting the sustainability of prominent multinationals from its own large index listing. Coordination between DJSI and other sustainability indexes is however lacking. As a result, standards vary by index. This hinders investors' and firms' ability to make informed sustainability investment choices.

Geographical Spread

Since anyone can buy or sell index shares, the geographical spread of DJSI's ownership is global. Asset managers located in 15 countries hold 47 DJSI licenses.[108] Europe and North America hold the majority of these licenses, followed by Japan. Given that sustainability is primarily a western-driven initiative, the majority of shareholders are from developed countries. This may change as emerging economies become more involved in SRI.

Figure 1 shows the spread of DJSI World firms by country. Almost 50 percent of listed firms come from the US and UK, followed by Germany and Switzerland. Eighteen percent of firms on the DJSI World are headquartered in non-western countries (Japan and Others).

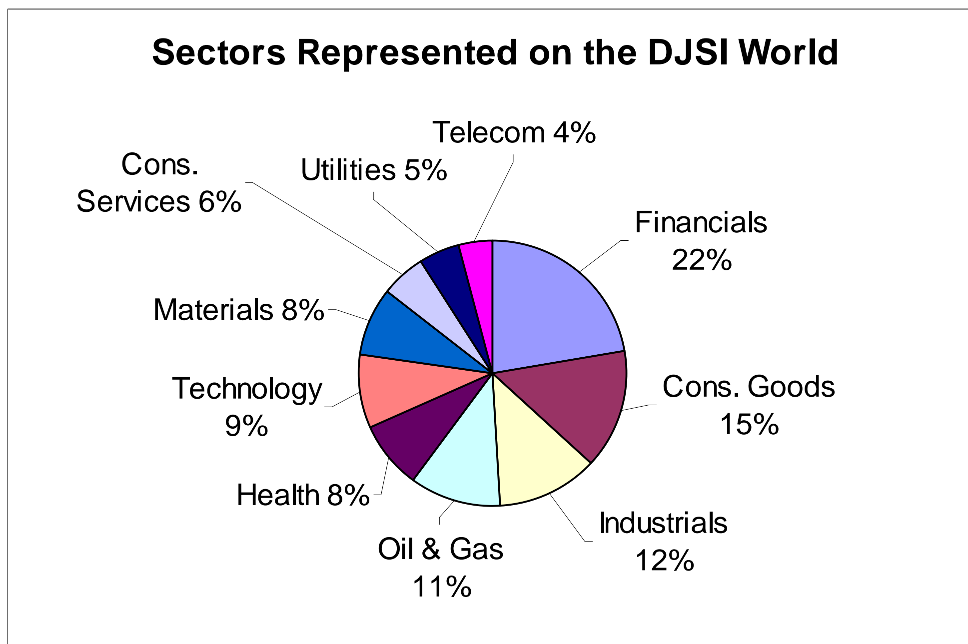
Figure 1:[109]



Sectoral Spread

The DJSI uses a global standard – the Industry Classification Benchmark – to categorize index participants. Introduced by the Dow Jones and the FTSE,[110] the Industry Classification Benchmark arranges the macroeconomy into 10 industry groupings and the 18 super-sectors responsible for generating the majority of world revenue flows. The DJSI uses the 18 super-sectors to create 57 sector groups, which it applies to all of its indexes. Figure 2 indicates the distribution of firms listed on the DJSI World Index by sector.

Figure 2:[111]



Academic Discussion

Predominantly positive in its disposition towards DJSI, academic literature commonly relates DJSI's credibility to its being a Dow Jones subcomponent and its association with SAM.[112] A 2004 study by SustainAbility and Mistra, for example, ranks SAM as the "world wide leading sustainability research organisation [which] explicitly link[s] sustainability strengths, weaknesses and risks to investment value drivers."[113] The study applauds DJSI's ability to connect investment value drivers such as revenues, shareholder value, compliance costs, customer attraction, brand value and reputation, efficiency, innovation, risk profile and regulatory liability.[114]

In a comparative analysis of implementation processes of SRI-oriented organisations, SAM won best practice for research methodology, management and research and information source quality.[115] In the application of its scheme to DJSI, SAM stands out for its strong sector-specific indicators, mature review process, transparency and third party validation.[116] It is also lauded for including external verification in the weighting of assessment questionnaires and stakeholders in information gathering, both of which make SAM stand out among the competition.

A 2006 study by Schäfer et al. argues that DJSI's assessment process encourages companies to continually improve their sustainability.[117] Indeed, trends show that companies are typically removed from the indexes not because they scored worse, but because they have not progressed quickly enough.[118] SAM, unlike other indexes, provides detailed reports (at a cost) for companies seeking in-depth analysis of their sustainability management compared to their competition. Regular contact and feedback with index members enables firms to make positive changes.

Despite all its praise, however, the research also identifies four prominent problems with DJSI and like indexes. First, an industry-wide weakness afflicting SAM is that its research and the DJSI membership are too heavily concentrated on large companies based in Europe and North America. Second, although SAM has a high proportion of employees with financial backgrounds, researchers typically are not specialists in financial concepts and techniques.[119] Third, "questionnaire fatigue" can be detrimental to the review process. This could be circumvented by the use of internal peer review to assess research process compliance.[120]

Finally, and perhaps most importantly, companies removed from an index want to know why, but evaluation is not structured in such a way that it corresponds to precise criteria. Instead, performance evaluation is relative to competition and the sum of several criteria. While this has important implications for the competitive dynamic behind the DJSI, it makes it difficult to pinpoint specific reasons why one firm made the list and another did not.[121]

Policy Discussion and Evaluation
Research indicates that as competition increases, asset managers' and investors' willingness to pay for research services decreases.[122] Research-based organisations such as SAM must therefore constantly strive to find innovative ways of maintaining their viability and keeping sustainable investing in the mainstream. However, critics debate whether and to what extent ethical investing should be encouraged at all, as its ability to drive change remains uncertain.[123]

Agreement is also yet to be reached on the comparative advantages of *best practice* versus *exclusion* strategies in SRI. The DJSI "best practice" policy regards certain processes and methods as being more sustainable than others. The FTSE4Good, by contrast, simply excludes certain sectors it deems inherently unsustainable or unethical. Accordingly, it excludes the 'sin sector' – firms profiting from tobacco, arms and nuclear power.[124] The DJSI flexible model allows a greater degree of investor choice by providing a composite index that includes the 'sin sector' and subcomponents excluding one or all sectors.

There are many inherent difficulties in weighing a company's sustainability. For example, should positive actions counteract negative behaviour? A company that scores badly on a few components and excessively high in others may be listed on the DJSI, despite the fact that it may not truly be a "sustainable" company. While it is frequently argued that DJSI's weighting system needs to evolve with new best-practice standards, a thorough analysis of the correctness of the scoring system has yet to emerge.

Still a relatively new tool, consensus has yet to be reached on whether SRI Indexes measure improvements in company behaviour or rather improvements in marketing. On this count, DJSI is regarded as proving its legitimacy each year when it adds and excludes firms according to their performance. In 2007, for example, there were 47 additions and 37 removals.[125] DJSI is positively received outside of the business realm because it will not list a firm just because it is the best of the unsustainable competition.

Recommendations
DJSI stands out among the competition, both as an important CSR tool and a pioneer in the SRI industry. The combination of SAM's specialty niche research and Dow Jones' extensive corporate reach makes DJSI reputable around the world. Furthermore, its transparent processes make it more reliable than some of its competing indexes.

DJSI also seems effective at influencing corporate behavior. When firms are removed from DJSI lists, it is typically not because they are becoming less sustainable but rather because they have not advanced as quickly as their competition.[126] Removal encourages firms to take steps to rejoin the list. DJSI is effective because its competitive design builds upon free-market concepts with which companies are familiar.

However, SRI remains a new field about which little is known. In order to assess DJSI more fully, further research into SRI instruments' effectiveness as catalysts of corporate change is necessary. The following questions should serve as a starting point for future research on SRI in general and DJSI in particular.

- What is the long-term viability of SRI? What are the current trends?
- To what degree do these indexes motivate socially responsible behaviour? Do certain indexes lead to more corporate change than others? Which ones are the most competitive? Where has change been the greatest?
- How is the methodology and implementation of DJSI evolving?
- What specific best practice methods should be applied across *all* SRI indexes?
- What is the relationship between DJSI membership and the use of other CSR tools?

Improve DJSI Research and Evaluation Process

It is difficult to identify particular reasons why a given firm is added or subtracted from the DJSI. While SAM's research methodology is strengthened by the fact that it examines the entire business process, it remains difficult for companies to identify which specific changes they should make to regain membership. Increasing assessment process transparency would be beneficial.

SAM's research has been criticized for employing a high proportion of analysts with little financial experience and for varying employee workloads. To guarantee dependability, greater emphasis should be made on hiring employees with stronger finance and sector-specific backgrounds. SAM should also ensure an even distribution of the number of companies assessed by each analyst.

Expand the Scope

In order to increase its impact, DJSI should expand the scope of the companies it evaluates. Companies currently listed are overwhelmingly MNCs. Although this fits with the nature of an instrument that focuses on publicly traded firms, DJSI should seize opportunities to develop indexes featuring smaller publicly traded companies. In addition, the government and/or NGO sector should collaborate with DJSI to create a non-tradable index of smaller, privately managed firms. Additionally, DJSI should consider developing an emerging economy index in order to expand its reach outside of Europe and North America.

Awareness of Market Changes

In order for DJSI to remain a market leader, it needs to keep evolving and expanding its information gathering and analysis process as new best practice methods emerge. Further transparency could help avoid conflict of interest between profit generation and improving corporate behaviour. Finally, coordination among member firms and all SRI indexes should be improved. In a world market populated by hundreds of different standards, there are many opportunities for DJSI to collaborate with other financial index services. The market for sustainability indexes would benefit greatly from the

development of a set of general, base sustainability criteria that could be standardized and applied to all SRI indexes.

Equator Principles

Janine Jacob

Financial institutions are less exposed to risks associated with CSR than other types of firms. The simple explanation for this is that they do not produce their products in developing countries, and are therefore shielded from problems such as inappropriate health and safety standards for their workers, child labour, inappropriate working hours, etc. However, financial institutions do play roles as large lenders and project financiers in the developing world. In order to understand how this sometimes translates into CSR problems, we should begin by defining the term "project finance":

> "a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure. This type of financial is usually for large, complex and expensive installations that might include, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, and telecommunications infrastructure. Project finance may take the form of financing of the construction of a new capital installation, or refinancing of an existing installation, with or without improvements. In such transactions, the lender is usually paid solely or almost exclusively out of the money generated by the contracts for the facility's output, such as the electricity sold by a power plant. The borrower is usually an SPE (Special Purpose Entity) that is not permitted to perform any function other than developing, owning, and operating the installation. The consequence is that repayment depends primarily on the project's cash flow and on the collateral value of the project's assets."[127]

A variety of risks can arise from such projects. For example, the construction of a large airport can erode valuable natural environments, and the noise levels may cause health problems for people living nearby. The construction of a pipeline in a developing country can destroy natural habitats, alter living conditions for indigenous peoples and threaten their very existence. Examples like these are common.

Although financial institutions are not the direct sources of such high-risk projects, they often provide the financial means necessary to make large projects possible. The Equator Principles were developed as a means to prevent such social and environmental

problems and to protect financial institutions from the risks they entail. The following report outlines the nature of the Principles and their implementation, and discusses possible problems and shortcomings of the instrument.

Background

The Equator Principles (EP) are a set of environmental and social benchmarks for managing environmental and social issues in development project finance. They establish a common standard between adopting institutions, and provide guidelines by which financial institutions can assess and address risks associated with project financing.

One of the main driving forces behind the development of the EP is the German bank WestLB. WestLB was motivated to develop the initiative by its experiences in financing a pipeline project in Ecuador. The project had a deep negative impact on Ecuador's population, both socially and environmentally, and the issue was taken up by various NGOs. Heavy criticism, intensive debates and discussions in the media ensued. Eventually, in an attempt to curtail further damage to its reputation, WestLB initiated measures to help prevent similar problems in the future.

The EP, led by WestLB, Citigroup, ABN AMRO, and Barclays, was launched on June 4, 2003, in Washington, D.C.[128] Although initiated and primarily driven by private financial institutions, the development and drafting of the Principles was undertaken in conjunction with NGOs, project sponsors, and the World Bank Group's International Finance Corporation (IFC).

The EP consists of a set of ten principles. Financial institutions that adopt the EP, known as Equator Principles Financial Institutions (EPFIs), agree to provide loans above a certain amount only to project financing that fulfill the Principles. Initially, the Principles applied only to project financing over USD 50 million. This was reduced to USD 10 million at the EP's last revision. EPFIs are committed to constantly reviewing the Principles, and to alter them when necessary. The latest revision of the EP occurred in July 2006. As of April of 2008, 60 financial institutions had adopted the EP.[129]

Monitoring and Compliance

The EP is a self-regulatory tool. Adoption of the Principles is voluntary, and no supervisory authority monitors company compliance or correct implementation. The adopting institution "individually declares that it has or will put in place internal policies and processes that are consistent with the Equator Principles." Any financial costs incurred through the implementation of the Principles are borne by the financial institution itself. EPFIs benefit from assistance and training provided by the IFC.

The adoption procedure requires the institution to first fill out an adoption form, to inform the press about its adoption of the EP, and to establish a link to the EP on its

website. More importantly, the revised Principles of 2006 now include a tenth principle that requires EPFIs to report publicly about their EP implementation experiences at least once a year. In addition to describing implementation processes, reports must indicate the number of transactions screened by the institution and the categorization of the projects/transactions according to the Principles.

Furthermore, projects classified as Category A ("projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented") and Category B ("projects with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed though mitigation measures") must be reviewed for EP compliance by an independent social or environmental expert. The expert must continue to verify monitoring information over the lifespan of the loan provided.

Rationale

Financial institutions are motivated to adopt the EP in order to improve their risk management. Although the risks facing financial institutions vary from company to company, some risks are prominent for all. These include credit risks, market price risks, operational risks, liquidity risks, and reputation risks. Risk management has become an integral part of firms' operational structures, and continues to grow in importance.

The risks banks face when investing in projects and when providing loans are primarily credit and reputation risks. First, provision of loans always involves a risk of default by borrowers. If a project does not generate expected cash flows, or results in default, the bank loses its investment. Second, as stated in the introduction, various environmental and social risks are associated with project financing, particularly in the developing world. If the bank provides loans to a project that causes environmental or social damage, it can incur heavy costs to its reputation. This can have serious negative impact on the company's overall business operations.

When properly incorporated into their risk management systems, the Equator Principles can help banks assess and mitigate credit and reputation risks associated with project financing. Since this entails significant benefits for banks involved in project financing, the EP has the propensity to alter firms' behaviour.

Implementation

The EP apply to financial institutions' investments in all industry sectors globally, for all project financing with total project capital costs of USD 10 million or more.

While projects may be undertaken in emerging markets or OECD countries, the EP includes a section dealing explicitly with projects in countries not classified as 'high-income' according to World Bank Development Indicators. In such cases, the EP requires firms to use IFC Performance Standards and the industry-specific World Bank Group

Environmental, Health, and Safety Guidelines (EHS Guidelines) to assess projects' associated risks.

In high-income OECD countries, domestic regulatory requirements and laws exceed the requirements as set forth in the IFC's Performance Standards and EHS Guidelines. Hence, for EPFIs financing projects in such countries it is sufficient to complete an assessment process demonstrating compliance with local and national laws, regulations and permits in regards to social and environmental matters. EPFIs nevertheless categorize and review the projects according to all Principles.

Scope

The EP's scope is limited to project financing only. As of 2008, 60 banks from all over the world had adopted the EP. EPFIs include Financial B.C. in Togo, Banco do Brasil in Brasil, and a deal has also been signed with the IFC in Beijing to introduce the EP in China. Nevertheless, the overwhelming majority of EPFIs are based in North America and Western Europe.

Studies on Implementation

Academic literature on the EP is small. The few studies that do deal with the EP focus on its implementation. These studies mostly compare the performance and conduct of EPFIs to non-EPFIs.

A 2007 study by Scholtens and Dam indicates that the social, environmental and ethical policies adopted by EPFIs are significantly broader and different from those of their non-EPFI counterparts. It also finds that companies' shareholders generally do not resist EP implementation. Finally, the study shows that there are no characteristic differences between EPFIs and other financial institutions besides the scope of their social, environmental and ethical policies. The authors thus conclude that financial institutions primarily use the EP as a device to signal their good conduct and responsible behaviour.

These findings are corroborated in a 2006 study by Wright and Rwabizambuga.[130] The study argues that the Equator Principles, like other voluntary codes of conduct and principles, are generally used by companies' as a means to strengthen their reputation. The authors back this assumption by highlighting the geographical concentration of most EPFIs in Western Europe and Northern America where, they argue, incentive for reputation improvement is highest.

Problems and Shortcomings

Academic research and civil society groups indicate various problems with the EP. Probably the most important criticism concerns the EP's lack of formal monitoring and screening mechanisms. This makes it impossible to ensure that EPFIs actually comply with the Principles and adhere to their own set standards and internal policies.[131] As it stands, EP monitoring is done almost exclusively by NGOs. While monitoring of this

sort can be effective, NGOs' means for addressing breaches of the EP are limited to dialogue with companies themselves or, in the case of severe misdemeanor, going public with the case. Furthermore, NGOs cannot be expected to verify correct implementation, compliance and commitment to the rules with the same degree of consistency as a formal institution set up for this purpose. Short of a mechanism for sanctioning EPFIs that violate the Principles, the EP is prone to adverse selection and free-riding – institutions may reap the benefits of EP membership regardless of their actual behaviour.

A related problem concerns the lack of enforceability of the EP. This shortcoming is underscored by evidence that environmental and social issues can and do still arise in relation to EPFI-financed projects. In 2004, for example, the Baku-Tbilisi-Ceyhan pipeline was financed by eight EP banks and the IFC, despite an NGO assessment alleging 127 breaches of the Principles.

This example raises a final concern, which is the fact that the Principles allow for large differences in the ways EPFIs classify projects. This results in substantial implementation gaps and incoherence in EP implementation.

Policy Discussion and Evaluation

Despite revisions made in 2006, the EP is commonly criticized for shortcomings in transparency, accountability, and governance mechanisms necessary to close persistent implementation gaps between EPFIs. This deficiency is highlighted by cases of EPFI-financed projects violating social and environmental standards.[132]

Stakeholders have also expressed concern that the new IFC Performance Standards – the basis for assessing project financing in the developing world – represent a weakening of the Principles. They worry that this may have negative consequences for the overall EP initiative. EPFIs, however, reject this notion. They argue that the revised Principles entail much stronger requirements for both EPFIs and borrowers.[133]

Another dimension of the EP policy discussion concerns possible means to improve the instrument's compliance monitoring. As it stands, the closest thing to an independent EP compliance monitoring institution is BankTrack, a civil society network that channels responses to the Principles and ensures that EPFIs remain accountable for their actions. BankTrack members include NGOs such as Friends of the Earth (FoE) and Rainforest Action Network (RAN). BankTrack members and EPFIs meet twice a year to discuss shortcomings and means to improve the EP. While governments and NGOs favor a stronger monitoring device, financial institutions oppose this idea. EPFIs argue that stronger monitoring would increase their bureaucratic burden, and drain valuable time and resources.

Finally, the EP is accused of incorrectly addressing the rights of indigenous people.[134] This is a controversial issue. On one side of the debate, EPFIs argue that projects are assessed on the basis of potential social and environmental impacts, which encompasses the rights of indigenous people. Unsatisfied with this argument, critics maintain that assessments of potential impact on general populations cannot be assumed to appropriately address indigenous peoples' rights, which are oftentimes insufficiently protected by local laws and regulations.

The EP in the CSR Landscape

The EP shares space with a number of comparable instruments targeting environmental and social impact in the finance sector.

One such initiative is the non-profit Carbon Disclosure Project, the aim of which is to facilitate dialogue between shareholders and corporations regarding the future impacts they are likely to suffer from climate change. "Supported by quality information," the Carbon Disclosure Project believes that "a rational response to climate change will emerge."[135] Another environmental initiative, the Forge Group, develops and issues guidelines on environmental management and reporting for the financial sector in Great Britain. Unlike the EP, the Forge Group considers how banks can alter their corporate behaviour as such – i.e. corporate functions and operations – in order to capitalize on business opportunities generated by climate change and avert environmental risks.[136]

In addition to these initiatives, a number of financial institutions have initiated their own projects targeting social and environmental issues. One such project, developed by HSBC, is the "Global Climate Change Benchmark Index," which follows the stock market performance of companies set to benefit from addressing climate change. HSBC has also formed a Climate Partnership with a number of institutions, such as the Climate Group, Earthwatch Institute, Smithsonian Tropical Institute and the WorldWide Fund. On a smaller scale, it is not uncommon for banks committed to environmentally friendly behaviour to alter their in-house business operations in view of minimizing their environmental impact.

In terms of ethical and social behaviour, a number of initiatives have been launched in the financial sector to combat terrorist financing, money laundering and corruption. The most prominent of these initiatives is the Wolfsberg Principles. Developed by the Wolfsberg Group – which consists of 12 members, including Transparency International and a number of leading private banks (e.g. Deutsche Bank, UBS AG, Societe Generale, J.P.Morgan Chase, HSBC, etc.) – the Wolfsberg Principles establish benchmarks and guidelines to help the financial sector fight corruption, money laundering and terrorist financing.[137]

A number of banks have also taken it upon themselves to act ethically by refusing to invest in companies "which extract or expel fossil fuels; or in companies which use

animals to test cosmetics or are involved in certain genetic modification."[138] While motivated by similar reasoning to the EP, such initiatives by individual firms are inherently more limited in scope than the global principles represented by the EP. In addition, they tend to focus either on environmental or social dimensions of financial sector activity, but not both at once.

The World Bank Group Environmental, Health, and Safety Guidelines (EHS Guidelines) are similar to the EP in that they are geared toward large-scale international project financing. As noted under 'Implementation' above, the EP uses the EHS Guidelines to assess risks associated with projects financed in non-OECD countries. The EHS Guidelines consist of "technical reference documents with general and industry-specific examples of Good International Industry Practice (GIIP)." Updated on a regular basis, "the EHS Guidelines contain the performance levels and measures that are normally acceptable to IFC and are generally considered to be achievable in new facilities at reasonable costs by existing technology." For IFC-financed projects, this may involve the establishment of site-specific targets with an appropriate timetable for achieving them.[139]

Although a subsidiary of the World Bank, the IFC uses its own set of environmental and social performance standards. This is because World Bank procedures are usually geared towards its public sector partners, while the IFC supports private investments in the developing world. Given that private partners cannot fulfill the same requirements as public partners (e.g. changes in the law) the ten World Bank EHS Guidelines were modeled into eight IFC Performance Standards.[140] Designed to achieve the same broad environmental, health and safety objectives, the sector-specific standards are binding for all IFC projects.

A final instrument sharing similarities with the EP is the Global Reporting Initiative (GRI), a framework for non-financial reporting. In fact, it has been suggested that the GRI could help bolster EPFI compliance if used in conjunction with the EP. However, the EP already requires reporting and, given that the GRI is accused of insufficiently scrutinizing reports, it is unlikely that the EP would benefit substantially from cooperation with the GRI.

Recommendations

One of the main strengths of the EP is the fact that they are tailored to the financial services sector. It is also noteworthy that the threshold for EP applicability, at USD 10 million, is low enough to cover a large number of potential projects. Also, recent growth trends in EP membership seem set to continue. Newcomers from emerging markets such as Brazil and China represent a promising addition to EP membership and a development that should be fostered.

However, the real implications of the EP on various stakeholders, including banks themselves, their clients, consumers, etc. remain difficult to assess. This situation is

worsened by the pervasive lack of transparency and accountability with regards to EP implementation and compliance. In order to make the EP more effective, changes should address shortcomings highlighted by academics and NGOs; namely, the lack of accountability, transparency, and compliance.

While the Principles should remain voluntary, monitoring mechanisms for EPFIs should be improved. The lack of an institution mandated to follow EPFIs' adherence to the Principles has precipitated free-riding: companies frequently reap reputational benefits from EP membership without substantially altering their behaviour. It is therefore recommended that an institution be established to track EPFIs' adherence to the Principles and to apply mild sanctions in the case of non-compliance. Sanctions could entail issuance of warnings to non adhering firms, and mandatory training and workshops for financial institutions struggling with compliance. If violations continue, financial institutions should be removed from the list of EP compliant institutions. Sanctioning mechanisms should be designed so as not deter banks from adopting the Principles in the first place; rather, they should ensure that firms are following their EP obligations by making the implementation process and ongoing compliance more transparent to the public.

Beyond reporting on their experiences with the EP, banks should be required to include in their annual reports substantial detail about how they followed the guidelines, how many projects they sponsored, how these projects were categorized, the criteria and mechanisms they used to assess the projects, and whether this has made a difference with the client. This would be complimented by the establishment of common and detailed standards for EP project classification to ensure that all banks use the same mechanisms of project classification, consistently and comparably.

Finally, current efforts to bring emerging market banks on board the EP should be sustained and strengthened. Advertisement of the Principles in emerging economies – particularly the BRIC countries (Brazil, Russia, India, and China) – is of uttermost importance. Rapid growth in these countries, coupled with their impressive financial means, can be expected to spurn substantial growth in their project financing activities. Financial sector compliance with environmental and social standards in these countries is crucial for the success of the overall CSR agenda.

Sustainable Public Procurement

Jan Landmann

Sustainable public procurement (SPP) involves regulation integrating social, environmental and economic sustainability criteria in public procurement decisions. The specific type of SPP discussed in this paper does not prescribe sustainable public procurement, but legally enables and encourages public agencies to do SPP. This allows flexibility concerning specific criteria and the scope of public procurement requirements.

Background

Public procurement has often been used to achieve preferred social outcomes in the United States and in Europe.[141] The idea of SPP gained momentum when it was taken up in the international sphere. In 2002, the World Summit on Sustainable Development (WSSD) encouraged governments to promote public procurement policies that support the development and diffusion of environmentally sustainable goods and services.

EU Directives 2004/17/EC and 2004/18/EC currently form the legal framework for national public procurement law in the European Union. How they are integrated into national law is left up to national policymakers, but the directives open up possibilities for member states to regard environmental and social criteria in addition to the traditional value-for-money principle. Depending on the national legal framework, SPP regulations can be installed and implemented by executive governments themselves or by the responsible legislative chambers.

Rationale

SPP legislation may be applied for the following reasons:

- To avoid negative environmental and social impacts of governmental consumption, production and service delivery;
- To set an example for the private sector by demonstrating that government takes sustainable development seriously;
- To stimulate the private sector to innovate and to produce more cost effective and sustainable products;
- To drive the business case of CSR by imposing pressure on the economic performance of suppliers and contractors.

SPP is often expected to be more cost-intensive, entailing an extra burden on state budgets. Contradicting this assumption, however, evidence suggests that SPP could eventually be cost-saving, as it may lead to decreased energy and resource consumption or increased innovation and supplier performance.[142] Although the net financial effects

remain unclear, there are reasons to believe that SPP requires greater public expenditure in the short run, with decreases yielded over time.

SPP legislation is applied and implemented by national governments, and primarily targets public agencies. But it has strong implications for private suppliers and contractors as well. Attaching procurement decisions to sustainability criteria creates financial incentives for companies to adopt socially responsible practices, and to develop more sustainable products and procedures. As such, SPP law strengthens the business case of CSR; but it does so selectively, as it does not directly affect companies other than suppliers and contractors. SPP thus entails two roles or the government: "participating in the market as purchaser and at the same time regulating it through the use of its purchasing power to advance conceptions of social justice."[143]

Finally, SPP is a core interest of civil society organisations and associations because it provides impetus for corporate compliance to sustainability issues (e.g. trade unions advocate for tariff wages, or environmental protection agencies for environmental criteria).

Implementation

A large proportion of SPP policies are adopted in the form of legal instruments. In EU member states legislation accounts for about 35 percent of all SPP instruments, next to informational and so-called hybrid instruments.[144] Nineteen EU countries have transferred the EU Directives into national legislation. The dissemination and quality of these national procurement laws is however far from uniform.

In federal systems composed of self-governing entities, the scope of national SPP law may be more limited than in centralized systems. Furthermore, the extent to which public procurers actually incorporate sustainability criteria in their decisions depends on the clarity of the respective law and the guidance provided. Finally, the structures by which private supplies reach the public sector, which also differ from country to country, determine the dissemination of SPP's effects throughout the business sector.

Broadly speaking, take-up of SPP policies depends on country- and region-specific frameworks. Given these varying perceptions and constraints, it is no surprise that a 2005 study assigned by the European Commission revealed considerable variation in the level of development of Green Public Procurement (GPP, a subset of SPP) policies among EU member states. This variance is explained by the indeterminate way in which SPP is presented in the EU Directives. By simply encouraging public procurers to take environmental and social criteria into account, the EU Directives have led to arbitrariness in SPP policy application, highly decentralized, unclear and complex procurement practices, as well as substantial legal uncertainty and conflicting sustainability criteria.[145]

Additional sources of resistance to SPP implementation are more pragmatic in nature. First, procurement personnel may face difficulties handling new SPP responsibilities. Fearing legal consequences in case of wrongdoing, they may be reluctant to use the new instruments. Second, monitoring compliance to additional criteria is expensive, difficult and bureaucratic.

Academic Research

An OECD study on GPP draws two important conclusions about the viability of SPP: first, there are a number of economic justifications for GPP; and second, there are no significant constraints barring the inclusion of environmental criteria in the procurement process.[146] It also finds a scarcity of SPP practice in OECD countries. So what determines the take-up of SPP in public organisations?

In 2007, Christopher McCrudden found that procurement law can enable CSR (as with SPP), facilitate CSR, or prevent CSR (which is the case with traditional procurement law). He concludes that public procurement requirements that go beyond general legal minimum standards (thereby fostering voluntary action) depend on the *scope* of social and environmental legislation – not just its existence. McCrudden's argument corroborates the findings of a multi-stakeholder task force that prepared the UK Government Action Plan on SPP.[147] In its international benchmarking of SPP activities, the task force found that the existence of SPP laws was not generally linked to countries' SPP performance.

General consensus has it that SPP legislation is not enough. In their analysis of national sustainable procurement policies in the EU, Steurer et al. argue that:[148]

- Legal SPP instruments must be complemented by other policies;
- SPP should reflect all three dimensions of sustainability (environmental, social and economic);
- SPP should proactively use the value-for-money-principle.

Elaborating these findings, Brammer and Walker identify four factors conducive to the effectiveness of SPP policy: implementation knowledge, financial expectations, organisational attitude/incentives and sufficient supply.[149]

Policy Discussion and Evaluation

SPP's potential effectiveness as a means to strengthen CSR is disputed. First of all, SPP law seems to contradict the widely held position that CSR should be voluntary. Although SPP imposes no direct legal requirement on companies, it exerts substantial pressure on firms whose survival depends on public contracts. SPP may also distort competition. By extending public procurement criteria beyond quality and cost, SPP effectively decreases the number of potential suppliers. SPP is therefore likely to increase the cost of public purchasing. This can lead to higher taxes and/or fewer public services if eventual savings through SPP do not exceed initial costs. Critics thus argue that the

negative effects of SPP law – making procurement more costly, bureaucratic and less transparent – outweigh its positive effects.

A recent ruling of the European Court of Justice outlawing non-comprehensive wage conditions in public tender contracts demonstrated the complicated relationship between SPP policies and the ideals of a free and competitive internal market.[150] The SPP debate is split along similar lines: while neo-liberal policymakers and business associations typically reject any additional regulations affecting companies, SPP enjoys the support of advocacy groups that believe in government's ability to steer society towards a common good. The latter include political parties, as well as NGOs and trade unions.

Nevertheless, firms' reactions are diverse. Many support SPP legislation and even contribute sustainable supply proposals. This is especially the case amongst SMEs struggling against high (foreign) price competition and for whom public contracting represents a major share of their earnings. Since legal minimum standards differ between countries, companies from highly regulated countries are more likely to demand high procurement standards, which can dull the competitive edge of companies from less regulated countries. However, many companies oppose the extra requirements and bureaucracy that additional criteria entail. This is especially the case amongst enterprises that have enjoyed a competitive edge under traditional procurement practice.

SPP legislation is not sufficient to achieve SPP objectives. Successful SPP implementation requires that complementary measures be taken, especially in the fields of public and private capacity-building and awareness-raising. In order to reduce SPP's complexity and increase its acceptance by stakeholders, SPP law should be linked to other CSR instruments. International CSR standards could, for example, be adopted as sustainability criteria. As a performance-oriented instrument, SPP could be a positive addition to value- and stakeholder-oriented instruments. As noted above, SPP provides a way for governments to lead by example. Besides encouraging companies to change their behavior in order to obtain lucrative public contracts, it has the potential to motivate other public procurers to follow suit. If this leads to new widely accepted sustainability standards or these companies turn out to perform better than others, enterprises not directly affected by public contracts may also be prompted to change their behavior. SPP therefore has the potential to encourage self-regulation in the wider private sector.

In addition to not being *sufficient*, some studies show that SPP law is not even always *necessary* to achieve an internationally comparable good performance in SPP.[151] Other SPP instruments – for example, informational or hybrid instruments – in certain circumstances may be equally or more effective and provide a potential substitute for legislation. In the context of largely legalistic administrative setups or primarily

performance-motivated CSR, concrete regulations may be preferable; if, on the other hand, CSR is especially value- or stakeholder-oriented, SPP law is likely not the most efficient way of increasing corporate responsibility. Effective SPP design must consider stakeholders' ownership-structure, corporate governance and managerial organisation. SMEs or owner-led companies, for example, are more likely to adopt socially responsible behaviour out of concern for certain values or community involvement. Managers of publicly traded companies with heterogeneous shareholder structures, by contrast, are more likely to be persuaded by the "business case" for CSR.

Recommendations

SPP is a potentially powerful instrument in the CSR toolbox. With public expenditures accounting for 35-65 percent of GDP in developed countries, properly implemented SPP policies carry the promise of profound societal effects.[152] Sustainability criteria in public contracts provide strong financial incentives for firms to meet set standards of socially desirable corporate behaviour. They also help governments achieve economic and social objectives for their taxpayers. However, SPP law also has potential negative side-effects, imposing an additional bureaucratic layer on businesses and public procurers, and making procurement decisions more complex and difficult.

As indicated in this paper, the following characteristics are decisive for the effectiveness of SPP law:

- Social and environmental regulatory framework;
- Amount of public expenditure affected;
- Administrative culture/ political priority;
- Business structure (SMEs, MNEs, stock-market corporations);
- Previous corporate behaviour;
- Complementary SPP instruments;
- Clarity of SPP legislation and proposed criteria.

Thorough analysis of the effects of existing SPP law on public procurers, suppliers, the wider private sector and sustainability outcomes is needed to put political debates about SPP on a more sound foundation. Furthermore, it is crucial for policy analysts to establish in which socio-economic as well as political and legal contexts SPP is likely to be most effective.

SPP legislation that only enables the intake of sustainability criteria is potentially useless if it is not taken up by public procurers or if businesses are not capable of meeting the requirements. Extrapolating from the analysis above, three main recommendations on how to best implement or improve SPP legislation seem apparent:

- Multi-stakeholder consultations should be pursued in the SPP policy development process in order to limit dangers and risks of SPP implementation, increase instrument application and enable mutual understanding about the positions and interests of stakeholders.

- Legal uncertainty and lacking capability of actors should be reduced by means of trainings, guidelines and adjustment assistance. A catalogue including applicable sustainability criteria could be annexed in order to reduce complexity and increase procurers' capabilities. It would also raise application and approval rates for SPP proposals. Criteria should be based on well-known und widely used principles such as the UNGC principles, ILO standards or compliance to wage agreements.
- The comprehensive inclusion of sustainability criteria in procurement processes requires broad political consensus as well as high-level priority. Governing parties should therefore strive to reach a widely accepted compromise and signal publicly that they are committed to SPP and sustainable development. Setting quantitative objectives and installing appropriate monitoring procedures would encourage SPP take-up and enable regular assessments.

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[1] This handbook has come out of a university seminar on CSR instruments with students of the Hertie School of Governance.

[2] See also: Anke Hassel (2006): Soziale Standards in einer globalisierten Welt. http://www.bertelsmann-stiftung.de/cps/rde/xbcr/SID-0A000F0A-11C3C85B/bst/Gastbeitragpercent20Ankepercent20Hassel_Sozialepercent20Standards.pdf. And Anke Hassel (2008): The rise of a global labour governance regime. In: Governance….

[3] Unless otherwise noted, Sections 1.1 and 1.2 of this Chapter are based on information from OECD website on the Guidelines: http://www.oecd.org/department/0,2688,en_2649_34889_1_1_1_1_1,00.html, accessed May 9, 2008. Adhering countries comprise all 30 OECD member countries and ten non-members (Argentina, Brazil, Chile, Egypt, Estonia, Israel, Latvia, Lithuania, Romania and Slovenia).

[4] John Evans, General Secretary of TUAC, “OECD Guidelines – One Tool for Corporate Social Responsibility,” accessed at http://www.ilo.org/public/english/dialogue/actrav/publ/130/4.pdf on May 9, 2008, p.25.

[5] Corporate Watch, *“OECD’s Crocodile Tears,”* Autumn 2000, accessed at http://www.flyingfish.org.uk/articles/oecd/tears.htm on May 10, 2008.

[6] Ibid.

[7] Sabine Ferenschild, “The OECD Guidelines for Multinational Enterprises – an Insufficient

Step Towards Realization of Social Standards," in *Responsible Globalisation? The OECD Guidelines for Multinational Enterprises,* Discussion Paper by German Watch, 2002, accessed at http://www.germanwatch.org/download/tw/oecd-e.pdf on May 10, 2008.
[8] OECD Watch, "Review of National Contact Points for the OECD Guidelines for the Period June 2003 – June 2004," accessed at http://www.germanwatch.org/tw/kw-ncp04.pdf on May 10, 2008.
[9] Ibid.
[10] Ibid.
[11] See, for example, OECD Watch, "Five Years On: A Review of OECD Guidelines and National Contact Points," accessed at http://www.oecdwatch.org/docs/OECD_Watch_5_years_on.pdf on May 10, 2008.
[12] OECD Watch, "The OECD Guidelines for Multinational Enterprises and Supply Chain Responsibility," Discussion Paper December 2004, accessed at http://www.germanwatch.org/tw/kw-sup04.pdf on May 10, 2008.
[13] John Evans, General Secretary of TUAC, "OECD Guidelines – One Tool for Corporate Social Responsibility," accessed at http://www.ilo.org/public/english/dialogue/actrav/publ/130/4.pdf on May 9, 2008, p.28.
[14] According to ISO, "STANDARD is a document, established by consensus and approved by a recognized body, that provides, for common and repeated use, rules, guidelines or characteristics for activities or their results, aimed at the achievement of the optimum degree of order in a given context." See ISO Social Responsibility (2006).
[15] See ISO Working Group on Social Responsibility (2008d).
[16] See, for example, International Organisation of Standardization (2006b), p. 5.
[17] See Table 1 for a historical snapshot.
[18] ISO Social Responsibility (2008b).
[19] ISO Social Responsibility (2008a).
[20] ISO Working Group on Social Responsibility (2008d), pp. 2-3.
[21] ISO Working Group on Social Responsibility (2008a)).
[22] See ISO Working Group on Social Responsibility (2008c), p. 3.
[23] See ISO Working Group on Social Responsibility (2008d), pp. 3.
[24] See International Organisation of Standardization (2004).
[25] See ISO Working Group on Social Responsibility (2008d), pp. 1-2.
[26] See International Organisation of Standardization (2006a), p. 1.
[27] See International Organisation of Standardization (2006b), pp. 4-5.
[28] Based on ISO Working Group on Social Responsibility (2008a) and ISO Working Group on Social Responsibility (2008b).
[29] See Castka and Balzarova (2008b), p. 86.
[30] See Castka and Balzarova (2008b), p. 86.
[31] See Castka and Balzarova (2008b), p. 77.
[32] See ISO Advisory Group on Social Responsibility (2004a), pp. 41-42.
[33] See ISO Advisory Group on Social Responsibility (2004a), pp. 41-42.
[34] See Tamm Hallström, p 17.
[35] See International Organisation of Standardization (2004).
[36] See Castka and Balzarova (2008b), p. 75.
[37] See Tamm Hallström, p. 13.
[38] See International Organisation of Standardization (2006a) and International Organisation of Standardization (2006b).
[39] See Castka and Balzarova (2008b), p. 85.
[40] See Castka and Balzarova (2008b), pp. 85-86.
[41] http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html, last retrieved 11.05.2008
[42] Rosett 2007.
[43] http://www.mckinseyquarterly.com/Nonprofit/The_UNs_role_in_corporate_social_responsibility_1499, last retrieves 11.05.2008.

[44] A non for profit organisation found in 1993 in order to monitor the UN activities. http://www.globalpolicy.org/visitctr/about/introduction.htm
[45] http://www.globescan.com/pdf/GlobalCompactCOP.pdf, last retrieved 11.05.2008.
[46] See: Globescan COP 2006, http://www.globescan.com/pdf/GlobalCompactCOP.pdf, last retrieved 11.05.2008.
[47] http://archive.greenpeace.org/earthsummit/docs/gcletter.pdf, last retrieved 11.05.2008.
[48] http://www.globalpolicy.org/reform/business/2007/0704actionaid.htm, last retrieved 11.05.2008.
[49] http://www.corpwatch.org/article.php?id=14549, last retrieved 11.05.2008.
[50] http://www.somo.nl/html/paginas/pdf/Fujitsu_Siemens_company_prof_2005_NL.pdf, last retrieved 11.05.2008.
[51] http://www.evb.ch/en/p25012946.html, last retrieved 11.05.2008.
[52] http://www.hrw.org/advocacy/corporations/index.htm, last retrieved 11.05.2008.
[53] See: Ruggie 2002.
[54] Ruggie 2002, p. 6.
[55] Ruggie 2002, p. 7.
[56] Waddell, 2004, p.1.
[57] Waddell, 2004, p. 297.
[58] Waddell, 2004, p. 299.
[59] Taking into consideration that external, non-commissioned, professional monitoring by experts in the specific sectors and accompanied by technical assistance on how to improve the performance in a monitoring process, seems to be the most effective way.
[60] For example in 1999 revenues of the ExxonMobil Company have reached $185 billion, while the GDP of Chad and Nigeria the countries where ExxonMobil operates were $1.6 billion and $43.3 billion respectively.
[61] See Global Witness Statement to the Extractive Industries Transparency Initiative. Available online at: http://www.globalwitness.org/media_library_detail.php/110/en/global_witness_statement_to_the_extractive_industr (last date accessed; 2 May 2008)
[62] Cynthia A. Williams, 'Civil Society Initiatives and 'Soft Law' in the Oil and Gas Industries', 36 N.Y.U. J. Int'l L. & Pol. 457, Winter-Spring 2004
[63] Ibid, Cynthia A Williamson.
[64] The EITI Principles, available online at http://eitransparency.org/eiti/principles last date accessed: 2 May 2008).
[65] Extractive Industries Initiative Source Book,
available online at: eitransparency.org/UserFiles/File/keydocuments/**sourcebook**march05.pdf Last date accessed: 2 May 2008
[66] For example in November 2003, President of Nigeria on the Tenth Anniversary of Transparency International in Berlin declared that his government was intended to implement EITI by: 1) requiring companies to disclose everything they pay to the government; 2) requiring government institutions to disclose everything they receive from companies; and 3) appointing independent auditor to ensure that two the two sets of figures agree and produce a published report. Available at: EITI Nigeria 2004
[67] For the full list of indicators see the EITI Validation Grid at:
http://eitransparency.org/files/document/validationguide.pdf last accessed 5 May 2008.
[68] The Board consists of 20 members representing 4 constituency groups: 1. Implementing countries; 2. Supporting countries; 3. Civil Society organisations; 4. Industry and Investment companies;
[69] For example Azerbaijan and Nigeria.
[70] See the list of countries participating in the EITI at http://eitransparency.org last accessed on 2 May 2008.
[71] See the list of supporting countries at: http://eitransparency.org/supporters/countries last accessed on 2 May 2008.
[72]See the list of companies participating in the EITI at: http://eitransparency.org/supporters/companies last accessed on 2 May 2008.

[73] See the list of investors and international organisations participating in the EITI at: http://eitransparency.org/supporters/investors last accessed on 2 may 2008.
[74] See the list of NGOs participating in the EITI at http://eitransparency.org/supporters/civilsociety last accessed on 2 May 2008.
[75] Eye on EITI, Civil Society Perspectives and Recommendations on the Extractive Industries Transparency Initiative. October 2006.
available at: http://www.soros.org/initiatives/cep/articles_publications/publications/eiti_20061011/eye_20061019.pdf last visited on 9 May, 2008.
[76] http://www.ceres.org/NETCOMMUNITY/Page.aspx?pid=435&srcid=432
[77] http://www.socialfunds.com/news/article.cgi/80.html
[78] http://www.un.org/News/facts/business.htm
[79] Palenberg, Markus, Wolfgang Reinicke and Jan Martin Witte.(2007). *Trends in non-financial reporting*. Paper prepared for the United Nations Environment Programme, Division of Technology, Industry and Economics (DTIE). Berlin: Global Public Policy Institute. 12.
[80] http://www.globalreporting.org/Learning/JournalArticles/
[81] Palenberg, et al. 10.
[82] KPMG, pg 4.
[83] Ibid., 16.
[84] Ibid., 32.
[85] Ibid., 9.
[86] See José Moneva
[87] http://www.environmentalleader.com/2007/11/05/csr-departments-suffer-from-lack-of-authority/
[88] Palenberg, et al. 34.
[89] This may simply be due to the higher number of reports giving a mathematically lower growth rate. See Palenberg, et al. 34.
[90] See Sumit Chakrabarty.
[91] Ibid., 34.
[92] See Robyn Leeson et. al.
[93] Dow Jones Indexes. http://www.djindexes.com/.
[94] Ibid.
[95] STOXX Limited. http://www.stoxx.com/corporate/company/stoxx.html.
[96] The SAM Group. http://www.sam-group.com/htmle/about/portrait.cfm.
[97] SAM Research, 2007.
[98] Information from the following section primarily comes from the Dow Jones Sustainability Indexes website: http://www.sustainability-index.com/.
[99] When the term "DJSI" appears on its own in this text, it refers to all three categories below unless specified otherwise.
[100] DJI, STOXX Ltd., SAM Group, 2008, p.15.
[101] Information from the following section primarily comes from the Dow Jones Sustainability Indexes website: http://www.sustainability-index.com/.
[102] DJI, STOXX Ltd., SAM Group, 2008, p.7.
[103] Ibid.
[104] See http://www.sustainability-index.com/ for weighting criteria.
[105] DJI, STOXX Ltd., SAM Group, 2008, p. 13.
[106] Dow Jones Indexes. http://www.djindexes.com/.
[107] Vogel, (2005).
[108] License holder breakdown: 35 Europe, 4 North America, 3 Japan, 1 Australia, 1 South Korea.
[109] DJI, STOXX Ltd., SAM Group, 2008.
[110] The FTSE is a British data services and indexes provider launched by the Financial Times and London Stock Exchange.
[111] DJI, STOXX Ltd., SAM Group, 2008.
[112] Schäfer et al., 2006.

[113] SustainAbility, 2004, p. 29.
[114] Ibid.
[115] Ibid.
[116] Ibid.
[117] Schäfer et al., 2006.
[118] Baue, 2006.
[119] Sustainability, 2004.
[120] Ibid.
[121] Baue, 2006.
[122] SustainAbility, 2004.
[123] Vogel, (2005).
[124] Baue, 2002.
[125] SAM Research (2007).
[126] Ibid.
[127] Basel Committee on Banking Supervision (2005), http://www.bis.org/publ/bcbs118.pdf.
[128] The Equator Principles (n.d.), http://www.equatorprinciples.com/documents/Equator_Principles.pdf.
[129] See for the following: The Equator Principles (n.d.), http://www.equator-principles.com/principles.shtml.
[130] Wright and Rwabizambuga (2006). *Institutional Pressures, Corporate Reputation, and Voluntary Codes of Conduct: An Examination of the Equator Principles*.
[131] Write and Rwabizambuga 2006
[132] Baue 2006.
[133] The Equator Principles (n.d.), http://www.equator-principles.com/faq.shtml.
[134] Baue 2006.
[135] Shapiro 2008.
[136] Shapiro 2006.
[137] The Wolfsberg Group (n.d.), http://www.wolfsberg-principles.com/pdf/terrorism-german.pdf.
[138] Shapiro 2008.
[139] (n.d.), http://www.ifc.org/ifcext/enviro.nsf/Content/EnvironmentalGuidelines.
[140] 32 Hamad and Zattler (2006). http://www.inwent.org/E+Z/content/archiv-ger/04-2006/trib_art3.html.
[141] McCrudden 2004.
[142] OECD 2003.
[143] McCrudden 2004, 257.
[144] Steurer et al. 2007.
[145] McCrudden 2004.
[146] OECD 2003, 215.
[147] SPTF 2006.
[148] Steurer et al. 2007.
[149] Brammer/Walker 2007, 8- 10.
[150] See European Court of Justice decision on 3 April 2008 -C-346/06.
[151] European Commission 2005; SPTF 2006.
[152] Brammer/Walker 2007, 3.