

MULTINATIONALS AND CORPORATE SOCIAL ACCOUNTABILITY

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In the past few years, the 'Janus face' of globalisation has received much attention, most notably at international meetings such as those of the WTO in Seattle and the G7 in Naples, and in a number of recent books.[1] Most recently, overall suspicion about corporate behaviour and accountability has been fuelled following accounting scandals of especially Enron and WorldCom. The most visible and influential companies, particularly multinational corporations are singled out in these debates on corporate governance and social responsibility. Since the early 1990s, multinational corporations have increasingly been targeted to show their commitment and the actions taken to prevent environmental pollution, human rights violations and other 'externalities' of international trade and production.

This in fact represents a second wave of attention for the international social and environmental implications of multinationals' activities. Interest in this topic first started in the 1970s, resulting, at the time, in attempts by international organizations such as the OECD, ILO and UN to draw up codes of conduct to regulate multinational behaviour. Some multinationals reacted by adopting codes or introducing their own 'rules of engagement'. In the US and a few European countries, social reporting emerged, but usually with the more limited objective of disclosing information on employee matters, and sometimes also environmental and local community impacts. Overall, however, this development lasted less than a decade.[2]

In the 1980s, mandatory international codes turned out to be unfeasible, and interest in codes of conduct, social reporting and the international dimensions of corporate behaviour faded away. At the same time, however, policies that entailed less government intervention and liberalisation of markets facilitated globalisation, creating a social and regulatory void in which non-governmental organisations (NGOs) gradually started to express their concerns about the negative environmental and social implications.

In the 1990s, NGOs and international organisations thus renewed the efforts to increase corporate social accountability, to which companies and their business associations responded. Multinationals have started to adopt

codes of conduct and publish environmental, social or sustainability reports. Our research on corporate social responsibility and accountability, carried out in the past five years, shows the increasing activity of large multinationals.[3] Currently, 65% of the largest 200 industrial MNCs has a corporate code of conduct, and almost 60% publishes a sustainability report on environmental and sometimes also societal issues.

Within this general development, there are some differences between sectors and countries, and variations depending on the topic at hand. The financial sector is, for example, less active in the publication of sustainability reports, although percentages are increasing here as well. Of the banks and insurance companies in the Global Fortune 250 companies, 25% published a sustainability report in the past year, for the industrial sectors this was more than 50%. Compared to three years ago, this represents an increase of more than 10% for both sets of companies. The percentage of European and Japanese MNCs with a sustainability report is considerably higher than in the case of US MNCs. This is related to higher degrees of internationalisation of these MNCs, but also to domestic regulatory requirements, other forms of explicit government encouragement or stakeholder pressure for social accountability. With regard to codes of conduct, US MNCs show much more activity and started to adopt such rules of behaviour considerably earlier than European and especially Japanese MNCs. In Japan, codes tend to focus on internal ethical issues rather than international societal aspects. Moreover, some sectors are more 'vulnerable' to criticism than others. The issue of child labour, for example, is most controversial in labour-intensive sectors such as apparel and carpet production, and linked to the structure of multinationals' production network and their corporate visibility.

With these variations, however, it can be concluded that accountability on social and environmental issues has become rather common for many multinationals. The question is, however, to what extent current forms of disclosure address the concerns raised about the negative implications of globalisation. In other words, what can be said about the significance and 'sustainability' of this development? It must be noted that such an assessment depends to a considerable extent on one's position in the debate on the 'Janus Face'.

On the one hand, the increasing corporate tendency to report on the social and environmental aspects of business activity can be viewed as positive. The overwhelming majority of sustainability reports contains at least some environmental performance indicators. Likewise, environmental accounting practices are spreading, especially in Japanese MNCs which tend to closely follow the reporting guidelines published by both the ministry of the environment and of economic affairs (MITI). Moreover, almost one third of the reports has been externally verified, so far mainly with regard to the environmental data, which helps to improve the reliability of the information, and to move reporting beyond mere statements of intent. With regard to codes of conduct, almost half is rather specific with regard to the issues covered, and one quarter pays explicit attention to monitoring systems and mechanisms, which increases the likelihood of actual implementation and compliance. Experience is building up with external monitoring of codes of conduct, especially in MNCs involved with the production of products such as toys and apparel.

On the other hand, however, the vagueness of sustainability reports and codes of conduct can be emphasised, by designating them as mere window-dressing, driven by public and government pressure, and likely to fade away when these forces recede. Similarly, the external verification of reports and codes might be viewed as a matter of 'professional capture' and a 'managerial turn' rather than something which helps to increase accountability. Moreover, an audit process frequently lacks transparency and is characterised by a problematic relationship between companies and auditors, as recent accounting and audit failures illustrate. In addition, most sustainability reports turn out to deal more with 'traditional' reporting topics related to environment, health and safety, employee relationships and philanthropy and charitable contributions, than with the international social dimensions of corporate activity. Performance indicators on these external societal issues are used only seldomly. Finally, a substantial number of corporate codes is not very specific about scope and monitoring.

Whereas personal beliefs and characteristics certainly play a role in the perspective one takes, some conclusions can nevertheless be drawn. The existence of legislation and government incentives concerning sustainability reporting in Europe and Japan help to maintain a certain level of reporting, guaranteeing both quantity and quality. Moreover, there are a number of companies where reporting, either compulsory or voluntary, has been accompanied by the routine collection and calculation of environmental performance data, thus becoming part of regular processes. This is helped by the discovery of economic benefits of sustainability (reporting) on which a few multinationals have started to disclose information. These business drivers range from higher efficiencies, lower costs and risks, to improved relationships with stakeholders and a better reputation. In these cases, sustainability reporting might well become a sustained practice where the momentum can be kept even

if outside pressure diminishes. This is more likely for environmental than for social issues, in view of the former's impact on production processes and products. At the same time, there is a considerable number of MNCs where reports are not more than statements of policies and intentions, without real substance and much quantification of environmental, let alone societal, impacts. In these companies, reporting might well be a passing fad if it is not embedded in regular processes or companies are forced to continue the practice.

With regard to codes of conduct, the picture is different to some extent, because they do not report on past activity but usually embody intentions and business principles. The likelihood that they are accompanied by clear indicators for performance, implementation or compliance – in the code itself or in other supporting documents – is therefore considerably lower, and seems to require more stakeholder pressure. Concurrently, however, there are MNCs which, as a result of such external attention, have integrated reporting and feedback on their ethical and international social behaviour in their regular process, sometimes as part of their sustainability report. This means that the two-pronged development, as sketched for sustainability reporting above, applies here as well, although the chances for sustained adoption on a large scale are smaller.

Overall, though, the very process of globalisation, and the increasing size and impact of internationally operating companies, has also created the conditions for continued vulnerability and external scrutiny of MNCs. Corporate social accountability is therefore likely to remain a constant source of attention for many of them. But it can be expected that, in view of the very broad range of potential reporting topics, MNCs will gradually move to a more selective approach in which they choose, presumably in interaction with their stakeholders, the most relevant issues on which they will focus their reporting and accountability efforts.

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