Corporate Ethics, Governance and Social Responsibility:
Comparing European Business Practices to those in the United States

A Study Conducted for the
Business and Organizational Ethics Partnership
Markkula Center for Applied Ethics
Santa Clara University

by

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Executive Summary

Recent history has shown that European-based corporations seem to be ahead of their U.S. counterparts on implementing corporate social responsibility (CSR) and sustainability practices but are they really doing a better job of avoiding unethical conduct on a large scale? A closer look reveals that in this era of globalization the present day business operations in the United States and Europe are not as different as many assume. Both have to deal with the clouded definition of what it means for a company to be ethical and responsible.

The research was undertaken to test the proposition that the ethics, governance and CSR practices of corporations based in the United States differ dramatically from corporations based in Europe. The analysis is meant to provide companies with a better understanding of the similarities and differences between the U.S. and European business environments. The Markkula Center for Applied Ethics wants to inform partnering companies of the current business climate in Europe by taking a closer look at government regulation, company policies, best practices and opinion surveys.

In an effort to determine how ethics and CSR practices of European-based companies compare to U.S.-based companies, eight European companies and ten American companies were researched. These companies were compared across the technology, energy, healthcare, and aerospace and defense industries. The results of the sample showed that European companies show more of a commitment to CSR than U.S. companies. However, American companies are more devoted to having structured business ethics and governance programs in place. The Enron scandal and Sarbanes-Oxley legislation have caused American business ethics and governance to surge in recent years.

To measure similarities and differences I consulted experts in the industry, reviewed literature and opinion surveys, and used the following objective indicators to measure the sample companies:

- Has the company publicized a Code of Conduct/Ethics?
- Are the company's conflict of interest guidelines publicly available to investors?
- Does the company make it clear who the designated Ethics/Compliance Officer is?
- Does the company have a whistle blowing process implemented and is it easily accessible?
- Does the company publish a CSR or sustainability report?
- Is CSR one of the company's core corporate principles or business objectives?

European companies scored high on the CSR indicators. Fifty percent of the European companies analyzed had CSR embedded in their corporate strategy while only twenty percent of U.S. companies did. In addition, all of the European companies in the sample publish reports on how the company is responding to stakeholders' social and environmental concerns. Only half of the American companies sampled committed resources to publishing a CSR/sustainability report. The results are consistent with the literature which shows that since the mid-1990s, European governments and consumers have played a much more active role in promoting formal CSR practices.

A closer look at the sample results reveals that there are also similarities between company policies across these industries in Europe and the U.S. All but two of the companies analyzed have publicized codes of conduct and conflict of interest guidelines in place for employees to read and sign. Companies on both sides of the Atlantic have room for improvement in CSR as only a third of the businesses take CSR seriously enough to make it a corporate objective. The slowest to adopt CSR policies is the aerospace and defense industry. Technology companies show the greatest commitment to CSR in both Europe and the U.S. A 2003 survey by GlobeScan Inc., shows that the general public agrees technology companies are leading other industries in CSR efforts.

Company scandals have tarnished Europe's squeaky clean image and Europeans now realize that it takes more than just CSR for a company to earn the title "responsible citizen." At a minimum it requires a blend of business ethics, governance and CSR policies to meet the expectations of the public. Industries that scored well across all the sample indicators, e.g. technology and healthcare, also received a more favorable opinion from the public.

The tables have turned and Europe is now the one looking across the Atlantic to benchmark policies that can help make their companies regain the public trust. Europe seems to be following America's lead now – first learn the hard way through corporate scandal, lose the public's trust, and then regulate. The irony is that two of the main driving forces behind the CSR movement in Europe have also helped instigate corporate fraud in Europe – deregulation and privatization at the national level and the creation of a single, more American market at the European level.

Despite Europe's best CSR efforts, since 1999, increasing proportions of individuals rate Europeans as well as American companies below average in fulfilling their responsibilities to society. Recent corporate scandals in both Europe and the U.S. are likely having a negative effect on consumer perceptions of American and European companies in key markets. Furthermore, increasing proportions of Europeans and Americans rank the others' companies poorly in fulfilling their responsibilities to society, perhaps reflecting the political and economic tensions between the U.S. and the European Union. Research shows that there is a gap between the existence of company ethics and CSR policies and the embedding of its substance in the organization's 'blood stream' (More & Webley, 2003).

If 2002 was the year of U.S. corporate malfeasance, 2003 was Europe's turn: Accounting fraud and other criminal activities were uncovered at Switzerland's Adecco, the Netherlands' Ahold, and, of course, Parmalat, the Italian dairy concern whose owners' defrauded investors of billions, including more than 1.5 billion U.S. dollars from American investors. Whereas two years ago Europeans claimed that Enron proved the superiority of European corporate culture, now many admit that, in fact, fraud can happen anywhere. The Parmalat, Ahold, and Adecco scandals are more evidence that European business culture is becoming more global and, almost by definition, more American. But, while the structure of European business is changing – moving not only toward regional integration but toward distinctly American practices like capital market financing as well – many Europeans are nevertheless slow to push for commensurate changes in how business is regulated. Post-Parmalat, European government bodies are finally realizing they must move toward stronger enforcement mechanisms required by a more open, American-style business economy. The EU, UK,

Italy, are all moving forward to provide more oversight of companies operating in Europe. Non-government organizations are also getting involved and pushing to globalize corporate accountability rules through the Organisation for Economic Co-operation Development (OECD).

The scandals in Europe highlight the risks that an insufficiently regulated continental economy poses for the U.S. As Europe begins to raise capital from markets and outside investors, including those across the Atlantic, those markets and investors are put at risk. American investors lost more than 1.5 billion U.S. dollars in the Parmalat scandal, and, with the growing number of European firms registered with U.S. stock exchanges, the harm future overseas scandals could do to the American investment community can only increase.

Things may get worse before they get better, as European capital markets open even more and become more central to private financing. History teaches us that scandals erupt after a strong inflow of new money – i.e., new participants from the public – into the capital markets. So Parmalat, Ahold, and other scandals are not necessarily outlier examples of good European businesses gone wrong; they are examples of what happens when a system outgrows the rules by which it has been guided. Europe is taking the right approach by continuing to raise the bar on CSR policies while also adopting many U.S.-style governance regulations to shadow its U.S.-style capitalism. However, this is no time for European and U.S. regulators, companies, stock exchanges/brokers, and investors to get complacent. They all can do more to improve the business ethics, corporate governance, and social responsibility of the global business community.

Multinational companies, governments, Europeans and Americans all must play a role in holding the business community accountable for ethical wrongdoings and poor social and environmental performance. The research revealed a business case for companies to take CSR, business ethics, and corporate governance seriously: Investors are starting to show signs that corporate performance in social and environmental areas is almost as important to the public as performance in financial areas, people expect companies to do it all - increase shareholder value, stay out of trouble, and turn a profit while acting responsible to its stakeholders.

Shareholders and customers will have the greatest impact on companies if they start holding multinationals more accountable for poor performance. The more individuals' factor business ethics and CSR into their purchase and investing decisions the more responsible companies will be. Regulation can only go so far to curb corporate scandal. There will always be greedy individuals out there but if a majority of citizens stop buying a company's stock and product executives will think twice about stepping out of line.

Introduction

Since the 1970s, corporations have addressed business ethics in various ways, including the introduction of compliance programs and managers, the addition of board-level ethics committees, the development of codes of conduct, the preparation and dissemination of values statements, the hiring of corporate social responsibility managers and training programs of all kinds. As the events of the past few years in the United States and Europe have demonstrated, these efforts, unfortunately, have not prevented U.S.-based and European-based corporations from engaging in unethical behaviors that lead to larger corporate scandals. As a result there is increased pressure for U.S. and European companies and governments to provide more structured governance and ethics programs so that companies are more responsible to the societies in which they operate.

Continuing examples of questionable behavior by individual employees and executives have given rise to critical questions of how corporate ethics efforts can be improved and can address the underlying causes of misconduct, as well as the growing demands for proactive, socially responsible, and sustainable business practices. Recent history has shown that European-based corporations seem to be ahead of their U.S. counterparts on implementing corporate social responsibility (CSR) and sustainability practices but are they really doing a better job of avoiding unethical conduct on a large scale? This paper draws attention to some similarities and differences between American and European companies and their business environments. A closer look reveals that in this era of globalization the present day business operations in the United States and Europe are not as different as many assume. Both have to deal with the clouded definition of what it means for a company to be ethical and responsible.

Understanding the landscape of business ethics can be problematic. The field is vast, often encompassing such concerns as corporate governance, reputation management, accurate accounting, fair labor practices and environmental stewardship to name but a few. In fact, the field addresses the entire scope of responsibilities that a company has to each of its stakeholders: those who have a vested interest in the decisions and actions of a company,

like clients, employees, shareholders, suppliers and the community. Depending upon the company in question, one may even be able to identify additional stakeholders.
The field of business ethics is further complicated by the fact that many terms exist to refer to corporate offices and programs intended to communicate, monitor, and enforce a company's values and standards (K. McElhaney, personal communication, February 4). In theory, one can make some rough distinctions among the various domains related to business ethics, e.g., corporate responsibility, social responsibility, corporate compliance, etc. In practice, however, such distinctions blur because corporate offices of compliance established in the 1970s may now function similarly to offices of corporate and social responsibility.

For the purpose of clarity, definitions will be provided for each of the terms that can be understood as related to the goal of improving the conduct of business, namely, business ethics, corporate compliance, corporate governance, corporate responsibility, CSR, and corporate sustainability. Please note that these definitions are not being offered as official definitions, but only to impart how they are commonly used in the business ethics industry.

Business Ethics

Business ethics is a form of applied ethics. It aims at inculcating a sense within a company's employee population of how to conduct business responsibly. Because the term "ethics" can pose problems in an international context, i.e., the term does not translate well and it can be difficult to find a common understanding of the term, some organizations choose to recast the concept of business ethics through such other terms as integrity, business practices or responsible business conduct.

Corporate Compliance

U.S. business scandals that occurred in the 1980s – particularly related to government contracts – gave rise to corporate compliance, which is most often narrowly focused on complying with national and local laws and regulations (D. Vogel, personal communication, March 13, 2004). Corporate compliance officers and programs have been criticized for falling short of respecting the spirit of the law in favor of the letter of the law. It should,

however, be noted that corporate offices of compliance may now function in much broader contexts.

Corporate Governance

Corporate governance refers to the broad range of policies and practices that stockholders, executive managers, and boards of directors use to (1) manage themselves and (2) fulfill their responsibilities to investors and other stakeholders. Over the past decade, corporate governance has been the subject of increasing stakeholder attention and scrutiny. These concerns have given rise to a powerful shareholder movement. Shareholder activists, composed primarily of large multi-billion-dollar pension funds, religious and socially responsible investment groups, and other institutional investors, are now using a variety of vehicles to influence board behavior, including creating corporate governance standards of excellence and filing shareholder resolutions. These investors are concerned with such topics as board diversity, independence, compensation, and accountability, as well as a broad range of social issues, e.g. employment ethics practices, environmental policies, and community involvement.

Corporate Responsibility

Corporate responsibility refers to fulfilling the responsibilities or obligations that a company has toward its stakeholders. When examining a particular corporate practice, like profit versus environmental protection, corporate responsibility can help distinguish between a stakeholder expectation and a corporate obligation, i.e., is the company obligated to provide absolute environmental protection at all costs or is it obligated to maximize profits for its investors at the cost of damaging the environment?

Corporate Social Responsibility (CSR)

CSR can be understood in terms of corporate responsibility, but with greater stress upon the obligations a company has to the community, particularly with respect to charitable activities and environmental stewardship. Corporate and social responsibility is sometimes described as being a tacit contract between business and a community, whereby the community permits the business to operate within its jurisdiction to obtain jobs for residents and revenue through taxation. Additionally, the community expects the business to preserve the

environment and to make the community a better place to live and to work through charitable activities.

Business for Social Responsibility (2001) speaks of CSR in the following terms: "Socially responsible business practices strengthen corporate accountability, respecting ethical values in the interests of all stakeholders. Responsible business practices respect and preserve the natural environment. Helping to improve the quality and opportunities of life, they empower people and invest in communities where a business operates."

Currently, European companies seem to be adopting offices of corporate environmental and social responsibility more often than U.S. companies. It should be noted that some business ethics organizations believe that corporate responsibility encompasses all responsibilities that a company has to all of its stakeholders, which includes ethical, social and environmental responsibilities (J. Noterdaeme, personal communication, 2004).

Corporate Sustainability

PricewaterhouseCoopers defines corporate sustainability as aligning an organization's products and services with stakeholder expectations, thereby adding economic, environmental and social value. The Global Reporting Initiative (GRI), that grew out of environmental work by the Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environment Programme (UNEP), produced, in June 2000, the GRI Sustainability Reporting Guidelines that cover economic and social performance as well as the more "traditional environmental" ones (Centre for Social Markets, 2004).[1]

Methodology

The research was undertaken to test the proposition that the ethics, governance and CSR practices of corporations based in the United States differ dramatically from corporations

[1] The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labor organizations from around the world.

based in Europe. The analysis is meant to provide companies with a better understanding of the similarities and differences between the U.S. and European business environments. The Markkula Center for Applied Ethics wants to inform partnering companies of the current business climate in Europe by taking a closer look at government regulation, company policies, best practices and opinion surveys. The Center realized that its partners were interested in the topic because:

- ✓ For the last decade there was a perception in the business media that companies in Europe were more ethical because CSR policies were more widespread there. As a result business managers prefer to benchmark their company's practices against their European equivalents.
- ✓ It received very positive feedback following last summer's retreat when a leading business ethics professor spoke about CSR in Europe.
- ✓ With the recent development of several European scandals there is growing sentiment among these corporate partners that Europe may not be superior on business ethics and social responsibility.

This timely study uses a blend of qualitative and quantitative research to provide the necessary data to develop recommendations and make concluding statements.

Literature

There was a plethora of information readily available on the topic of CSR and business ethics in the United States. Finding comparable information in Europe took a more thorough search. A careful review of the latest industry publications, Non-governmental Organization[2] reports, academic journals, and leading periodicals was used to provide theory, track the history of regulations, and stay up to date on reactions to recent corporate scandals.

Best Practices

Conversations with ethics officers, CSR managers, academic experts, and European students were used to gain a better understanding of best practices in Europe's business environment

[2] Non-governmental organizations (NGOs) are organizations that are not directly part of the traditional business community or associated with governmental institutions. NGOs are nonprofit organizations that typically advocate for a specific cause, such as the environment or human rights, but may also be think tanks.

and culture. Consultation was done with leading European organizations whose focus is on improving business ethics and CSR practices. They include CSR Europe, the European Business Ethics Network, the European Institute for Business Ethics and London's Institute for Business Ethics. These thought leaders provided perspectives that were not always captured in written publications. Discussions focused on the latest strategies in business ethics and CSR, how to weave policies into the corporate culture, and what companies are doing to create acceptance for these policies with internal and external stakeholders.

Sample of Companies

A sample was collected to help evaluate whether American and European company policies and procedures regarding business ethics and CSR differed. The company information was often not easily accessible causing time constraints that kept the sample size small to 18 companies across 4 industries. I relied on information publicly available in February 2004 through the companies' websites, reports, and business databases at UC Berkeley's Haas School of Business. Using the qualitative data from the sample, I documented patterns and trends of corporate business ethics and social responsibility, and identified patterns of differentiation across industries and geography.

The technology, energy, healthcare, and aerospace and defense industries were selected based upon the perceived relevance to the Markkula Center partnership companies. The partnership companies include: Advanced Micro Devices (AMD), Advance PCS, Affymetrix, Agilent Technologies, Applied Materials, Catholic HealthCare West, Calpine, Cisco Systems, Ernst & Young, Hewlett-Packard, Northrop Grumman, Premier Inc., Wilson Sonsini, Wyse Technology and Xilinx.

Seven of these partner companies are included in the U.S. sample. There are ten U.S. companies and eight European companies in the sample (FIGURE 1). The technology industry has four U.S. companies because the Markkula Center wanted to include as many partners in the sample as possible.

FIGURE 1 – Comparison of U.S.-based companies to European-based companies

Industry	U.S.	Europe
Technology	Agilent Technologies, AMD, Cisco Systems, Hewlett-Packard	Philips, Siemens
Energy	Calpine, ChevronTexaco	Royal Dutch Shell, TotalFinaElf
Healthcare	Johnson and Johnson, Premier Inc.	Amersham, Novartis
Aerospace and Defense	Lockheed Martin, Northrop Grumman	EADS, BAE Systems

No objective test has been traced which indicates if and to what extent a corporation is committed to doing business ethically and socially responsibly. With this in mind I consulted experts in the industry and collectively we developed the following objective indicators to compare the sample companies:

- Has the company publicized a Code of Conduct/Ethics?
- Are the company's conflict of interest guidelines publicly available to investors?
- Does the company make it clear who the designated Ethics/Compliance Officer is?
- Does the company have a whistle blowing process implemented and is it easily accessible?
- Does the company publish a CSR or sustainability report?
- Is CSR one of the company's core corporate principles or business objectives?

Whether a company possesses all of these indicators is not, of course, conclusive that the company is a responsible citizen; rather it is indicative of their intentions. For example, having a code of ethics does not guarantee that a company behaves ethically. Research shows that there is a gap between the existence of company ethics and CSR policies and the embedding of its substance in the organization's 'blood stream' (More & Webley, 2003). However, having published codes of ethics, whistle blowing processes, CSR reports, etc. is the most explicit way a company can demonstrate to the public its commitment to ethical conduct and social/environmental concerns.

Codes of Conduct

The cornerstone of any company's ethics program is its set of values. The key mechanisms for articulating those values are ethics codes, also known as codes of conduct and standards of business. Ethics codes help create globally consistent "fixed reference points" for employees (P. Lacy, personal communication, April 14, 2004). Ethical decision-making

procedures, spelled out in an ethics code, arm employees with the information needed to act in accordance with the values that are at the core of a company. The code serves as a set of concrete statements about how the companies conduct business (Business for Social Responsibility, 2001). Companies in the sample satisfied this indicator if they had a well established, written code that was easily accessible to employees and the public.

Conflict of Interest Guidelines

A conflict of interest is often defined as any situation where an employee's/board member's personal interest, or those of a family member, close friend, business associate, corporation or partnership in which an employee/member holds a significant interest, or a person to whom the employee/member owes an obligation could influence the employee's/member's decisions and impair the employee's/member's ability to fulfill the business and social objectives of the company or represent the board fairly and without bias (Voien, 2000).

Recent corporate scandals such as Enron and Parmalat have brought to the forefront the importance of having strict conflict of interest standards in place. Employers use conflict of interest guidelines to inform new employees of potentially harmful situations, and to make it clear that employees are to avoid these clouded situations. New employees should fully understand the conduct and behavior that the employer expects from the outset. Communicating appropriate policies and procedures can help eliminate unacceptable behavior and work habits, and may be helpful if it becomes necessary to dismiss employees who cannot meet minimum standards. Sample companies satisfied this indicator if they articulated strict guidelines to employees and board members as to what activities would be seen as a conflict of interest and held in violation of the code of conduct.

Compliance/Ethics Officers

It is important for employees to know who is in charge of handling potential ethical violations. A compliance/ethics officer manages a company's ethics policies and ensures that every employee is well-informed of company values and standards. The officer ensures that employees who violate the codes of conduct are held accountable and disciplined for unethical behavior. They also maintain confidentiality when a whistle blower reports a possible violation. Sample companies satisfied this indicator if the company made it clear to

employees and the public who was held accountable for managing the ethics policies for the company.

Whistle Blowing Process

Whistle blowers are people who often at great personal risk, choose to disclose information about improper government or industry actions that are harmful to public health, the environment, the economy or others (Dworkin & Near, 1992). It is important for companies to protect the rights of its employees and provide an anonymous open line of communication for those that have been exposed to violations of company policies or government laws. The reporting steps should be clearly laid out for all employees and easily accessible should a sudden crisis occur. Sample companies satisfied this indicator if they publicly disclosed their whistle blowing process and made employees the priority by structuring the process to protect the whistle blower. Companies that do not punish but instead reward employees who try to prevent further misconduct will be viewed as more ethical by external stakeholders.

CSR/Sustainability Report

Leadership companies understand the value of assessing their social and environmental performance on a regular basis. From the informal query "how are we doing?", to scheduled surveys, to formal audit processes conducted by outside experts, companies are seeking information about how they are viewed and how they are progressing in meeting the expectations of investors, employees, customers, business partners, and community leaders on a range of corporate social and environmental responsibility issues. Companies that produce these reports show a resource commitment to the issues and a willingness to be transparent. While no company completely discloses all of their information, companies that make stakeholders aware of their policies and procedures build trust. Reporting allows investors, employees, consumers and regulators to make informed decisions. Sample companies fulfilled this indicator if they produced and released a CSR/sustainability report in the last two years. Companies that just mentioned CSR activities on a website or have not kept their reporting practices up to date were not seen as having a strong enough commitment of resources to CSR and did not meet the indicator. If a company devoted a large portion of its Annual Report to CSR/sustainability the company was credited.

CSR as a Corporate Principle

If a company is truly committed to CSR they regard it as an integral part of the business decision making process and prominently place it in the company's core mission, vision, and values documents. These simple but important statements succinctly state company goals and aspirations. They also provide insight into a company's values, culture, and strategies for achieving its aims. The mission or vision of a socially responsible business frequently references a purpose beyond "making a profit" or "being the best," and specifies that it will engage in ethical businesses practices and seek to create value for a variety of stakeholders, including shareholders/owners, employees, customers, vendors, communities, and the natural environment (A. Townley, personal communication, May 5, 2004). Sample companies satisfied this indicator if they stated CSR as an intricate part of their corporate objectives and conducted their business in a manner that was consistent with their statement.

Socially Responsible Investing Rating[3]

After measuring the sample companies' performance on the indicators detailed above, their performance was compared to whether or not they are rated on the Dow Jones Sustainability Indexes (DJSI). Those companies that scored the best in the sample also rated high on DJSI, indicating that my indicators may be a good measure of a company's ethical and social performance.

Many social investors consider the DJSI the most competitive index to be listed on because of its high social, ethical, and environmental standards. It provides a rigorous independent review of a company's ethics, governance, and CSR policies. Dow Jones Sustainability Indexes track the financial performance of the leading sustainability companies worldwide, providing asset managers with reliable and objective benchmarks to manage sustainability-driven portfolios. The DJSI World covers the largest 2,500 companies by market capitalization in the Dow Jones Global Index. Only the top 10 percent (300 companies from

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[3] Integrating personal values and societal concerns with investment decisions is called Socially Responsible Investing (SRI). SRI considers both the investor's financial needs and an investment's impact on society. Socially Responsible investors are those who include social, environmental and ethical criteria in their investment decisions. With SRI, individuals or groups can put their money to work to build a better tomorrow while earning competitive returns today. Social investors include individuals and institutions such as corporations, universities, hospitals, foundations, insurance companies, pension funds, nonprofit organizations, churches and synagogues.

22 countries) of these companies are selected for the DJSI World according to economic, environmental and social criteria (Barkawi, 2003). The Dow Jones STOXX Sustainability Index reviews the largest 600 European companies' sustainability practices and provides investors with an independent benchmark based on economic, environmental and social criteria. DJSI Stoxx only accepts the leading 20 percent in terms of sustainability. The components are selected according to a systematic corporate sustainability assessment that identifies the leading sustainability-driven companies in each industry group.

Opinion Surveys

Opinion surveys were used to obtain a better sense of the cultural similarities and differences on these issues between the U.S. and Europe. A variety of polling data has been examined, including some that surveyed the general public, executives and directors, employees, and academic institutions. These particular surveys are the best that the industry has to offer.

GlobeScan Inc.'s CSR and Global Issues Monitor

GlobeScan's 22 nation survey on CSR explores the views, attitudes, and behavior of consumers, shareholders, and corporate employees relating to current CSR issues. The survey has been conducted annually since 1999 using face-to-face or telephone interviews with representative samples of 1,000 citizens in each of the selected countries (GlobeScan, 2003). Topics in the survey include: trust in companies, corporate governance, communications, company ratings, ethical consumerism, and socially responsible investing. The survey allowed for a comparison of the public's opinion in the U.S. to public opinion in France, Germany, Great Britain, Italy, Netherlands, and Spain. Most companies factor consumer beliefs and share holder value into their decision making and use public opinion as one factor to gage their company's performance.

PricewaterhouseCoopers' Management Barometer

The 2003 Management Barometer surveys top executives in large multinational corporations spanning technology, financial services, and consumer and industrial products and services (Ascolese, 2003). The polling is developed and compiled with assistance from the opinion and economic research firm of BSI Global Research, Inc., which interviewed 103 Europe-

based and 150 U.S.-based CFOs and Managing Directors.[4] The survey looks at the stronger emphasis European headquartered multinational companies place on reporting their environmental and social performance. This data allows differences in management priorities for U.S. and European companies to be seen. It compares the regions on issues of corporate governance, working condition policies, business ethics, economic impact, community involvement, social impact, and environmental impact.

Gallup Poll

In 2002, Gallup polled Americans on their perceptions of big business. The results are based on telephone interviews with a randomly selected national sample of 1,013 adults, aged 18 and older. The results display Americans views regarding big business and unethical business practices. In a separate 2002 survey, Gallup interviewed approximately 600 investors each in France, Germany, Great Britain, Italy and Spain (Jacobe, 2002). The total sample included 3,024 European investors who voiced their confidence levels in American companies following the Enron scandal. These polls allowed for a look at how Americans and Europeans viewed U.S.-based companies soon after Enron scandal.

Sample Results

In an effort to determine how ethics and CSR practices of European-based companies compare to U.S.-based companies, eight European companies and ten American companies were researched. These companies were compared across the technology, energy, healthcare, and aerospace and defense industries.

Technology Industry

Siemens AG

Company Description – Based in Germany, Siemens AG (NYSE, XEXTRA) employs more than 417,000 employees worldwide in 190 countries. Their 2003 net sales were 74,233 million euros. The company sells technologies that assist with lighting, medical devices, rail transportation, power transmission and distribution, and information and communications

[4] A multinational company owns or has controlling interest in a subsidiary enterprise in one or more countries other than where the parent company is registered. As with any company they have a fiduciary duty to maximize profit for their shareholders and can be publicly or privately owned or a mixture of the two.

networks. Siemens generates seventy-five percent of their sales with products and solutions developed within the last five years. To make this possible they invested nearly 5.1 billion euros in research and development in fiscal 2003 (Siemens, 2004).

FIGURE 2 – Comparing European-based and U.S.-based Technology Companies

Key Blue = Yes White = No	European and American Companies					
Performance Indicators	Siemens (Germany)	Philips Electronics (Netherlands)	Agilent Technologies (U.S.)	AMD (U.S)	Cisco Systems (U.S.)	Hewlett-Packard (U.S.)
Code of Business Conduct/Ethics is publicly available	Blue	Blue	Blue	Blue	Blue	Blue
Conflict of Interest Guidelines are publicly available	Blue	Blue	Blue	Blue	Blue	Blue
Clearly state who the Ethics or Compliance Officer is	Blue	Blue	White	White	Blue	Blue
Whistle Blowing Process is clear and in place	White	Blue	Blue	White	Blue	Blue
Publish CSR or Sustainability Report	Blue	Blue	Blue	Blue	White	Blue
CSR is a corporate principle or objective	Blue	Blue	White	White	White	Blue

Siemens AG (Continued)

Indicator Rating – Siemens meets five of the six indicators. The company does not have a whistle blowing process in place for employees to anonymously report ethical violations they witness in the work place. The company simply advises employees to lodge a personal complaint with his/her supervisor or internal works council. This could be seen as threatening to employees who want to avoid conflict with their managers. Overall Siemens graded out strongly when measured against my indicators.

Socially Responsible Investment Rating – Their performance is consistent with their listing on the highly competitive Dow Jones Sustainability World Index.

Best Practice – One of Siemen's five corporate principles states: "We embrace corporate responsibility to advance society. Our ideas, technologies and activities help create a better world. We are committed to universal values, good corporate citizenship and a healthy environment. Integrity guides our conduct toward our employees, business partners and shareholders." The company also publishes a corporate governance report that details the governing ethics policies and procedures for management, the board, and shareholders.

<u>Philips Electronics</u>

Company Description – Royal Philips Electronics of the Netherlands is the world's third-largest consumer electronics company and Europe's largest, with sales of 29 billion euros in 2003. It is a global leader in color television sets, lighting, electric shavers, medical diagnostic imaging and patient monitoring, and one-chip TV products. Their 165,300 employees in more than 60 countries are active in the areas of lighting, consumer electronics, domestic appliances, semiconductors, and medical systems. The company is quoted on the NYSE, London, Frankfurt, Amsterdam and other exchanges (Royal Philips Electronics, 2003).

Indicator Rating – Philips was one of only three companies in the sample that satisfies all six indicators. They have a detailed ethics program that is clear and concise making it very user-friendly for employees. They also publish an annual Sustainability Report that provides strong evidence of their commitment to CSR. Philips is elevating their leadership role by extending their ethics codes and CSR policies to 50,000 suppliers worldwide. The company requires that their suppliers adhere to the same standards (Baue, 2004).

Socially Responsible Investment Rating – Philips strong performance on my indicators is consistent with their high DJSI rating. The company was ranked number one, by the DJSI World, in corporate sustainability among companies from the consumer electronics, leisure goods, home construction, apparel and airline sectors. They also ranked number one in the Cyclical Goods & Services market sector in the DJSI STOXX index of approximately 600 of Europe's leading companies. Philips was rated highest in corporate governance and measurement systems, and received a 100 percent rating on environmental reporting, 92 percent on environmental policy and 95 percent of product stewardship. Philips also scored

higher than the industry average on corporate citizenship and philanthropy, labor practices and human capital.

Best Practice – Philips believes it is critical to report on the company's progress toward achieving environmental and social goals. To reach their goals they set performance targets each year and then measure how close they came to those benchmarks. In 2003, they conducted a study to gather an inventory of Key Performance Indicators (KPIs) related to sustainability that were in place throughout the organization. In 2004, Philips Sustainability Board will establish a task force to analyze this information in order to determine where they achieve and fall short of the company's social and environmental goals.

Agilent Technologies Inc.

Company Description – Agilent Technologies Inc. (NYSE) is a global, diversified technology company focusing on high-growth markets in communications, electronics, life sciences and chemical analysis. The company operates four businesses: test and measurement, automated test, semiconductor products, and life sciences and chemical analysis, all supported by a central research group – Agilent Laboratories headquartered in Palo Alto, CA. Agilent has facilities in more than 30 countries and develops products at manufacturing sites in the U.S., China, Germany, Japan, Malaysia, Singapore, Australia and the U.K. With approximately 28,000 employees throughout the world, the company serves customers in more than 110 countries. More than half of Agilent's revenue is generated from outside of the U.S. The net revenue for fiscal year 2003 was 6.1 billion U.S. dollars (Agilent, 2003).

Indicator Rating – Agilent Technologies satisfies four of the six indicators. This is not surprising considering the company was formed out of Hewlett-Packard, a company known for its strong social values. Agilent publishes an Environmental and Social Responsibility Report but does not list CSR as a corporate principle or objective. The company scored well on the ethics indicators but failed to designate a compliance officer who manages the ethics program.

Socially Responsible Investment Rating – Agilent Technologies is listed on the highly competitive Dow Jones Sustainability World Index. DJSI only invites companies to be members if they

are true leaders in CSR and Sustainability. I am surprised that Agilent does not state CSR as a corporate objective especially considering their Hewlett-Packard roots.

Best Practice – Agilent Technologies' conflict of interest guidelines are clear and to the point. The company expects that board members, employees, and executives avoid even the appearance of a conflict of interest. The company has shown leadership in taking a hard stance to avoid putting individuals working with the company in a situation where their judgment may be blurred.

Advanced Micro Devices, Inc. (AMD)

Company Description – Founded in 1969 and based in Sunnyvale, California, AMD (NYSE) provides microprocessors, Flash memory devices, and silicon-based solutions for personal and networked computer and communications markets with 12,282 employees and manufacturing facilities in the U.S., Europe, and Asia (Advanced Micro Devices, Inc., 2002). For the fiscal year 2003, AMD sales were 3.5 billion U.S. dollars, up 30 percent from 2002.

Indicator Rating – AMD satisfies three of the six indicators. Their ethics program is mediocre. They fail to inform employees what individual is responsible for enforcing the code of conduct and do not have a whistle blowing process in place to protect employees who witness violations of the ethics codes. AMD does have an eight hundred number "alert line" that employees can call to file a complaint with human resources.

Socially Responsible Investment Rating – AMD is listed on the highly competitive Dow Jones Sustainability World Index. It appears their DJSI listing is mostly attributed to strong environmental and EH&S policies and reporting procedures.

Best Practice – AMD does an excellent job reporting on occupational health and safety for each of its manufacturing sites around the world. They show a high level of transparency by revealing in great detail their work-related injury and illness rates, the amount of waste generation, and water and electricity use.

Cisco Systems, Inc.

Company Description – Founded in 1984 by a group of computer scientists from Stanford University, Cisco Systems, Inc. (NASDAQ) is the worldwide leader in networking for the Internet. Today, networks are an essential part of business, education, government and home communications, and Cisco Internet Protocol-based (IP) networking solutions are the foundation of these networks. Cisco has 34,093 employees worldwide operating in over 70 countries. Total revenue in the 2003 fiscal year was 18.9 billion U.S. dollars (Cisco Systems, Inc., 2004).

Indicator Rating – Cisco Systems satisfies four of the six indicators. The company has a strong business ethics program, meeting all four ethics indicators. While Cisco talks about community activities and CSR on their website they do not publish an annual social responsibility report. Management has recently elevated CSR and is working with outside consultants on establishing a global CSR strategy. The company is currently carrying out a 'CSR gap analysis' to identify areas for improvement. Adrian Godfrey was recently appointed worldwide CSR director.

Socially Responsible Investment Rating – Cisco Systems is not listed on DJSI World index. The company did not grade out well on Dow Jones social indicators because they showed little commitment to CSR and failed to produce a report discussing their social and environmental performance. In an effort to get listed, Cisco is now tracking key performance data along marketplace, environment, workplace, and community indicators.

Best Practice – Cisco acknowledges its weak social responsibility practices and is making strides to improve them. The Cisco Corporate Citizenship Council led by four senior executives, assesses the social, ethical, and environmental practices and policies to drive change, where necessary, and to weave CSR through the companies core business operations. In the 2005-06 financial year Cisco intends to set up global CSR training for their 36,000 employees and to be in a position to report on their social and environmental performance. During 2006-07 it wants to have 'integrated CSR processes' throughout the company.

Hewlett-Packard Company (HP)

Company Description – Headquartered in Palo Alto, CA, Hewlett-Packard Co. (NYSE) defines multinational with a total revenue in fiscal year 2003 of 73.1 billion, 141,000 employees, 42 factories in 30 countries and a product line that extends from $25 printer cartridges to the $3 million Superdome server. Three of HP's four main lines of business – printing, PCS and services are profitable. The fourth (servers) is close and recently surpassed IBM as the top seller in revenue. HP is the largest user of contract manufacturing. It consumes 15% of the world's dynamic-memory chips. Its yearly sales of 40 million printers, 18 million PCs and 1.2 million digital cameras tie it to 100,000 retailers in 175 nations (K. Larson, personal communication, April 12, 2004).

Indicator Rating – HP was one of only three companies to meet all of the criteria. The company's Standards of Business Conduct includes provisions for avoiding conflict of interest, handling sensitive information, dealing with suppliers, etc. The ethics officer is clearly identified and available through the Office of Business Practices. The company conducts focus groups with employees to determine their awareness of ethics resources. These activities, and analysis of alleged ethics infractions, help to shape future ethics programs. Company Vice Presidents are given ethical leadership training and materials to engage in dialogue with staff. The company publishes an annual Global Citizenship Report that discusses the company's social and environmental performance. Global Citizenship/CSR is one of HP's seven corporate objectives, which guide the company in the conduct of its business.

Investment Rating – 2003 was the first year HP met the criteria of the Dow Jones Sustainability World Index. The company is listed in the technology economic sector.

Best Practice – In 2002, HP established an Ethics Committee consisting of Senior and Executive Vice Presidents from Human Resources, Legal, Finance, and Corporate Affairs. It is charged with overseeing the development and enforcement of the company's ethical guidelines, known as the Standards of Business Conduct, and reviewing allegations of violations of the Standards of Business Conduct. HP recently started publishing a description of the issues reported or "whistles blown" to the Office of Business Practice.

The issues reported through their anonymous "whistle blower" hotline range from discrimination or harassment to misuses of company resources (Hewlett-Packard Co., 2003).

Energy Industry

FIGURE 3 – Comparing European-based and U.S.-based Energy Companies

Key Blue = Yes White = No	European and American Companies			
Performance Indicators	TotalFinaElf (France)	Royal Dutch/ Shell Group (Netherlands)	Calpine (U.S.)	Chevron Texaco (U.S)
Code of Business Conduct/Ethics is publicly available	Blue	Blue	Blue	Blue
Conflict of Interest Guidelines are public	Blue	Blue	Blue	Blue
Clearly State who the Ethics or Compliance Officer is	White	White	White	White
Whistle Blowing Process is clear and in place	White	White	White	Blue
Publish CSR or Sustainability Report	Blue	Blue	White	Blue
CSR is a corporate principle or objective	Blue	White	White	White

<u>TotalFineElf</u> (TOTAL)

Company Description – Headquartered in France, TotalFineElf (NYSE, Paris Exchange) was created through two successive mergers. The first merger occurred when Total joined with Belgian oil company, Petrofina, to form Totalfina. The second merger combined Totalfina with French oil company Elf Aquitaine to create TotalFinaElf. The company now ranks among the five largest oil and gas companies and five largest chemical concerns worldwide, operating in more than one hundred and thirty countries. The total sales for the 2003 fiscal year were 104,652 million euros (TotalFineElf, 2003). TOTAL's three business segments are formed around profit centers: Upstream, Downstream and Chemicals. Upstream includes oil and gas exploration and production, and gas, power and other energy sources. The

Downstream business unit's operations include refining and marketing, along with trading and shipping. The Chemicals segment comprises three main areas: Base Chemicals & Polymers, Intermediates & Performance Polymers and Specialties.

Indicator Rating – TotalFineElf met the criteria for four of the six indicators. An Ethics Committee enforces the company's publicly available code of conduct and conflict of interest guidelines. The company devotes a chapter of its Annual Report to CSR each year and at the same time publishes the "Sharing Our Energies" report which discuses TOTAL's CSR initiatives and objectives. TOTAL considers their responsibility to society and communities a corporate objective. They are the only energy company in the sample that showed this commitment. TOTAL fell short by not having a compliance officer who is accountable for the ethics program. Instead TOTAL has an ethics committee that did not fit within the criteria. There is no mention of a whistle blowing process in place.

Socially Responsible Investment Rating – TotalFineElf is not listed in the DJSI World or DJSI STOXX indexes. The company admits to not reaching their goal of a DJSI World listing and promises to work assertively to meet DJSI's 2004 indicator requirements. TOTAL promises to enhance the formal expression of their sustainable development commitment and consolidate their sustainable development initiatives, of which more than 1,000 have been inventoried to date worldwide. Managers at TOTAL pledge to communicate more effectively on CSR and sustainable issues, including through its annual report, prepared in line with the Global Reporting Initiative (GRI).

Best Practice – TOTAL's CSR policy is designed primarily to reduce TOTAL's environmental footprint while preparing the future of energy. Employees are committed to curbing greenhouse gas emissions, reducing releases and emissions of pollutants, carefully managing the water cycle, rehabilitating industrial sites and protecting diversity. The code of conduct is TOTAL's formal recognition of their commitment to uphold the principles of the: Universal Declaration of Human Rights, International Labor Organization, in particular those concerning child labor, and OECD Guidelines for Multinational Enterprises. In 2003, the Ethics Committee pursued its initiatives to enhance employee awareness of the Code of

Conduct and how to apply it. A total of 2,000 employees took part in 15 day-and-a-half-long training sessions.

Royal Dutch/Shell Group

Company Description – Based in the Netherland's, Shell operates in over 145 countries, and employs more than 118,000 people. In 2002, Shell's core business including oil, gas and chemicals earned $9.2 billion (Royal Dutch/Shell Group, 2002). They are best known to the public for their service stations and for exploring and producing oil and gas on land and at sea.

Indicator Rating – Shell has both a Code of Ethics and a Statement of General Business Principles. The company writes that the Code is specifically intended to meet the requirements of Section 406 of the Sarbanes Oxley Act and the listing requirements of the New York Stock Exchange including avoidance of conflicts of interests. Shell makes no mention of a compliance officer or whistle blowing process in either the Statement of Business Principles or the Code of Ethics. "Meeting the Energy Challenge" is Shell's 2002 sustainability report. The company has yet to commit to consider CSR a business principle.

Socially Responsible Investment Rating – Shell was at the top of the energy sector in DJSI's 2002 ranking. The company is still listed in 2003 but their performance declined along some measures, allowing BP to take the top ranked energy sector position.

Best Practice – Shell hosts an online debate with external stakeholders discussing a range of CSR and environmental sustainability topics. The "Tell Shell" website provides a forum for discussion on topics and issues relating to Shell. They pledge their commitment to open and transparent dialogue with their stakeholders.

Calpine

Company Description – Headquartered in San Jose, CA, Calpine is one of North America's leading power companies with more than 3,000 employees, approximately 7.5 billion U.S. dollars in revenue. Publicly traded on the NYSE since 1996, the company now has 89 energy facilities in 21 states in the U.S., as well as in Canada and the United Kingdom (Calpine,

2004). In recent years, Calpine has transformed from one the nation's leading developers of power plants to a major plant operator and provider of services, focused on providing customers with high-value products and services to meet their unique energy requirements.

Indicator Rating – Calpine's performance was extremely low. They only satisfied two of the six indicators. The code of conduct clearly describes the conflict of interest guidelines but makes no mention of a whistle blowing process. Calpine does not make employees clearly aware of who the ethics officer is or how one might go about getting in touch with them. Calpine has one page on its website devoted to their CSR activities but does not have anything resembling a CSR report or core business objective.

Socially Responsible Investment Rating – Calpine is not listed on the DJSI World Index. The company is small in size relative to some of the other multinationals in the sample and does not have the resources that the others do.

Best Practice – Calpine did not really set a benchmark in any of the indicators. Calpine concretely describes their corporate governance policies. One policy requires directors who change their present job responsibilities to resign from the board.

<u>ChevronTexaco</u>

Company Description – Headquartered in San Ramon, CA, ChevronTexaco is the world's fourth largest publicly-traded, integrated energy company based on oil equivalent reserves and fifth largest based on production. ChevronTexaco is the second largest U.S.-based integrated energy company, active in more than 180 countries. The company employs approximately 51,000 people worldwide (excluding service station employees). In fiscal year 2003 the company pulled in 120 billion U.S. dollars of sales and operating revenues. Petroleum operations consist of exploring for, developing and producing crude oil and natural gas; refining crude oil into finished petroleum products; marketing crude oil, natural gas and the many products derived from petroleum; and transporting crude oil, natural gas and petroleum products by pipeline, marine vessel, motor equipment and rail car. The Company has petroleum operations in North America, South America, Europe, Africa, the Middle East, Central and Far East Asia, and Australia (ChevronTexaco, 2002).

Indicator Rating – ChevronTexaco satisfies four of the six indicators. Their CSR report was informative and the company is making strides towards weaving CSR into the core business objectives. However they are not there yet. ChevronTexaco also fails to identify if they have an ethics compliance officer and if so who it is. The ChevronTexaco Business Conduct and Ethics Code describe the way they conduct themselves in their business around the world.

Socially Responsible Investment Rating – ChevronTexaco is not listed on the DJSI World ratings. This is not surprising because the company is still in the early stages of its CSR program.

Best Practice – ChevronTexaco recently issued its corporate responsibility guiding principles to all staff. The principles, developed as part of a new corporate responsibility program are for the 'operational guidance' of staff. ChevronTexaco will test the principles in pilot projects run by its business units to 'gain practical experience in taking a more systematic approach to corporate responsibility management' – and to work out how to integrate social and environmental factors into management systems (V. Crissey, personal communication, February 25, 2004).

Healthcare Industry

Amersham

Company Description – Headquartered in the UK, Amersham employs over 10,000 people worldwide and had sales of 2.54 billion U.S. dollars in 2002 (Amersham, 2002). Amersham is a world leader in medical diagnostics and in life sciences. The company is focused on enabling molecular medicine, working through three main business areas in diagnostic imaging, protein separations and discovery systems. The company was formed in 1997 and recently purchased by GE Healthcare. Amersham shares are traded on the London, New York and Oslo stock exchanges and the company is part of the FTSE index of Britain's 100 largest public companies.

Indicator Rating – Amersham meets the criteria for half of the indicators. They have a well written code of conduct that specifically addresses conflict of interest guidelines. Amersham fails to show any semblance of a whistle blowing process. In 2002, the company published an 'Environment and Social Report' describing the impacts of their business on society.

FIGURE 4 – Comparing European-based and U.S.-based Healthcare Companies

Key Blue = Yes White = No		European and American Companies			
		Amersham (UK)	Novartis (Switzerland)	Johnson & Johnson (U.S.)	Premier Inc. (U.S)
Performance Indicators	Code of Business Conduct/Ethics is publicly available				
	Conflict of Interest Guidelines are publicly available				
	Clearly State who the Ethics or Compliance Officer is				
	Whistle Blowing Process is clear and in place				
	Publish CSR or Sustainability Report		*Section of Annual Report devoted to CSR		
	CSR is a corporate principle or objective				

Amersham (Continued)

Socially Responsible Investment Rating – Amersham is listed on the 2003/2004 DJSI World but did not qualify for the DJSI STOXX. There rating on the world is attributed to their strong CSR report and policies.

Best Practice – Amersham does not have a "CSR Department." They instead have a cross business, multi functional and geographically diverse Corporate Responsibility Steering Committee reporting to the Chief Executive. The Committee is charged with ensuring that the company deliver on their commitments and seek to improve their performance particularly in areas where there is a clear business need and expectation amongst stakeholders.

Novartis

Company Description – Headquartered in Basel, Switzerland, Novartis Group companies employ about 78,500 people and operate in over 140 countries around the world. Novartis

was created in 1996 from the merger of the Swiss companies, Ciba and Sandoz (Novartis, 2004). Their core businesses are in pharmaceuticals, consumer health, generics, eye-care, and animal health. Novartis is committed to research and development that brings innovative new products to the communities it serves. In 2003, the Group's businesses achieved sales of 24.9 billion U.S. dollars and a net income of 5 billion U.S. dollars.

Indicator Rating – Novartis is one of only three companies to meet all the indicators. CSR is embedded throughout the organization and anchored firmly at the Board level. The Audit and Compliance Committee of the Board of Directors oversees the implementation of Corporate Citizenship. The company clearly describes the whistle blowing process as part of their Corporate Citizenship Guidelines. Novartis has a worldwide network of 45 compliance officers who advise on compliance problems, deal with complaints and handle any arising issues. Their reports are consolidated by the Group Compliance Officer into a yearly Compliance Report addressed to the Audit and Compliance Committee of the Board. A large section of their annual report is devoted to CSR so they satisfy the CSR report indicator.

Socially Responsible Investment Rating – Novartis is listed on both the DJSI World and DJSI STOXX. These ratings are consistent with the company's high marks on the sample indicators.

Best Practice – Novartis conducts an annual survey of more than 3,500 associates to determine whether or not employees are aware of the rules in the Code of Conduct. The results are analyzed and used to create new ethics training materials.

Johnson & Johnson

Company Description – Headquartered in New Brunswick, NJ, Johnson & Johnson in fiscal year 2003 had 41.9 billion U.S. dollars in sales and is the world's most comprehensive and broadly based manufacturer of health care products, as well as a provider of related services, for the consumer, pharmaceutical, and medical devices and diagnostic markets. Johnson and Johnson has approximately 110,600 employees and more than 200 operating companies in 57 countries, selling products throughout the world (Johnson & Johnson, 2002).

Indicator Rating – Johnson & Johnson meets four of the six indicators. CSR is their strong suit with an annual sustainability report published and language in "Our Credo" that discusses the company's commitment to being good corporate citizens. Johnson & Johnson does not even mention whistle blower and fails to highlight who the compliance officer is. Their Policy on Business Conduct requires that employees promptly report information concerning any prohibited or unlawful act. However, the policy fails to state who employees should report to and does not provide an anonymous mechanism to protect the employee.

Socially Responsible Investment Rating – Johnson and Johnson is listed on the DJSI World Index. The company has excellent corporate governance and CSR policies in place. Their rating on the World Index is consistent with how they scored on sample indicators.

Best Practice – Johnson & Johnson is so committed to CSR that it prepares both a sustainability report and a worldwide contributions program annual report. In addition, the company has very detailed and thorough conflicts of interest guidelines. The guidelines stress disclosure of conflicts as the key to avoiding risky situations.

Premier Inc.

Company Description – Premier is a healthcare alliance collectively owned by more than 200 independent hospitals and healthcare systems in the United States. Together, they operate or are affiliated with nearly 1,500 hospitals and other healthcare sites. Premier is dedicated to helping its members improve clinical and operational performance. The alliance's estimated membership to date is 1,433. The alliance's total revenue for fiscal year 2003 was 392,262 million U.S. dollars. Premier provides group purchasing, supply chain service, healthcare informatics and performance improvement resources, and insurance programs. Premier is headquartered in San Diego and has offices in Chicago, Charlotte, and Washington, DC.

Indicator Rating – Premier satisfies three of the six indicators. The company's Code of Conduct is one of the best in the sample. It is very thorough and easy to follow. The Code clearly states the conflicts of interest guidelines and indicates how to contact the ethics compliance manager. There is not a clear whistle blower process in place that spreads across the alliance, however, the company has set up a 'GuideLine' that allows callers to phone in

potential Code violations without having their phone number displayed. Premier's CSR program is more philanthropy than CSR. The company does not publish a CSR/sustainability report nor does it have CSR at the core of its business principles.

Socially Responsible Investment Rating – Premier is not a multinational company and not large enough to be listed on the DJSI World Index.

Best Practice – In 2002, Premier commissioned an ethical analysis of the entire healthcare industry in the U.S. The report contains a set of ethical principles for GPOs and 50 recommendations of best policies and practices in the industry. The set of recommended policies and practices establishes a new high bar in ethical behavior for healthcare group purchasing organizations.

Aerospace and Defense Industry

European Aeronautic Defense & Space Co. (EADS)

Company Description – Based in Germany, EADS is the largest aerospace company in Europe and the second largest worldwide. They are active in the fields of civil and military aircraft, space, defense systems and services. EADS started in 2000 after the merger of German DaimlerChrysler Aerospace, the French Aerospatiale Matra and CASA of Spain. In fiscal year 2003, EADS achieved revenues of 30.133 billion euros (European Aeronautic Defense & Space Co., 2004). The company employs over 100,000 people in 35 offices and more than 70 production sites, above all in Germany, France, Great Britain and Spain. EADS is quoted on the Frankfurt, Madrid, and Paris stock exchanges.

Indicator Rating – EADS is one of two companies to only satisfy one indicator. The company publishes a CSR section in its annual report that fails to qualitatively and quantitatively measure the company's impact on society and the environment. The CSR Report indicator is the only one that EADS fulfills.

FIGURE 5 – Comparing European-based and U.S.-based Aerospace and Defense

Key Blue = Yes White = No	European and American Companies			
	European Aeronautic Defense & Space Co. (Germany)	BAE Systems (UK)	Lockheed Martin (U.S.)	Northrop Grumman (U.S)
Performance Indicators				
Code of Business Conduct/Ethics is publicly available			Blue	Blue
Conflict of Interest Guidelines are publicly available			Blue	Blue
Clearly State who the Ethics or Compliance Officer is			Blue	Blue
Whistle Blowing Process is clear and in place			Blue	Blue
Publish CSR or Sustainability Report	Blue: *Section of Annual Report devoted to CSR	Blue		
CSR is a corporate principle or objective				

EADS (Continued)

Socially Responsible Investment Rating – EADS is not listed on the DJSI World and STOXX indexes. The result is not surprising because the aerospace and defense industry is typically known for its lack of CSR and harsh impact on the environment. The non-listing is consistent with EADS poor performance rating on the sample indicators.

Best Practice – EADS really does not have any best practices to speak of.

BAE Systems

Company Description – Headquartered in the UK, BAE Systems is a prime contracting and systems integration company providing capability across the land, sea, air, space, and command and control sectors. BAE Systems has international markets around the globe producing annual sales of some 18,260 million U.S. dollars. BAE Systems employs world-wide more than 90,000 people (BAE Systems, 2004).

Indicator Rating – BAE only satisfies one of the six indicators. The company publishes a stand alone CSR report and devotes a portion of their Annual Report to CSR activities. BAE discusses their corporate governance structure and how they comply with the Combined Code issued by UK's Listing Authority. The company fails to make any mention of the four business ethics policies used to measure this sample.

Socially Responsible Investment Rating – In 2003, BAE Systems became the first defense company to be listed in the DJSI World ratings. This ranking is attributed to the company's commitment to CSR and is a little surprising considering how low BAE scored on the sample's ethics indicators.

Best Practice – BAE Systems is the only aerospace and defense company in the sample that shows some commitment to CSR. They are the only one that publishes a separate CSR report. BAE has strong education initiatives and aims to have all major manufacturing sites accredited to the international environmental management standard, ISO 14001, an uncommon practice in the aerospace and defense industry.

Lockheed Martin

Company Description – Headquartered in Bethesda, Maryland, Lockheed Martin employs about 130,000 people worldwide and is principally engaged in the research, design, development, manufacture, and integration of advanced technology systems, products, and services. Lockheed's operations include 939 facilities in 457 cities and 45 states throughout the U.S. and business locations in 56 nations and territories. In fiscal year 2003, the company brought in 31.8 billion U.S. dollars from sales and another 76.9 billion U.S. dollars from backlog. The company is currently listed on the NYSE and was ranked 77 on the 2002 Fortune 500 list of largest industrial corporations.

Indicator Rating – Lockheed satisfies four of the six indicators. The company meets all of the ethics requirements but fails to even mention CSR.

Socially Responsible Investment Rating – Lockheed is not listed on the DJSI World Index. The result is not surprising because the aerospace and defense industry is typically known for its

lack of CSR and harsh impact on the environment. The non-listing is consistent with Lockheed's poor performance rating on the CSR sample indicators.

Best Practice – Lockheed Martin's Setting the Standard – Code of Ethics and Business is the most detailed and comprehensive code in the sample. Lockheed sets the bar even higher by publishing a report that explains, "How the Ethics Process Works at Lockheed Martin." The report is a question and answer text that helps clarify the Code of Ethics and Business for employees (Lockheed, 2004).

Northrop Grumman Corporation

Company Description – Northrop Grumman is a global defense company headquartered in Los Angeles, CA. The company provides technologically advanced innovative products, services and solutions in systems integration, defense electronics, information technology, advanced aircraft, shipbuilding and space technology. With approximately 123,000 employees, and operations in all 50 states and 25 countries, Northrop Grumman serves U.S. and international military, government and commercial customers. Northrop Grumman's net sales for fiscal year 2003 were 26.2 billion U.S. dollars (Northrop Grumman Corporation, 2004). They have seven business sectors including: Electronic Systems, Information Technology, Mission Systems, Integrated Systems, Ship Systems, Newport News and Space Technology.

Indicator Rating – Similar to Lockheed Martin, Northrop Grumman satisfies four of the six indicators. The company meets all of the ethics requirements but fails to even mention CSR.

Socially Responsible Investment Rating – Northrop Grumman is not listed on the DJSI World Index. The result is not surprising because the aerospace and defense industry is typically known for its lack of CSR and harsh impact on the environment. The non-listing is consistent with Northrop Grumman's poor performance rating on the CSR sample indicators.

Best Practice – Northrop Grumman's "openline at work" is the best whistle blowing process in the sample. The company diagrams and details each step of the whistle blowing process offering a simulation of decisions employees will encounter along the way.

The results of my sample showed that European companies show more of a commitment to CSR than U.S. companies. However, American companies are more devoted to having structured business ethics programs in place. European companies scored high on the CSR indicators. Fifty percent of the European companies analyzed had CSR embedded in their corporate strategy while only twenty percent of U.S. companies did. In addition, all of the European companies in the sample publish reports on how the company is responding to stakeholders' social and environmental concerns. Only half of the American companies sampled committed resources to publishing a CSR/sustainability report.

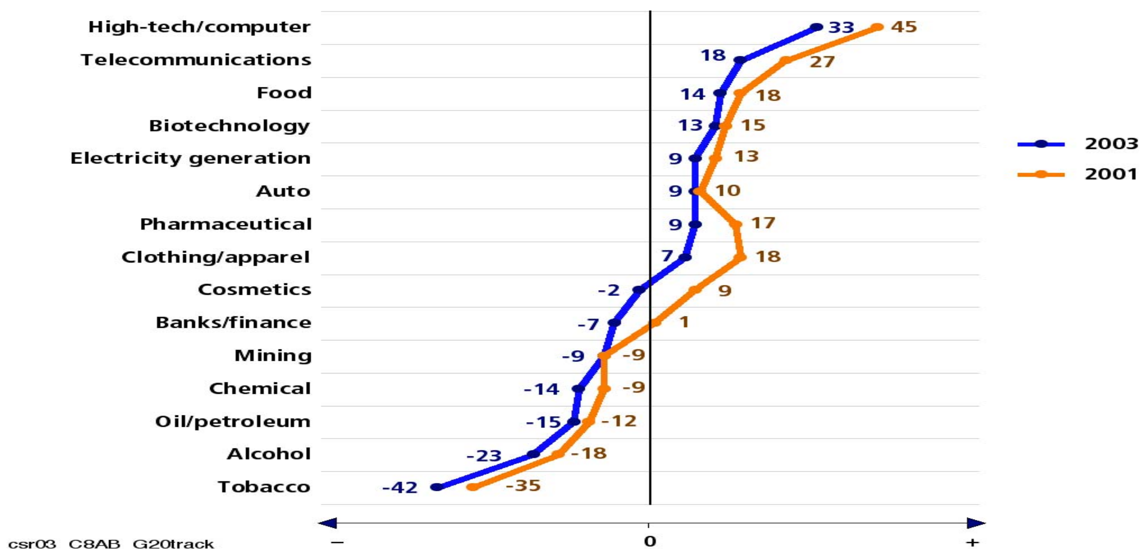
The biggest contrast between Europe and the U.S. was displayed in the aerospace and defense industry (Figure 5). The American companies satisfied all of the business ethics indicators by clearly and publicly stating, their code of conduct, conflict of interest guidelines, compliance officer's identity, and whistle blowing process. The European aerospace and defense companies did not meet the criteria for any of the before mentioned business ethics indicators. Despite their weak showing on business ethics practices, the European companies did manage to outperform their defense counterparts in the area of social and environmental reporting. Both European defense companies published CSR/sustainability report information while the American companies did not satisfy either CSR indicator.

A closer look at the sample results reveals that there are also similarities between company policies across these industries in Europe and the U.S. All but two of the companies analyzed have publicized codes of conduct and conflict of interest guidelines in place for employees to read and sign. Companies on both sides of the Atlantic have room for improvement in CSR as only a third of the businesses take CSR seriously enough to make it a corporate objective. The slowest to adopt CSR policies is the aerospace and defense industry. Technology companies show the greatest commitment to CSR in both Europe and the U.S.

The industry results of the sample were consistent with the general public's opinion of CSR performance. To determine public perceptions of various kinds of companies, GlobeScan asked consumers across G20 countries to rate various sectors of industry according to how well they fulfill their responsibilities to society (FIGURE 6). My analysis and the public agree that companies in the technology industry seem to be doing the best job implementing CSR practices. On the contrary, despite energy (oil/petroleum) companies' recent efforts to publish CSR/sustainability reports, the public still perceives them as having negative social and environmental impacts many of which are inherent in their product and process. It takes a blend of both ethics and CSR policies to meet the expectations of the public. Industries that scored well across all the sample indicators, e.g. technology/hi-tech and healthcare/pharmaceutical, also received a more favor
Opinions were not solicited on the aerospace and defe
minimal commitment to CSR.

Source: GlobeScan CSR Monitor 2003
n = 10,000 citizens living in G20 countries

FIGURE 6 – CSR Ratings by Industry

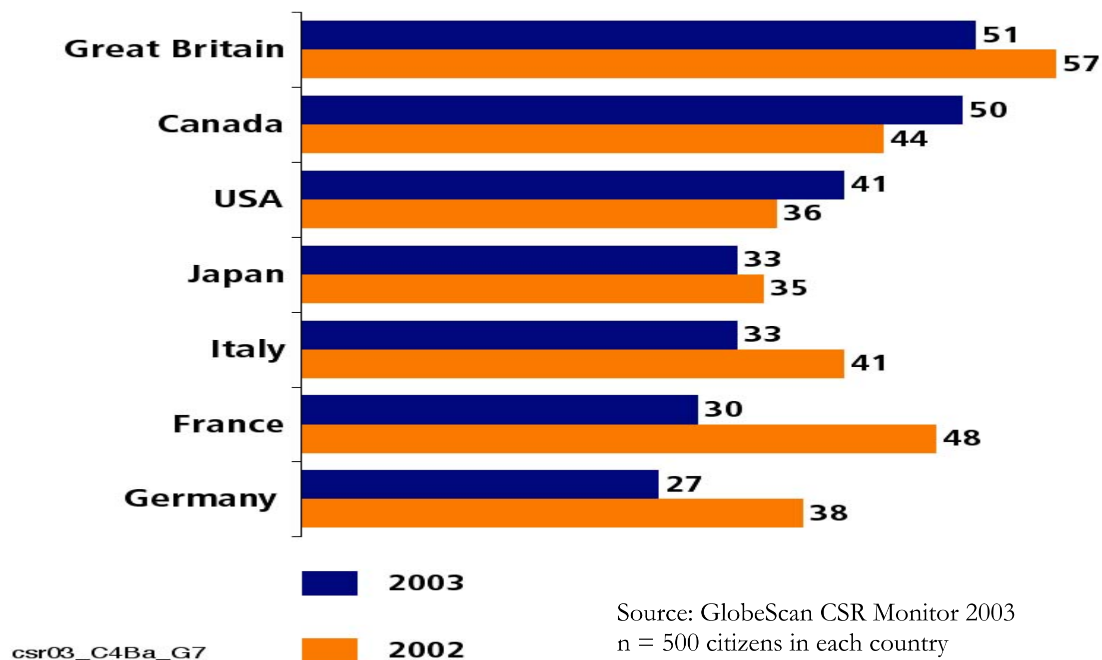


Europe Leads the U.S. in CSR

As the sample detailed above indicates, European companies and government systems seem to be quicker to adopt CSR policies and take the necessary steps to accept them into their culture. Since the mid-1990s the European Union (EU) has emphasized CSR over business ethics and governance. In 1996, European Parliament moved to implement a human rights code of conduct for all European corporations operating in developing countries (D. Vogel, personal communication, February 5, 2004). The EU showed its leadership by putting

together a multi-nation, multi-stakeholder conference to discuss best practices in CSR. The results of the conference included the distribution of an EU Green Paper promoting a European framework for CSR and the appointment of a European Commissioner to lead CSR efforts. This progressive movement in the EU regarding CSR was stalled a bit when the European Commission rejected a White Paper that would have put in place mandatory measures for member countries and their companies to adhere to specific CSR guidelines (European white paper steers clear of regulation, 2002). The White Paper required companies to annually report on their social and environmental performance, introduced compulsory social labeling of products, and made it mandatory for pension funds to disclose their socially responsible investment policies. The Commissioners felt that Europeans are still divided when it comes to governments regulating CSR. The public has yet to decide, therefore, on whether or not it expects corporate responsibility, which is largely voluntary in nature, or corporate accountability, which involves stricter oversight.

FIGURE 7 – Proportion of People who Say Their Government Should Regulate CSR



It seems that being proactively committed to good corporate citizenship is an effective way for companies to minimize regulatory pressures in this area, as evidenced in dampening

support for regulating CSR in Europe (FIGURE 7) – a region with a significant amount of voluntary corporate activism.[5]

Increasing regulatory pressure in some markets, however, forced governments to introduce mandatory CSR standards. European countries like France and Belgium took matters into their own hands and implemented portions of the 2002 White Paper. In late 2002, France became the first and only country to date to place a legal obligation on companies to report their social and environmental impacts (H. Bettignies, personal communication, April 13, 2004). This offers some explanation for the sharp decline from 2002 to 2003 by the French public's desires for CSR regulation (FIGURE 7). Belgium passed a national law introducing voluntary social labels (C. Tuppen, personal communication, April 15, 2004). The labels feature a logo with a website address where customers can get more detail on companies' social practices. Companies wishing to use a social label are verified by social auditors accredited by the economic affairs ministry and are judged mainly against human rights standards laid down in International Labour Organization (ILO) conventions covering freedom of association, discrimination and child labor.[6]

The UK government has decided to step in and lead where the EU and U.S. have not. The British CSR minister Stephen Timms has drafted a global framework that will use British embassies and diplomatic staff 'to promote CSR principles to governments, companies and civil society and explain the role they can play in promoting sustainable development' (why Timms believes best is still to come, 2004). Officials have pledged to raise social and environmental issues as they related to business at international forums, such as the G8 group of leading world economies, the Doha Development Agenda, and the Commission on Sustainable Development. Ministers say they will encourage such institutions to 'integrate CSR considerations into their actions and outcomes' (UK decides to become global CSR

[5] Those surveyed were asked whether they agree or disagree with the statement: "Our government should create laws that require large companies to go beyond their traditional economic role and work to make a better society, even though this could lead to higher prices and fewer jobs."

[6] The International Labour Organization (ILO) is the United Nations (UN) special agency that seeks the promotion of social justice and internationally recognized labor rights. The ILO is responsible for the Tripartite Declaration of Principles concerning multinational enterprises and social policy. The declaration is the only universal text relating to the labor and social aspect of the activities of multinational enterprises. Its principles in the fields of employment, training, conditions of work and life and industrial relations address themselves to governments, employers, including multinational enterprises, and workers.

cheerleader, 2004). The government's priorities will be to spread best practices from the few to the many and to encourage international and inter-governmental institutions to avoid duplication of effort. One of its key vehicles for spreading best practice will be the planned CSR Academy, a UK-based training and education centre. It also wants to help businesses to work on poverty eradication through more effective partnerships with host governments and other stakeholders.

The London Stock Exchange is even getting into the act by preparing to create a centralized database on the social and environmental performance of companies. Although the Exchange says it has an open mind on how to reduce the 'alarming burden' of requests for information on companies from socially responsible investors, rating agencies and researchers, the committee is most likely to favor the creation of a central database, run by the Exchange, that will collate information on the social, environmental and ethical performance of companies (Stock, 2003). A January 2004 Deloitte study found that 79 percent of European fund managers and analysts believe management of social and environmental risks is good for business.[7] Shareholders in European countries tend to agree that socially responsible companies are more profitable than socially irresponsible ones (FIGURE 8). In all countries surveyed with significant investor populations, only in France is there a plurality of investors who believe socially irresponsible companies are more profitable than socially responsible ones.

Recognizing the business opportunity, European socially responsible investment rating agencies have joined forces to create a quality standard in a bid to bolster confidence among investors and companies in the reliability and consistency of their research. They used European Commission money to develop the voluntary standard which they hope will improve the quality of research into the social and environmental performance of companies. The Corporate Sustainability and Responsibility Research Quality Standard sets out criteria for assessing companies.

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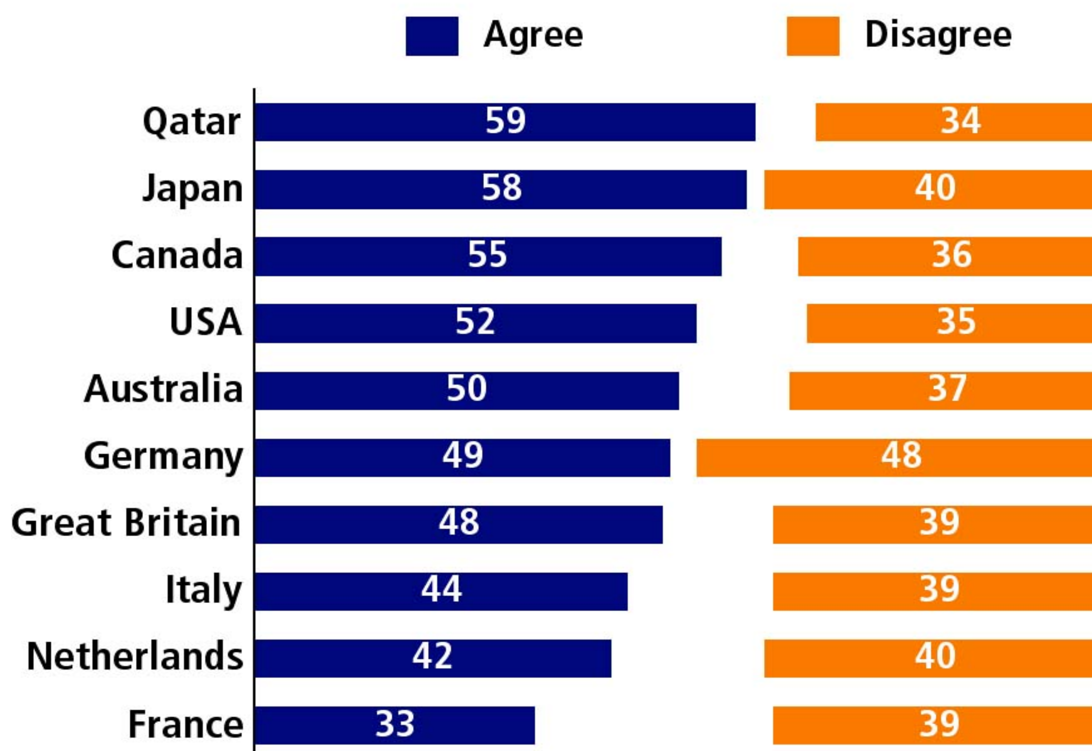
[7] The finding is based on interviews with 388 fund managers and analysts in nine countries (www.deloitte.com/dtt).

FIGURE 8 – 2003 Survey Asking Shareholders in Select Countries if they Agree or Disagree that Socially Responsible Companies are More Profitable



Source: GlobeScan 2003 CSR Monitor
n = 1,000 shareholders in each country

The agencies must:

- ✓ Source information from third parties as well as from the company
- ✓ Cover the operating units of a company, and not just its headquarters
- ✓ Rely on research methods that identify companies whose best practice or routine performance exceeds the bare minimum required by law
- ✓ Mix quantitative and qualitative indicators, paying attention to what stakeholders say
- ✓ Review their company assessments at regular intervals and clearly explain how they have been reached
- ✓ Researchers should be independent of companies, investors, and campaigners and observe a code of conduct to ensure confidentiality

Unlike the London Stock Exchange, exchanges in the U.S. have showed no such movement because demand for companies' social and environmental performance information is just not at the level that it is amongst Europeans. A 2004 study by U.S. market research firm

Echo Research Inc. finds that U.S. investment firms give less attention to socially responsible investment (SRI) criteria than their counterparts in Australia, Europe and South Africa (Business for Social Responsibility [BSR], 2004). PR Week reports that 88 percent of U.S. financial institutions do not take a company's corporate social responsibility (CSR) activity into account when analyzing company performance and value, and only one-third believe that CSR contributes to stronger risk management (BSR, 2004). In comparison, 68 percent of European investment firms believe CSR can improve a company's risk management. Additionally, 89 percent of U.S. investment firms believe advancements in SRI will result from shareholder pressure, while 57 percent of European firms feel the same. This result indicates a more proactive approach to SRI on the part of European firms. The study is based on interviews with 240 business and financial opinion leaders from Australia, France, Germany, South Africa, the United Kingdom and the U.S.

Contrasts between the U.S.'s and Europe's CSR performance don't stop there. Finland has been judged the best performer on corporate responsibility in a newly-devised measure of how much companies and governments in 51 countries have done to promote and implement CSR. The Nordic country was judged the 'clear winner' of the first national corporate responsibility index, which examined the CSR activity of companies in each of the nations, as well as the degree to which they operate in an 'enabling national environment on CSR'. The 15 best-performing countries were all either in Scandinavia or in Northern Europe, with the exception of New Zealand and Australia, which were in eighth and tenth place respectively. The U.S. was a second tier performer and lumped in the same range with more emerging nations such as South Africa, India, and Brazil. The *Responsible Competitiveness Index 2003* claims to find a 'pattern between growth and responsible competitiveness' in almost all the Northern and Western European countries. It identifies 22 countries, including the U.S., that are in 'responsibility deficit' and therefore could be risking economic underperformance if the country does not use corporations to help address its social and environmental needs (MacGillivray, Sabapathy & Zadek, 2003).

The U.S. government can take some of the blame for this 'responsibility deficit' but American companies have not pulled their weight either. A 2003 PriceWaterhouseCoopers survey of top executives from large multinational businesses found that businesses based in

Europe are far more aggressive in funding and reporting their environmental and social programs. FIGURE 9 shows the percentage of companies that currently report or plan to report on various aspects of their performance (Ascolese, 2003). The results include feedback from 103 European-based and 150 U.S.-based CFOs and managing directors.

While the U.S. and Europe place an equal emphasis on reporting their economic and financial performances (85 percent), there is a stark difference in the percentage of companies that place some priority on environmental and social performance. U.S. companies' inferior effort on these issues is further illustrated when you compare what these multinationals intended to increase funding for from May 2003 through May/September 2004. European companies expected to provide increased funding for environmental impacts (24 percent, versus 15 percent for U.S. companies) and social impacts (19 percent, versus 15 percent for U.S. companies).

FIGURE 9 – Percentage of Companies Reporting Their Performance to Stakeholders

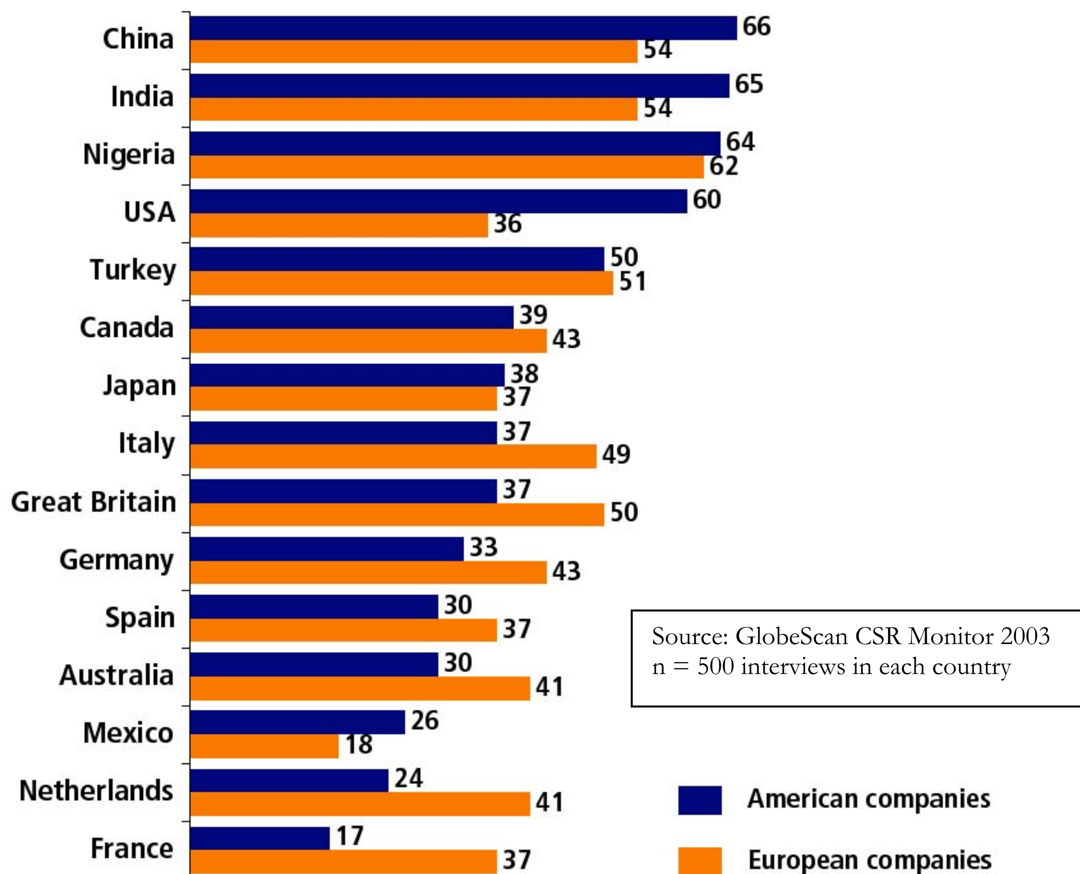
	U.S. HQ Multinationals	European HQ Multinationals
Stakeholder Reports	Present/Planned	Present/Planned
Economic & Financial Performance	**85%**	**85%**
Employee Issues & Benefits	**56%**	**64%**
Environmental Performance	**23%**	**62%**
Social Performance	**22%**	**58%**

Despite Europe's best CSR efforts, since 1999, increasing proportions of individuals rate European as well as American companies below average in fulfilling their responsibilities to society. Recent corporate scandals in both Europe and the U.S. are likely having a negative effect on consumer perceptions of American and European companies in key markets. Furthermore, increasing proportions of Europeans and Americans rank the others'

companies poorly in fulfilling their responsibilities to society, perhaps reflecting the political and economic tensions between the U.S. and the European Union (GlobeScan, 2003).

Given the high profile corporate scandals in Europe and the U.S. and evidence of anti-American sentiment around the world, it is not surprising that perceptions about the social responsibility of these companies are low in some key markets (FIGURE 10). It is clear from these numbers that strong social and environmental performance does not guarantee that the public will view your company in a positive manner. Europe continues to be more aggressive in their approach to confronting tough social and environmental issues around the world but lackluster business ethics programs and corporate governance has damaged the region's CSR reputation.

FIGURE 10 – Percentage that Feel the CSR Performance of Companies is "Good"



Recent company scandals have tarnished Europe's squeaky clean image and Europeans now realize that it takes more than just CSR for a company to behave responsibly. In some sense the tables have turned and Europe is now the one looking across the Atlantic to benchmark

policies that can help make their companies regain the public trust. Europe seems to be following America's lead now – first learn the hard way through corporate scandal, lose the public's trust, and then regulate.

Fraud Can Happen Anywhere

Traditionally, European and U.S. business cultures have been defined, in part, by how much influence outsiders wield over a company's operations. In the U.S., there is a strong shareholder ethic in which anyone, at least in theory, can gain influence by purchasing shares in a company. Moreover, because pension funds invest a large share of their money in stock and bond markets, even average Americans who do not own stocks directly, have a vested interest in the country's corporate health. And, companies usually raise capital through public measures, such as bond or stock issues, therefore there is in turn a sense of responsibility to the investing public. As a result, there has been a strong connection between the interests of U.S. business and the nation as a whole; and, the U.S. regulatory philosophy, though not always effective in practice, has developed along those lines.

The opposite has been true abroad. European companies have traditionally raised capital through the continent's heavily insulated (and historically government-run) banking system or through retained earnings rather than from the public. Pensions are usually guaranteed by the state, which protects the average citizen from the rise and fall of the stock and bond markets, but also removes most incentives for citizens to care about what goes on in the corporate world. And, thanks to the legacy of socialism running through European mass culture, there has long been public distrust of the corporate world and distaste for individual investing. Not surprisingly, European corporate and accounting regulations reflect this system's needs and facilitate its operation. They provide fewer shareholder protections and less corporate information to the public. They also make it easier for banks and large companies to work together. Fundamentally, Europeans rely on a strong government hand in the economy, rather than a strongly regulated private sector, to keep fraud under control.

This would be all well and good if European business were not moving quickly away from the continent's traditional model. Like most regions of the world, the European economy

took off during the late 90s, a trend *BusinessWeek* attributed to Europe's "U.S.-style New Economy," in which the euro and rapidly expanding capital markets suddenly made fast growth a possibility (M. Hansen, personal communication, March 16, 2004). And, the continued pace of privatization – especially in the banking sector – rendered obsolete, the crony capitalism that had kept government and corporate interests in line for so long. Government could no longer serve as a brake on the private sector. Once this trend reached critical mass, it was unstoppable – even when the European economy slowed significantly a few years ago, the reaction from most EU governments was not to say the experiment had failed but rather that it had not gone far enough (M. Zollo, personal communication, March 16, 2004). Privatization, promoted by even the Socialist government of former French Prime Minister Lionel Jospin, continues apace, and, with ongoing EU economic integration and the opening of European capital markets to outside investors, the continent is suddenly a much different place, economically.

As a result, there is a dangerous disconnect between the new reality of the European business world and the outdated rules that still govern it. "What we see in Europe is a push toward more capital market financing, and that requires changes in oversight," says Christian Leuz, a professor at the University of Pennsylvania's Wharton School (personal communication, April 17, 2004). Among other things, Europe needs stronger securities oversight, shareholder protections, and, above all, uniform enforcement – if not an actual policing body akin to the SEC. Even tough regulations that could have ousted Parmalat earlier would have done little good in Italy, where current enforcement mechanisms are weak. "The U.S. got securities regulation, including the SEC, after the 1929 crash. No European country did," says Zollo. "What Europe needs most urgently are security laws that protect investors" – not to mention enforceable corporate governance and accounting rules."

This is not to suggest that U.S. reforms have insulated the United States from malfeasance. The extent of recent U.S. regulatory changes – and the scope of further changes being considered – goes far beyond anything being contemplated in Europe. That is partly because of the complexities of developing Union-wide rules, but Europe's apparent unwillingness to push the envelope when new regulatory thinking is so obviously needed is striking. After

Enron, Congress quickly passed the Sarbanes-Oxley Act, which greatly improved the country's corporate governance and accounting rules, most significantly by creating the Public Company Accounting and Oversight Board to monitor and enforce compliance. And the SEC has continued to press for reform; such as its recently proposed requirement to allow shareholders to more easily vote out company directors. These changes are relatively uncontroversial in the U.S., but they remain a regulator's dream in Europe (D. Vidal, personal communication, March 10). There, the gap between regulatory philosophy and economic reality dwarfs anything in the U.S., and it was only a matter of time before greedy corporate types started exploiting it.

If 2002 was the year of U.S. corporate malfeasance, 2003 was Europe's turn: Accounting fraud and other criminal activities were uncovered at Switzerland's Adecco, the Netherlands' Ahold, and, of course, Parmalat, the Italian dairy concern whose owners defrauded investors of billions, including more than 1.5 billion U.S. dollars from American investors (FIGURE 11) (Delaney, 2004). Whereas two years ago Europeans claimed that Enron proved the superiority of European corporate culture, now many admit that, in fact, fraud can happen anywhere.

FIGURE 11 – Corporate Scandals Rock Europe in 2003

Parmalat	Ahold	Adecco
• Italian food and dairy group • Invented assets - 38% of claimed assets were in bank account that did not exist and shell companies • Company defrauded banks & shareholders $18 billion • American investors lose $1.5 billion	• Dutch supermarket group • Took a $3.1 billion write-off in 2003 by giving loads of stock to managers…led to overstating profits of US Foodservice by $1.1 billion • Fired CEO and CFO • Under investigation by SEC, U.S. Attorney of New York, and Dutch Government	• Swiss temporary employment agency • Problems include IT security, payroll and billing, and income issues • North American CEO & CFO quit • Stock falls 48% first day after scandal breaks

The Parmalat, Ahold, and Adecco scandals are more evidence that European business culture is becoming more global and, almost by definition, more American. But, while the structure of European business is changing – moving not only toward regional integration

but toward distinctly American practices like capital market financing as well – many Europeans are nevertheless slow to push for commensurate changes in how business is regulated. Take Italy for example, where Prime Minister Silvio Berlusconi since coming into office in 2001, has generally argued that government has too much power over business. Parliament, dominated by his Forza Italia party, has passed a series of laws loosening controls, including one in 2002 (a year before the Parmalat fraud) that reduced penalties for false accounting.

Europe's Reactions to Irresponsible and Unethical Business Behavior

The U.S. scandals of 2001 and 2002 were not enough to wake up European businesses; they too had to learn the hard way. Post-Parmalat, European government bodies realize they must move toward stronger enforcement mechanisms required by a more open, American-style business economy. The European Commission is already working on a series of governance reforms inspired by the Parmalat scandal, and is moving closer to adopting the new universal accounting standards being devised by the International Accounting Standards Board (IASB) (King, 2004). The European Commission is using the U.S. 2002 Sarbanes-Oxley Act as a yardstick as they attempt to thwart the accounting misdeeds that have recently plagued Europe. The Commission's financial reporting proposal requires companies to appoint audit committees that act independently from management. If the proposal passes EU law will require national regulators to impose criminal sanctions for serious offenses and require all EU member states to insist that stock exchange listed companies change their audit firms every seven years or replace their lead audit partner every five years. This provision moves beyond language in Sarbanes-Oxley in an attempt to ensure even more independent reviews of companies accounting books and avoid the conflict of interests that arise from well-established, long-term relationships between a business and its accounting firm.

In an effort to make accounting regulations more global and save face with American investors, the EU will require auditors who work with European companies listed on the U.S. market exchanges to also register with U.S. accounting regulators. Any non-EU auditor who reviews the books for an EU-listed company will also have to register with relevant authorities in the country, in which the company is headquartered. Finally, the EU plans to

create a network of national public accounting oversight boards in each country to ensure that governance rules are followed and companies are implementing ethics programs.

The Italian government is also reacting to the Parmalat shake-up by working to strengthen its oversight of the way Italian companies' finances are managed. If Italy is going to prevent further unethical business practices, it must reform its system and increase accountability at every level – company administrators, auditors, banks that sell bonds, the regulatory agencies – while preserving the central bank's independence. In Italy, three bodies manage financial regulation: the Bank of Italy, which monitors the banking system; Consob, which oversees the stocks and bonds market; and the antitrust authority, which is meant to guarantee a free market (Delaney, 2004).

Current Finance Minister Giulio Tremonti hopes to change the system with his latest proposal that calls for an independent authority to oversee these three institutions. In essence, he would follow the practices of the U.S.'s creation of the Department of Homeland Security and create a 'super-agency' to regulate banking, business, and investing. The authority in charge would be held accountable by Parliament. The proposal also demands a stricter separation between companies and their external auditors, harsher sanctions for impropriety, and the creation of a fund to pay small shareholders hurt by bankruptcies. In addition to preventing further scandal, the Prime Minister hopes that these new rules will help rebuild some of the public's trust, protect consumers and cut down on the amount of lawsuits against the government filed by consumer protection associations (Tagliabue, 2003).

A survey conducted by *British-American Business* in late 2002 found that only 19 percent of the British Company respondents had taken any steps to "ensure their integrity and preparedness for potential exposures" to financial scandals post-Enron. The UK seemed somewhat blasé in assuming it would not suffer a scandal on the scale of Enron. Fifty-three percent the of 1,000 British business executives who responded thought that a large corporate scandal of that magnitude could not happen in Great Britain. After a year of accounting scandals much closer to home the UK is moving forward with new regulations in an effort to avoid a big tarnish on their record.

The UK reforms on corporate governance and ethics include commissioning the Inland Revenue, the British equivalent of the Internal Revenue Service, to act as a whistle blower on companies that are involved in accounting abuses. The British Parliament has done away with the preexisting financial regulator 'Accountancy Foundation', in favor of the more independent Financial Reporting Council, a private-sector organization that promotes good financial reporting and in the favor of social responsibility investment firms (Eaglesham & Parker, 2003). The Council is granted sweeping powers to punish and fine accounting firms involved in bad auditing. Officials hope the steep fines will deter companies from manipulating the system. To provide further assurance, a new Auditing Practices Board will establish benchmark standards for independent auditors – taking the power away from accountants' professional bodies. Companies' accounting records will also be suspect to unannounced pro-active investigations by the Financial Services Authority and Financial Reporting Review Panel.

Not all is lost for the accountants' oversight though; the Accounting Standards Board will be in charge of enforcing new Operating and Financial Reviews (OFRs). To hold companies even more responsible for their impacts on investors and societies at large, the UK is close to requiring OFRs which will take account a company's social and environmental performance. The rule will require around 1290 British-based companies listed on the London, New York and Nasdaq stock exchanges to produce OFRs for all shareholders beginning in 2005 (Operating and Financial Reviews, 2004). The OFRs should be published separately from annual reports and standalone social and environmental reports. Experts expect this new law will cost companies an average of $51,000 per year to comply with. Companies will be expected to include details of a company's objectives and strategies, and provide information on a wide range of factors which are relevant to providing shareholders an understanding of the business such as information about how employees are treated, ethics policies in place, environmental matters and community and social issues.

OFRs will help to identify social and environmental factors that may affect the company's performance in the long term and those which might be seen as in conflict with short-term interests of shareholders. The regulation is potentially a good framework for those companies intending to report on their 'wider impacts', including companies not quoted on

the stock exchanges, but it also offers a hiding place for those with no such intention. Some NGOs feel the OFR will be the CEO or director's view of the relevant and significant issues that may be of interest to shareholders and thus falls short of accountability in its broader sense (Just Assurance, 2004). The question many are asking is will these government reforms strengthen engagement and disclosure by multinational companies? One UK activist group says no.

NGOs Lash Out and Push for Global Regulation

Christian Aid's recently released report titled "Behind the Mask" says that recent corporate scandals in both Europe and the U.S. provide further proof that individual countries' governments and companies themselves are failing to ensure multinational companies are responsible to the societies they operate in. Christian Aid believes that "CSR is a completely inadequate response to the sometimes devastating impact that multinational companies have in an ever-more globalized world – and that it is actually used to mask that impact" (Christian Aid, 2004). Business, moreover, has consistently used CSR and ethics programs to block attempts to establish mandatory international regulation of companies' activities. Companies' basic argument is that CSR shows how committed corporations already are to behaving responsibly and that introducing mandatory regulation could destroy this good will. Some business leaders are also constantly convincing their base countries that regulation is bad for their company's profits and the country's economy as a whole. According to Christian Aid most legislators cave to these special interests and as a result fail to provide proactive measures that will regulate business. The group argues the individual governments continue to pass water downed laws that will rarely be enforced because they care more about the company's impact on their country then what it's doing in the rest of the world. Inadequate regulation, this report argues, has left the worst corporate abusers effectively unrestrained, and the victims of their actions without adequate means of redress.

A conversation with a professor at France's leading business school INSEAD informed me of this view. "If the scandals this decade have taught us anything it's that whatever responsible initiatives companies choose to carry out on their own behalf, binding international standards of corporate behavior must be established to guarantee that the rights of people and environments around the world are properly protected." It turns out there is

already a model in how such regulation could work. Since 1997, some 35 rich countries of the Organization for Economic Cooperation and Development (OECD) have signed up to a convention that outlaws bribery of foreign public officials by business people (K. Larson, personal conversation, May 5, 2004). This is the first modern example of internationally agreed, legally binding regulation for non-financial reasons. The standard set by the OECD has also encouraged individual countries like the UK to adopt its own anti-bribery laws.

NGOs in Europe have leveraged this success story and convinced the OECD to develop a similar framework of international regulation to response to the growing unethical behavior in companies. The OECD is currently working on a common set of global guidelines to improve corporate governance (Rhoads, 2004). Current proposals call for companies to be much more transparent with their operations and grant shareholders more power. The Organization also wants better protections and encouragement for individuals who identify and "blow the whistle" on corporate wrongdoing.

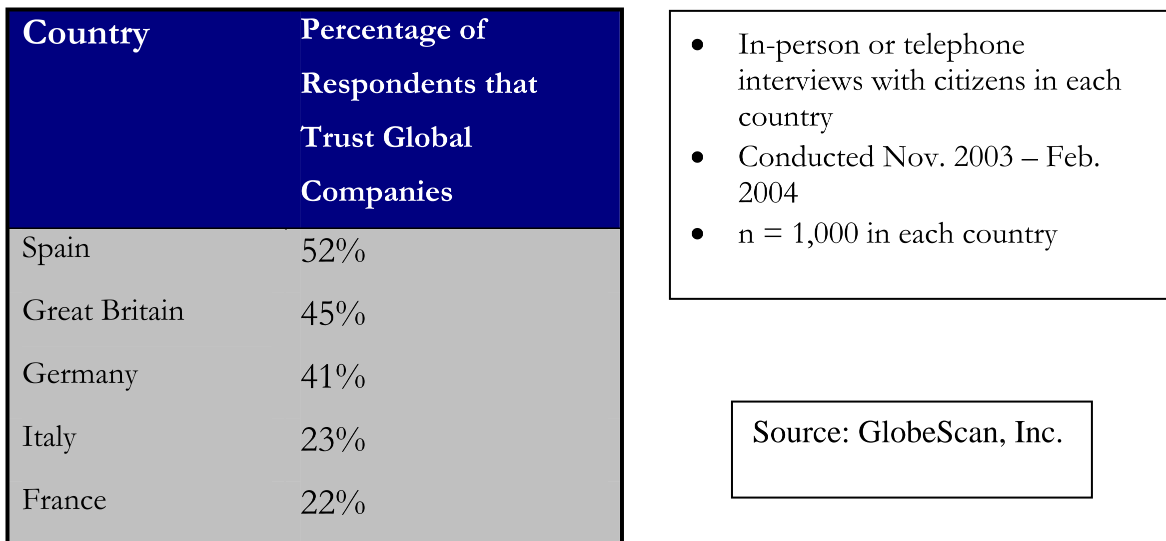
Aims to globalize corporate rules do not stop there. The International Organisation of Securities Commissions (IOSC) has commissioned a taskforce to look at creating international governance rules. The taskforce, jointly led by the U.S. Securities and Exchange Commission (SEC) and Italy's Consob, regulates the country's stocks and bonds market. The exploratory group consists of eight to ten chairs of IOSC member organizations that will investigate the Parmalat scandal, draft a report on the lessons learned, and work to coordinate a global response of regulators. The IOSC expects the SEC and Consob to focus its attention on finding ways to improve companies' transparency in bond markets and develop strategies to regulate companies that conceal their business operations. These are signs that the U.S. and European Governments have finally realized that in this era of globalization business corruption is a problem every country faces. It does not matter where the company that commits fraud is headquartered there are shareholders around the world that lose out when it happens.

Public Trust Declines

The corporate scandals of the last few years have helped drive a surge in regulation and decline in public trust. Citizens on both sides of the Atlantic have a hard time believing multinational company executives and have lost some faith in the governments that are

suppose to be regulating them. More and more citizens are putting their trust in NGOs to hold global companies accountable for their actions. Doug Miller, President of GlobeScan (personal communication, May 5) underscored the importance of public trust, "Trust is the single largest driver of public attitudes on a whole range of issues from globalization to terrorism to the role of governments. Trust is also the primary driver of corporate and country brands. As goes trust, so goes the world." Companies realize that they now face new conditions in their efforts to build corporate reputation and public trust. The Enron scandal in 2001 meant that in 2002, it was mainly U.S. businesses that were perceived as facing an uphill battle to create reputational capital. U.S. citizens' trust in global companies fell to 45 percent and U.S. corporations' presence in the *Financial Times* "World's Most Respected Company Survey" dropped to its lowest total since the annual survey began in 1998 (Financial Times & PriceWaterhouseCoopers, 2003). However, the 2003 Parmalat scandal affirms the fact that corporate reputation is not just a task for U.S. firms, but for corporations worldwide (FIGURE 12). Italian's trust of multinational companies fell to 23percent by the start of 2004 and only five European-based companies made the *Financial Times* Top Twenty-five in 2003, a new low.

FIGURE 12 – EU Member States 2003 Trust Levels in Global Companies



Country	Percentage of Respondents that Trust Global Companies
Spain	52%
Great Britain	45%
Germany	41%
Italy	23%
France	22%

- In-person or telephone interviews with citizens in each country
- Conducted Nov. 2003 – Feb. 2004
- n = 1,000 in each country

Source: GlobeScan, Inc.

Concluding Thoughts and Recommendations

Though Europe may offer bountiful consumer and labor protections, and lead in many social and environmental performance measures, it also maintains a powerful tradition in which capital is controlled by a tight matrix of government institutions, state-run banks, and large corporations. "The EU is driven more by business interests than by political interests," says Paul Frentrop, a professor of corporate governance at the University of Tilburg in the Netherlands. "Voters in EU countries do not care much about the EU, as evidenced by the low turnout at elections for the EU parliament. It's the big multinational companies that want one market…A pro-big business attitude is an integrated part of European institutions." As a result, the European Commission, which implements and oversees the rules governing the EU is loath to enact policies that, while good for business ethics, are viewed as bad for big businesses themselves.

The scandals in Europe highlight the risks that an insufficiently regulated continental economy poses for the U.S. As Europe begins to raise capital from markets and outside investors, including those across the Atlantic, those markets and investors are put at risk. American investors lost more than 1.5 billion U.S. dollars in the Parmalat scandal, and, with the growing number of European firms registered with U.S. stock exchanges, the harm future overseas scandals could do to the American investment community can only increase. This is one reason the SEC recently announced that by 2005 all European companies that register with U.S. stock markets will have to abide by all IASB standards, regardless of what the EU or the companies' home countries require.

Things may get worse before they get better, as European capital markets open even more and become more central to private financing. Scandals often erupt after a strong inflow of new money – i.e., new participants from the public – into the capital markets. So Parmalat, Ahold, and other scandals are not outlier examples of good European businesses gone wrong; they are examples of what happens when a system outgrows the rules by which it has been guided. Europe is taking the right approach by continuing to raise the bar on CSR policies while also adopting many U.S.-style governance regulations to shadow its U.S.-style capitalism. However, this is no time for European and U.S. regulators, companies, stock

exchanges/brokers, and investors to get complacent. They all can do more to improve the business ethics, corporate governance, and social responsibility of the global business community.

Before offering recommendations to improve the future one must look back to learn from the past. The Adecco, Ahold, Enron, and Parmalat scandals all pointed out ethical judgments that any business manager in a large company must consider. On an individual level, one should learn that the pressures to conform to employer expectations are overwhelming in today's business world. Enron taught us that ethical misbehavior is a slippery slope that usually starts with small white lies and before an employee knows it they have broken the law (Salter, 2004). Conflicts of interest are abundant and it is important for each employee to recognize and minimize them before they lead to compromising situations. Individuals must realize that no amount of legal or organizational controls can replace personal integrity and sometimes the best protection is good intuition. There are many managers out there who give in to greedy ambitions and employees should not be afraid to blow the whistle on these misdeeds. An ethical organization requires both leaders and employees to be accountable and responsible for work place behavior.

On a more corporate level, companies should learn that layers of company ownership help conceal trouble and the more transparent a company is the easier it is to discover wrongdoings. Large companies must avoid major conflicts of interest, such as appointing family and friends to the board. Not doing so takes away the oversight protections that the board should provide company shareholders. In addition, companies should not assume that global accounting firms provide the best quality audits. The more independent the auditor is from the company the better. The same holds true for lawyers who manage overseas acquisitions. Executives must be aware of the limited control they will have on financial transactions if they manage an acquisition from another continent.

Recommendations for Multinational Companies

Multinational companies are powerful drivers of international trade and investment, and have a critical role to play in upholding and advancing business ethics, corporate governance

and social and environmental standards, especially in countries less developed. Companies based on both sides of the Atlantic Ocean should:

- **Offer shareholders the power to unseat board members through voting proxy.**
  - Many chief executives fill their boards with allies leading to conflicts of interest and low levels of governance.
  - In the UK only around one in three listed companies fully complies with the country's combined code on corporate governance. An annual review of corporate governance released in February by Pensions and Investment Research Consultants has found that ten percent of companies have a combined chairman and chief executive, contrary to the code's stipulations, and that 73 percent of boards' independent non-executives are in the minority, even though the code proposes at least half of the board to be independent.
- **Fully disclose their executives' pay to primary shareholders.**
  - Most corporate fraud can be directly tied to greed; executives should not be allowed to boost their own pay at the expense of others.
  - The UK recently failed to pass legislation that would curb executive pay and the U.S. has yet to even make an attempt.
  - MBA students believe it is the personality of the executive, rather than the corporate culture, that is the most significant factor contributing to corporate scandal (Splevins, 2004).
- **Send a clearly outlined whistle-blowing framework with code of conduct to all employees.**
  - Employees need a base level of support and counsel when an individual's ethics are challenged in his/her work environment.
  - A strong whistle blowing process can be a company's best means of reducing the impact of fraud and serious misconduct.
  - There has been a steep rise in the amount of European companies that publicize their corporate ethics codes. In 2002, 44 percent of companies published their ethics codes and by the end of 2003 that figure had risen to 74 percent (Deminor Rating,

2004).[8] Despite this increase, many companies still fail to put a clear whistle-blower process in place.

- **Apply company ethical, social, and environmental standards to joint partners, affiliates, subsidiary operations and throughout supply chains.**
    - As stakeholders take a growing interest in corporate social responsibility, many companies are finding they are responsible not only for their own CSR performance but for that of the companies "upstream" and "downstream" – that is, their suppliers as well as their customers and even their customers' customers.
    - Leadership companies are imposing codes of conduct on both their suppliers and customers to ensure that other companies' policies or practices do not reflect unfavorably on them.
    - Applying these standards to other businesses has a cascading effect and allows the company to make a larger impact towards improving the social and environmental performance of the private sector.
    - Philips Electronics is calling on their 50,000 suppliers to adhere to labor standards that include health and safety protections, unionizing rights and non-discrimination. Philips will introduce a self-assessment tool to help suppliers measure their sustainability performance, and beginning in 2005, the company plans to conduct supplier checks to verify the self-assessments (Baue, 2004).
- **Focus more of their CSR communications efforts on staff and suppliers, not least by sending them tailored social reports.**
    - Internal stakeholders are widely unaware of their company's social and environmental performance making them an underutilized resource.
    - Employees and suppliers have enormous reach and influence with external stakeholders.
    - People are more likely to believe things they hear about a CSR program from a source they know than they are from a glossy report. Mori Research in the UK found that UK consumers were more likely to get information on a company's social and environmental performance by word of mouth than from any other source. Nearly one in five of the 682 aware of company initiatives said they had learned about CSR practices in this way.

[8] Deminor Ratings survey of 300 largest blue-chip European companies, FTSE Eurotop 300 index.

- A 2004 GlobeScan survey of 1,000 employees in European large companies found 84 percent of the respondents agreed with the phrase, 'CSR increases my motivation and loyalty.' Only 64 percent felt there company had done a good job informing them about its social responsibility commitments.
- CSR is now broadly accepted by business and companies must move the next stage by embedding CSR into their activities not simply treating it as an add-on. At the start of the decade, CSR was often seen as an optional extra by business leaders and as an adjunct of public relations. But with a spate or corporate scandals rocking faith in business ethics, that position appears to have changed for good.

- **Move beyond just acknowledging CSR and publishing reports to the next stage by embedding CSR into their core business activities and not simply treating it as an add-on.**
  - More and more NGOs feel CSR is just an adjunct of company public relations. Those that do not embed social and environmental performance throughout the corporate culture risk losing credibility with stakeholders.
  - Only a third of the companies in the Europe and U.S. sample company comparison take CSR seriously enough to make it a corporate objective.
  - Ethical and CSR considerations are high on a student's list when job hunting in the UK. A 2004 survey of 700 students by graduate careers publisher Axiom Software found that 79 percent of graduates would not work for a company with a poor ethical record and more than half of all graduates would take a job which fitted their ethical principles over a higher paying job.
- **Put pressure on business schools to make business ethics and strategies in CSR a part of the core curricula.**
  - If the next generation of business leaders is to excel at managing enterprises for greater competitiveness, it will need the knowledge and skills to tackle not only the financial but also the ethical, social and environmental challenges faced by today's corporations.
  - Student interest regarding these subjects is on the rise. Over 950 elective courses with social and environmental content were reported in a 2003 survey, an increase of

nearly 70 percent over the number of qualifying courses in the 2001 survey.[9] This trend bodes well for the future content of core courses; experience suggests that if electives are well received, their content can migrate into the core.

- A higher percentage of schools, 45 percent in 2003 versus 34 percent in 2001, require one or more courses in ethics, corporate social responsibility, sustainability, or business and society.
- Only 27 percent of European business schools surveyed said that CSR is taught in mandatory, stand-alone courses.

Recommendations for Europe

The EU has a critical role to play in developing new international standards for business because its member states are home to some of the largest and most influential multinational corporations. Moreover, company and commercial law is increasingly formulated within a Europe-wide context.

- **Europe needs an enforcement body akin to the SEC to provide cross border supervision of auditors.**
  - In country governments are generally too busy to deal with issues or investigations that take place outside of their country.
  - Someone needs to hold directors legally accountable for their companies' actions in another country or overseas.
  - "What Europe needs most urgently are security laws that protect investors – not to mention enforceable corporate governance and accounting rules." (Zollo, 2004)
- **The European Union should implement stiff penalties to those individuals that commit corporate fraud.**
  - Currently, there is no clear system of penalties available.
  - A complementary system that provides those who suffer as a result of current corporate practice should receive resources and restitution for the harm caused to them.

[9] In October 2002, the Aspen Institute's *Beyond Grey Pinstripes* survey was mailed to 426 schools accredited by either the Association to Advance Collegiate Schools of Business, or the European Foundation for Management Development and more than 100 other leading MBA programs around the globe. Schools from 20 countries, 68 from the United States and 32 from Africa, the Americas, Asia, Australia, and Europe, completed the survey. One hundred completed surveys were used to produce the results.

- **European governments should require senior company managers to report to the board, the audit committee and the auditors any frauds they become aware of which affect the company.**
  - U.S. Sarbanes-Oxley Act already requires companies operating in the U.S. to do so.
  - Makes it easier to compare one company's ethics and CSR performance with another's in the same sector.
  - The Federation des Experts Comptables European (FEE) last year demanded that European listed entities be required to have an independent audit committee, to include financially literate, independent non-executive directors.
  - The Parmalat scandal showed that it's important to put several levels of accountability in place and not just one family who owns a majority of the company.
- **Auditors in Europe need to implement a more aggressive standard against fraud and emphasize a "prove it to me" rather than a "tell me" approach.**
  - Auditing professionals have often looked the other way instead of calling out ethical violations.
  - Auditors on both continents have not been skeptical enough of management's explanations and audit evidence.
  - Auditors have a moral duty to act in the public's interests.

Recommendations for the United States

- **The U.S. Government should swiftly implement and enforce all provisions of the Sarbanes-Oxley Act (P.L. 107-204), a sweeping reform of accounting regulation.**
  - Congress's intent in passing Sarbanes-Oxley was to restore confidence in financial markets by increasing corporate accountability, enhancing public disclosures of financial information, and strengthening corporate governance.
  - Public officials have done a poor job implementing the Public Company Accounting Oversight Board (PCAOB), created by the Act. The PCAOB's mission is to regulate the auditors of publicly traded companies, and to ensure that corporate financial statements are subject to tough, outside scrutiny and that the auditor-client relationship is free from commercial conflicts of interest (Jickling, 2003).
  - If the government does not enforce Sarbanes-Oxley right away, the Act will not be taken seriously by greedy business executives.

- **The New York Stock Exchange should collect a common body of information on the social, environmental and ethical performance of companies, which investors can then use to inform their voting decisions.**
  - Makes it easier to compare one company's ethics and CSR performance with another's in the same sector.
  - A database run by the Stock Exchange promises more consistency, especially if based on recognized guidelines such as those of the GRI.
  - This way all investors have access to the same information and no single player has a market advantage. As a result investors will always want more performance data from companies.
  - The London Exchange has already started compiling a database of these performance measures on European companies listed in London.
  - A January 2004 Deloitte study, found that 79 percent of European fund managers and analysts believe management of social and environmental risks is good for business. The finding is based on interviews with 388 fund managers and analysts in nine countries. (www.deloitte.com/dtt)
- **The SEC should require social and environmental reporting for all companies that file with the agency.**
  - The most effective check on a company is active shareholder involvement. Instead of just regulating, the government should collect a common body of information on the social, environmental and ethical performance of companies, which investors can then use to make informed voting decisions.
  - The SEC currently requires companies to report material environmental liabilities, but has come under much criticism for failing to enforce this rule.
  - According to *Ethical Corporation*, a study by U.S. market research firm Echo Research Inc. finds that U.S. investment firms give less attention to socially responsible investment (SRI) criteria than their counterparts in Australia, Europe and South Africa.
  - PR Week reports that 88 percent of U.S. financial institutions do not take a company's corporate social responsibility (CSR) activity into account when analyzing company performance and value, and only one-third believe that CSR contributes to stronger risk management. In comparison, 68 percent of European investment firms

believe CSR can improve a company's risk management. Additionally, 89 percent of U.S. investment firms believe advancements in SRI will result from shareholder pressure, while 57 percent of European firms feel the same. This result indicates a more proactive approach to SRI on the part of European firms.[10]

- **Corporate America should use the news media to educate consumers on socially and environmentally responsible business practices and the role they can play to help build a sustainable future.**
  - A survey by Canadian research firm GlobeScan Inc. of approximately 1,000 people in each of 21 countries in North America, Europe and Australia finds that half of the surveyed public has read, briefly looked at, or heard about a corporate social responsibility (CSR) report. According to *Ethical Corporation*, the majority of individuals who had read or knew of a firm's CSR report said it improved their perception of the company, compelled them to purchase products from the company, and/or led them to speak positively of the company. This survey shows signs that citizens do in fact want to learn more about a company's social and environmental performance. The opportunity is there for companies to use more mainstream media to teach consumers how their purchase decisions can affect social and environmental issues.
  - The BBC has run three prime time specials on CSR related topics in the UK.

Recommendation to Consumers and Shareholders

Multinational companies, governments, Europeans and Americans all must play a role in holding the business community accountable for ethical wrongdoings and poor social and environmental performance. The research revealed a business case for companies to take CSR, business ethics, and corporate governance seriously: Investors are starting to show signs that corporate performance in social and environmental areas is almost as important to the public as performance in financial areas, people expect companies to do it all - increase

[10] The study is based on interviews with 240 business and financial opinion leaders from Australia, France, Germany, South Africa, the United Kingdom and the United States. Information on how to attain the study, entitled "CSR and the Financial Community: Friends or Foes?," can be found at www.echoresearch.com/reports/CSR3/csr3.htm.

shareholder value, stay out of trouble, and turn a profit while acting responsible to its stakeholders.

Shareholders and customers will have the greatest impact on companies if they start holding multinationals accountable for poor performance along the measures discussed throughout this study. The more individuals' factor business ethics and CSR into their purchase and investing decisions the more responsible companies will be. Regulation can only go so far to curb corporate scandal. If a majority of citizens stop buying a company's stock and product, executives may think twice about stepping out of line.

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