The price of greatness is responsibility

An issue paper on the tension between states and multinational enterprises due to democratic deficit

“Make sure everything is done ethically. Within reason, of course.”

MscBA Global Business and Stakeholder Management

Names: Kim Rijken 337394
Anoop Singh 280583
Flávia Witmer 294272

Tutor: Lucas Meijs
Date: October 2nd, 2009
Place: RSM
Erasmus University
Rotterdam
Executive summary

Multinational Enterprises (MNE) have gained tremendous importance in the last decades. But what if they are using their economic bargaining power vis-à-vis developing states for their own profit at the expense of that state by overriding certain democratic processes and making use of a democratic deficit? A democratic deficit exists when democratic organizations or institutions fall short on the principles of responsiveness and accountability towards the population or a popular elected body. States with fragile democratic institutions are more vulnerable to democratic deficits created by external factors. This democratic deficit created by MNEs can result in several negative externalities on different dimensions such as unwanted influence over a host government, corruption, human rights and the environment.

The divergence between the strategic objectives of the state, promote economic and social welfare for its citizens, and those of MNEs, advance profitability and growth, leads to a tension in their relationship. There is an increased economic dependence by states on MNEs to accomplish their economic objectives, especially in developing countries, giving them a reduced degree of control over MNEs. Also, MNEs have incentives to influence their host countries and their policies. Especially authoritarian regimes are interesting for MNEs, because of the lack of pressure from the civil society. Pressure from civil society should be more present to overcome the democratic deficit.

The nature of tension in the issue of democratic deficit is considered to be a paradox; multiple options how states and MNEs deal with each other, leading to multiple innovative reconciliations. There is a growing awareness that by improving the broader socio-political environment MNEs can enhance the business climate for their future survival and growth. One of the most important reasons for this is legitimacy of the MNEs in their different host countries. The leader is one of the most important factors in whether the firms acts as a part of the problem or as a part of the solution. He or she is the one who can influence strategy into a sustainable strategy by not only focussing on shareholders, but also on other stakeholders. Civil society also plays an important part of the solution. NGOs can fill gaps in organisational incapacity. The issue position can be found on the interface of the societal triangle. All three spheres should function well and interrelated, providing the society the license to operate.

Currently there are many global and sector specific initiatives in place to decrease democratic deficit. The majority of these initiatives is targeted towards increasing transparency and accountability of MNEs and states. However, there is still not a global or sector specific standard framework. The effectiveness of these initiatives is being questioned, however, they do provide a good example of how a global standard framework could be organised. The existing initiatives will not be sufficient to solve the democratic deficit. They lack global support and the regulatory power to enforce the frameworks that are already in place. What is needed is a global initiative that would have the regulatory power to make companies adhere to the framework.
CONTENT

Executive summary ........................................................................................................................................... 1
Introduction .......................................................................................................................................................... 3
Chapter 1: Democracy and the Democratic Deficit: defining the issue ....................................................... 5
  1.1 Definitions ................................................................................................................................................... 5
  1.2 Dimensions ................................................................................................................................................. 8
Chapter 2: Democracy and the Democratic Deficit: stakeholders ................................................................. 11
  2.1 Stakeholder/Action Groups ....................................................................................................................... 11
  2.2 The Stakeholders ...................................................................................................................................... 12
  2.2 Controlling the issue: governance and regulation .................................................................................. 14
  2.3 Expected gaps .......................................................................................................................................... 16
  2.3 The Issue Life Cycle ................................................................................................................................ 16
Chapter 3: Firms as part of the problem? ........................................................................................................ 18
  3.1 MNEs’ incentives to influence public policy ......................................................................................... 18
  3.2 Issue Ownership .................................................................................................................................... 19
  3.3 The call for democracy ............................................................................................................................ 21
Chapter 4: Firms as part of the solution? ........................................................................................................ 23
  4.1 Nature of tension ..................................................................................................................................... 23
  4.2 Firms as part of the solution .................................................................................................................... 24
  4.3 The role of leadership ............................................................................................................................... 25
  4.4 Civil society as another part of the solution ......................................................................................... 26
  4.5 On the interface ...................................................................................................................................... 28
Chapter 5: A sector analysis ........................................................................................................................... 29
  5.1 The petroleum refining sector ................................................................................................................. 29
  5.2 The Mining sector .................................................................................................................................. 30
  5.3 The Banking sector .................................................................................................................................. 31
Chapter 6: Global and Sector specific initiatives ............................................................................................. 32
  6.1 Global initiatives ..................................................................................................................................... 32
  6.2 Sector initiatives ..................................................................................................................................... 33
  6.3 How MNEs handled democratic deficit: A good and bad example ...................................................... 35
Chapter 7: Conclusion ..................................................................................................................................... 39
Chapter 8: Discussion ..................................................................................................................................... 40
  8.1 Drawbacks and limitations ...................................................................................................................... 40
  8.2 Recommendations for further research ............................................................................................... 40
Appendix A: Literature research .................................................................................................................... 41
Bibliography ..................................................................................................................................................... 42
Introduction

The Multinational Enterprise (MNE) is a phenomenon that is more seen in the contemporary ever increasingly globalised world. Although the first signs that a company was operating across borders date back to the 16th century with the Dutch East India Company (“Verenigde Oost Indische Compagnie” or V.O.C.), their number and influence has really developed in the period after the Second World War. In a conscious process that is still continuing, national borders are opened up to international trade and capital.

When taking the Kondratieffs waves to identify trends to put MNEs into their proper timeframe and context, it is easy to see that MNEs are very much a product of their time. The fourth wave which lasted from about 1930 to 1980 was characterized by mass production that required an increasing amount of raw materials that were often not found in the places where products were manufactured. Perhaps not surprisingly, this was also the period when the world started to open up its borders to foreign trade. The Breton Woods institutions were created, the United Nations (UN) and the initial process of European Integration all occurred in little over a decade after the end of the Second World War. These trends initiated in the fourth wave were continued in the fifth Kondratieff wave (1980-present) but were only amplified by rapidly developing information and communication technology. Not only does international trade exist out of tangible goods, an increasing share of it consists of services and capital that are delivered by a click on a mouse.

Considering this sheer economic weight of MNEs, it is not hard to realise that they are important global players no matter what way one looks at it. Their number alone has swelled considerably, in 1970 there were about 7.000 MNEs to over 65.000 several decades later in 2002 (Clapp, 2005). Also the sheer economic volume that they represent is tremendous, controlling the majority of the world’s export and representing a foreign direct investment (FDI) value of US$1.49 trillion in 2000 (coming from US$9.2 billion in 1970) (ibid).

But, as Churchill said, ‘the price of greatness is responsibility’. So what are the responsibilities that the great MNEs have in our world? Is their responsibility simply to conduct business and create a profit no matter what, or do they have other, more social responsibilities as well? Considering this context, the current paper will analyse the relationship between the MNEs and developing states. Many developing states still have weak or developing democratic institutions. So what happens if these weak state institutions meet economically powerful MNEs? MNEs often hold powerful bargaining positions vis-à-vis such states and can therefore bargain terms with such governments and perhaps even suspend...
‘normal’ democratic processes within the states. Therefore, the following research question is central in this issue paper:

*How do MNEs contribute to the existence of democratic deficit and what roles do the three spheres of society have in solving this issue?*

This paper analyses the issue as follows. Chapter 1 establishes key definitions on the issue and dimensions where the democratic deficit can take place. Chapter 2 analyses the stakeholders and their stakes. Chapter 3 looks at the MNEs as part of the problem and the role states play in this relationship. Chapter 4 provides solutions to the issue of democratic deficit, also by introducing the role of the civil society. Chapter 5 discusses the solutions presented by firms to tackle the issue of democratic deficit in their operations. Chapter 6 discusses several global and sector specific initiatives that are in place with the goal to decrease democratic deficit and furthermore two cases where MNEs handled the problem of democratic deficit in a right and wrong way. Chapter 7 gives a conclusion and chapter 8 finally discusses drawbacks and limitations, and provides recommendations for further research.
Chapter 1: Democracy and the Democratic Deficit: defining the issue

Before talking about a democratic deficit, one first needs to define the issue and the different components. Democratic deficit is a term that is mainly used in political science literature when discussing (the lack of) democracy in a certain governmental regime. So what does democracy mean when talking about a state and how is this translated to democracy for organisations in general and multinational enterprises in specific? This will be discussed in the first section of the chapter.

The second section will focus on the different dimensions of the issue that can arise due to democratic deficit. Although there are numerous different dimensions, four of the best known will be discussed that are a huge topic on themselves and very interlinked with each other: human rights, corruption, environment, and the unwanted influence over state and society.

1.1 Definitions

Democracy

Democracy is one of several forms we know to reach a collective decision. The difference between this one and many others is the idea is that all members of the group are included in the decision-making process. The term democracy comes from the Greek word demokratia, where kratos means ‘rule’ and demos translates to ‘people’; rule by the people. So literally democracy means a direct rule by the people. This literal meaning has however very little to do with our modern conception of democracy. Literal democracy would mean that the population would govern themselves, so there would be no distinction between the rulers and the ruled, and between state and society. This is not how democracy works in practice, already in the birthplace of democracy in ancient Athens things worked differently (Hague and Harrop, 2004:35-36). In a practical sense modern democracy is a system where the rulers are responsive to those who they are ruling over. This usually happens by creating a system in which the rulers are voted upon to rule for a fixed period.

Next to being a system of government, democracy also has a normative quality to it; as an ideal and aspiration. The ideal is a free and open society where individuals are free to develop themselves and where those in offices of power are kept in check by a combination of different institutions.

There are two fundamental principles behind this: the rule of law, and the principle of checks and balances. The rule of law states as much as the fact that the law is supreme and that it applies to everyone equally (whether the ruled or the ruler). No matter what position in society an individual has, if that individual breaks the law, he or she will be prosecuted as everyone else who committed the same offence. The principle of checks and balances
translates to that all positions of power must be kept in check and controlled by another position of power. By creating this circle of control, all institutions with power in a society should be unable to abuse their power since they will be kept in check by another institution.

Summarizing the above would mean that democracy is a form of a societal arrangement that offers a solution for reaching collective decisions. The modern day advantages are that no one has unlimited and unchecked decision making power due to the principles of the rule of law and the checks and balances within such a democratic system.

Democratic governments

Democracy is always used when one is referring to states and governments. In the context of the state, democracy simply means a system of representative democracy where the population elects their parliament (representative body of government that represents the people and has the power to make laws) and sometimes government leaders (prime minister or president). But this is a restricted definition of democracy. Modern liberal democracies are again based on the principle of the rule of law and on the checks and balances. The latter is often realised by a system called ‘trias politica’ where there is a distinction between law making power (parliament), those that apply the law (governments), and those that control the abiding of the law (the judicial power). By separating the three main branches of the state and by ensuring that all three control each other, a system of checks and balances is built into the state. Moreover, the powers of the media and the NGOs can also be considered as watchdogs of the state that can and do blow the whistle in case of an abuse of power within government.

So, democracy in a state translates to a system where the population elects their representatives in government that make laws. Next to this, there is often a system in place that keeps checks and balances by separating different branches of government, and, as an added bonus, external watchdogs. This whole system is created to keep those in positions of power in check and to ensure that they abide by the law of the country.

Democratic Deficit

Democracy is a system of popular control over governmental policies and decisions. For this to happen, a government needs to be responsive and accountable to popular control. This is done either directly (popular assemblies, referenda) or indirectly (representatives in parliament chosen in elections) (Dahl, 1999).

However, there are instances imaginable where democratic organizations or institutions (governments, international governmental organizations) are falling short of
fulfilling the principles of responsiveness and accountability in their practice or operations. This lack of responsiveness to the popular preferences and democratic oversight is known as ‘the democratic deficit’ (Dahl, 1989).

Often mentioned examples of democratic organizations suffering from democratic deficits are International Organizations such as the European Union where significant sections of sovereignty is transferred from the national states to the EU, but where democratic oversight (parliament, watchdogs etc.) is often lacking in its procedures (Rohrschneider, 2002). The European Commission formulated the EUs democratic deficit issue as followed: “The democratic deficit is [...] that the European Union and its various bodies suffer from a lack of democracy and seem inaccessible to the ordinary citizen [...] The view is that the Community institutional set-up is dominated by an institution combining legislative and government powers (the Council of the European Union) and an institution that lacks democratic legitimacy (the European Commission)” (European Commission, 2009).

Whether a democratic deficit was created due to a conscious or an unwanted process is irrelevant for the argument. One can imagine that new democracies, where the democratic institutions are still developing or where the democratic institutions lack power and resources, are more vulnerable to democratic deficits created by powerful external factors.

Democratic deficit for companies

For a responsible democratic behaviour of a company, it has to abide by the corporate governance regulations and conduct business in a responsible manner. This is enforced by a network of counterbalances that check power that any company might have. Institutionalized counterbalances include the accountancy reports and other legal statements that companies have to provide by law, regulatory agencies of the state etc. Other counterbalances include the role that the media and NGOs play in monitoring the operations of companies and publishing any malpractice that they find. However, if this network is less well organized or able to perform its tasks or even non-existent, the road is clear for a company to abuse its position of power. This can be called a democratic deficit in a society because there is no popular democratic check upon the power of the company within that same society.

Two factors are important to consider: the power of the company and the strength of the counterbalances. A company’s power increases often with the size and influence it has. There are certain companies that hold tremendous bargaining power; many of the largest companies have an annual turnover that is larger than the GDP of many states. Such a power

1 Underlining added.
requires a sophisticated mechanism to control it. In many developed states this is also the case; many OECD countries keep their companies under control on their own territories.

But in many developing states this network of counterbalances is not so well developed. States often have less regulatory resources at their disposal to draft and enforce legislation vis-à-vis MNEs. Added to this is that often the civil society (NGOs) are equally poor developed and funded, taking away other nodes in a network that controls and checks the power of these MNEs (Braithwaite, 2006). This combination could lead to abuses of power by powerful MNEs in developing states with weak regulatory institutions.

1.2 Dimensions

One can think of many different dimensions where companies act upon a state’s legitimate process and create a democratic deficit. The result of this is that such a company will have a desired influence on the dealings of the state and its people. Next to this there are several fields where one can see the consequences of the deficit. Three of the most prominent ones are chosen and discussed as examples: human rights, corruption and environment. The rationale behind this is that these dimensions are most discussed in popular debates when it comes to the negative externalities that MNEs conflict upon developing states.

Unwanted influence over government and society

In the contemporary world, it is clear that Multinational Enterprises are important and influential global actors. They are also responsible for the largest part of Foreign Direct Investment (FDI) in the global economy. And although developing states receive less than 20 percent of the total FDI flows, this is of key importance to developing states as these capital flows are often big parts of the fragile economies and one of the main sources of capital (Clapp, 2005). Due to this dependence, it can be very well expected that MNEs can exercise significant influence over entire countries by negotiating very lenient legislation and investment terms in exchange for their FDI flows into the country. Other possibilities include the threat of relocating their business elsewhere or to relax legislation enforcements (ibid.).

Corruption

Transparency International defines corruption as “the abuse of entrusted power for private gain”. Two forms of corruption are recognized: receiving preferential treatment for something that the bribe receiver is supposed to do anyway. Against the rule bribery is to receive services that the bribe receiver is prohibited from providing (Transparancy
International, 2009). The importance of this dimension is that corruption is one of the main mechanisms that ensures that any unlawful acts go unpunished by undermining the functioning of the democratic principles of responsiveness and accountability. This happens because a framework is created where unlawful permissions and favours can be bought.

Bribery is a common practice among international companies when conducting business in certain countries. In 1977 the US House of Representatives published that over 400 US companies admitted to have made illegal payments, among these were over 117 of the Fortune 500 companies. The amount exceeded $300 million. (Weismann, 2009). That corruption still takes place is clear and evidences are ample. Transparency International’s annual Bribe Payer’s Index (BPI) of 2008 “provides evidence that a number of companies from major exporting countries still use bribery to win business abroad, despite awareness of its damaging impact on corporate reputations and ordinary communities” (Transparency International, 2008).

Environment

A significant portion of the export of developing countries exists of natural resources. Often the industries that are involved with natural resources are also potentially some of the most polluting industries known such as the oil and mining industries. These industries can cause tremendous negative consequences on the environment, such as pollution, contaminated surface- and ground water, degraded agricultural land etc. Next to this, such industries can also inefficiently exhaust the natural resources that a state has at its disposal (Clapp, 2005).

Legislation is often in place to counter such behaviour by MNEs and other companies in many of the developed states. However, often such regulations make production or extraction more expensive. It would make sense for them to find states that are least regulated where they can conduct business cheapest. When states are dependent upon these MNEs for their FDI to develop their economies, one can imagine that environmental degradation is the price many states pay.

Human Rights

A violation of human rights is against the integrity of the person and the society as a whole, and that any abuses of such rights would be against the will of the people. But at the same time, the biggest violators of the same human rights are the governments of many states.

The relationship between MNEs and human rights has a long and complex history. Allegations against companies concerning human rights can be traced to the role they played
during the Apartheid in South Africa and slave labour during the Second World War. In the last decades there have been well documented cases where MNEs have been linked with human rights violations. In certain cases there was a collusion with the host government, while in others the host government was directly opposing the policies of the MNEs. Examples of such cases are the operations of Royal Dutch Shell in Ogoniland in Nigeria and British Petroleum’s operations in Columbia (Muchlinksi, 2001).

Looking from a legal point of view, can a MNE actually violate human rights and be held responsible for it? So far, this has not been the case; MNEs simply had to obey the law. It even happened that the host government was held responsible for not upholding the law and safeguarding the human rights against violation by another private party (ibid). But if that law is not being upheld or deliberately relaxed under pressure from the same MNEs, are the MNEs then still not guilty? Either way, the public still expects MNEs to operate in a responsible way that is devoid of any human rights abuses, no matter where they operate in the world.
Chapter 2: Democracy and the Democratic Deficit: stakeholders

The issue of democratic deficit with relationships to MNEs has multiple stakeholders that are affected by MNE operations. The first section will discuss what a stakeholder actually is how and to interpret their claims. The second section will briefly discuss the stakeholders, their stakes, and possible consequences they incur on the current issue. Finally, the third section will discuss the gaps in legislation and expectation that exist between the stakeholders that create the issue.

2.1 Stakeholder/Action Groups

A stakeholder can be defined as “any group or individual who can effect or is affected by the achievements of the company’s objectives” (Freeman, 1984). Hill et all (2005) add that stakeholders can also be affected by the actions of an organization.

Several distinctions can be made between the different stakeholders. One is that there are internal (those within the companies with a stake such as employees) and external (those outside of the company with a stake such as suppliers, customers, society etc) stakeholders.

But it seems more important from a company’s perspective to order stakeholders in terms of the power and influence they can exercise over the company. Van Tulder and Van der Zwart (2006) make a distinction between primary and secondary stakeholders. Primary stakeholders are those without whom a company cannot operate and realize its objectives. Clear examples are employees, investors, suppliers, and customers. The government can also be seen as a primary stakeholder, although opinions are mixed. Secondary stakeholders are all other stakeholders that are mostly affected by the company without the company has a real stake with them. This category includes the media, unions, NGOs etc.

Another way to categorize, but also prioritize stakeholders is constructed by Mitchell et all (1997). The categorise stakeholders using three possible attributes: power, legitimacy, and urgency. Those stakeholders that are have two or all of the attributes (see figure 1) demand to more immediate attention of the company. Dominant stakeholders are both powerful and have legitimate claims and are likely to form the dominant coalition in the company. Dependent stakeholders have urgent and legitimate claims but lack the power to back them. They will often seek guardianship from more powerful stakeholders. Dangerous stakeholders have urgent claims and the power to back them up, but lack legitimacy. This group is likely to resort to coercive or violent measures. If a stakeholder possesses all three attributes, it becomes a definitive stakeholder and that provides an immediate mandate to management to attend to the issues that this stakeholder has (ibid. 877-878).
2.2 The Stakeholders

State

The government of the host country is perhaps the most visible stakeholder. If MNEs are actively working to manipulate a government’s legitimacy, the host government has a legitimate stake as a stakeholder. Furthermore, the process of creating a democratic deficit is a process that gains strength as it continues, because it hampers the ability of a government to consolidate democratic institutions; making the stake that the host government has urgent.

The government of the home state is the state where the MNE has its headquarter. The legislation that such a state poses upon a MNE is one of the more important frameworks that MNEs need to take into consideration while operating. Furthermore, these frameworks can prohibit such behaviour, but also enhance or even institutionalize measures that frustrate the democratic process in other states. In a number of countries could, until a few years ago, bribes be deducted from tax as organisational expenses.

Although legislation is always agreed upon within a state or between states, international agencies and organizations often provide the facility upon which such topics are discussed and frameworks are agreed upon. The United Nations, European Union, the World
Trade Organization, and the Breton Woods institutions form the most important forums when it comes to the dimensions that cause or create a democratic deficit.

*Regulators* are state agencies that operate nationally or internationally to monitor the behaviour of agencies (in this case: MNEs) and to check whether this behaviour is in accordance to the law. They are often the extended arm of the state when it comes to the network that checks the power of MNEs in a society. However, when their work is hindered by lobbying activities of MNEs and because of this their room to operate is restricted, crucial nodes in checking MNEs behaviour are missing.

**Civil Society**

*NGOs* are representatives of the civil society that focus on a single issue, whether for a limited group or for the entire population. Most NGOs operate on a local or national level, others operate internationally. Next to that they form a crucial part on behalf of the civil society as whistle blowers when misbehaviour of MNEs is identified. Where regulators act as nodes in the network on behalf of the state to check the power of the MNEs, NGOs represent the civil society with the same purpose. When NGOs carry a lot of legitimacy and are well established within a society, they can apply tremendous pressure upon MNEs to change their behaviour.

*Employees* of the MNEs can be either initiator or victim of the democratic deficit. Starting with the latter, if regulations concerning employee working conditions are not met, such employees are put in hazardous situations that were not supposed to exist in the first place. One can think of working with chemicals while protective clothes and other measures are not provided, or working longer days without sufficient rest for employees. On the other hand, these MNE practices must be thought of and executed by employees of the same MNE.

*The local community/society* is by definition a victim of a democratic deficit created by MNEs. Not only are the democratic principles violated in their society (responsiveness and accountability), but they are also likely to suffer from the enlarged space to operate by the MNEs in terms of poorer wages, increased environmental damage etc.

*Media and opinion leaders* play a crucial part in making any violations or the issue in general known to the public, nationally and internationally. In that sense they have the same task as NGOs in acting as whistleblowers when any misconduct is discovered by MNEs and to make this known by announcing and publishing it.
Market

*Competitors* are placed at a strategic disadvantage by incurring extra costs when they are observing the rules and are behaving responsibly and ethically compared to the MNE that is bending the rules for its own benefit.

![Stakeholders placed on the societal triangle](image)

**Figure 2:** stakeholders placed on the societal triangle

### 2.2 Controlling the issue: governance and regulation

*Mandatory codes of conduct*

Many states already require their companies to adhere to national codes of corporate governance. The goal of such codes is to increase the transparency and accountability with which a company is being managed and to reduce unlawful and sometimes unethical behaviour by the companies. It regulates the relationship that the company has with its direct stakeholders such as shareholders, and clients, employees, but also society in general. Often these codes are drafted after a scandal in corporate governance is brought into the open and caused significant unrest in society. The most famous example of this is the Sarbannes-Oxley act that was adopted in the United States after the accounting scandals involving Enron and WorldCom (Weisman, 2008).

These mandatory codes can only be established by those that control the legislative process in the state: the government. In developed countries governments are considered powerful and legitimate stakeholders (making them a dominant coalition). However, with scandals they are urged to act swiftly, adding urgency to their concerns, making them definitive stakeholders. Trouble comes up when governments are unable to enforce or even adopt such codes due to the powerful lobby and demands that MNEs can pose. This should be especially the case when government institutions are still weak, deteriorating or developing.
In the process of drafting such codes, it should be obvious that all sides will lobby for or against certain measures to be included. NGOs focused on such a topic will require very stringent codes, seeking the shelter of the law and the state to back their claims. At the same time one can expect companies to lobby at the opposite, ensuring them as much room as possible to operate without incurring higher costs.

**Voluntary codes of conduct**

Where codes are relatively easy to draft and to include in legislation on a national level, this is different and sometimes downright problematic on the international level. Many states differ very much to their view of this problem, the role that the states should play in it, and the measures that should be taken to counter the problem; essentially the problem that all international conventions and treaties run up against. So when attempting to coordinate such activities, codes that are agreed upon on the international level are often voluntary for MNEs to follow, unless they are transformed into law by the national states.

Although voluntary, these codes do carry a significant weight as they are drafted by respected international institutions or NGOs, and do create a minimum of expectations on how MNEs should behave (Clapp, 2001).

**Business codes of conduct**

‘Reputation comes by foot and leaves on horseback’ is a phrase often used when discussing reputation management. Many MNEs realize that any malpractices that happen within their operations can have severe consequences for their reputation. So to prevent this from happening, many MNEs are responding before they fall victim to potential corporate governance scandals by initiating voluntary corporate based initiatives on corporate governance (Clapp, 2005). Often these policies are stated in a corporate or business code of conduct. Kaptein (2004) states that such a code often contains an act that defines the responsibilities the company has towards its stakeholders and/or the conduct the company expects its employs to uphold.

About half of the largest firms have such codes of conducts and the majority of them uphold these business codes of conduct and act upon when violated (ibid). However, there are still many roads to improve this behaviour. Weismann (2009) states that this culture of corporate compliance plans works often well domestically (in the US) and it can be assumed in the rest of the developed states as well. The problem occurs that most plans are not well
communicated throughout foreign subsidiaries or foreign branches where violations take place when discussing the current issue of democratic deficit.

2.3 Expected gaps

An issue only becomes an issue when it is perceived as being an unregulated question that needs to be straightened out. An issue is created when there is a deviance between actual legislation and expected legislation on a certain subject. Key to this perception are differences in expectations that different members (stakeholders) in society have on this issue (Van Tulder & Van der Zwart, 2006).

Expectational gaps exist when stakeholders hold a different view on what is appropriate business conduct with regard to societal issues. Three possibilities are identified (ibid): factual gaps (a disagreement on the facts), conformance gaps (difference of opinion concerning the consequences of the facts for behaviour), and ideals gaps (difference between norms, values and ideals).

Almost all of the discussed gaps are in play with the issue of democratic deficit. There is a definite gap in the behaviour for MNEs between the general public and the MNE, or else there would not be an issue in the first place. Next to this there is a discussion between ideals from NGOs on the one hand and authoritarian or corrupt regimes on the other hand how MNEs should behave in such states. A more fundamental gap exists between the actual role of the company; are companies simply vehicles that observe local laws (no matter how flawed) and create the maximum profit or shareholder value, or are they actually social responsible institutions in a society that have the duty to uphold basic human rights and other social norms?

2.3 The Issue Life Cycle

As explained, an issue is born due to gaps in legislation and in stakeholder expectations. Van Tulder and Van der Zwart (2006) describe the process that is initiated once an issue is established. In this so called ‘issue life cycle’ the issue goes through a series of stages from starting at initiation (birth) which is characterized by a societal discontent, to a growth phase where the issue was failed to be addressed properly and is gaining advocacy and public awareness. The third stage is seen as development where collective stakeholder claims are formulated towards corporate adjust and finally settlement in the mature phase.

When attempting to apply this model to the current issue, one runs into trouble almost straight away. The trouble with the democratic deficit is that is can be manifested in many different ways as was explained by the dimensions earlier. Usually these dimensions gain
popular attention instead of the potential underlying concept of the MNE behavior in creating a democratic deficit. It is therefore easier to estimate where the different dimensions are on the issue life cycle then democratic deficit itself.

One thing that is for sure is that the topic has not reached the mature phase yet, nor is it so far in the beginning that it can be qualified to be in the birth phase. The current judgment remains that the issue is somewhere in the middle of the growth and the development phase because there is widespread interest for MNE behavior in developing states without the issue being solved, and stakeholders are considering the issue as well.
Chapter 3: Firms as part of the problem?

In this chapter the key players in the issue of democratic deficit are discussed and how they relate to one another. Since both the state and the market have incentives to influence each other, the issue of ownership is not as straightforward as one might think. This leads to the position of the issue in the societal triangle. A type of state which is particularly interesting for MNEs is discussed, to conclude with a comparison between levels of democracies and the degree to which they can be influenced by MNEs.

3.1 MNEs’ incentives to influence public policy

Due to globalisation effects the relationship between states and multinational enterprises (MNEs) has changed significantly. Especially with the growth in MNEs, host countries have difficulty to execute their basic principles of autonomy, control, and sovereignty. According to Dunning (1991) there exists a market asymmetry in objectives between the state and the MNE in that the global strategies of MNEs are designed to advance corporate growth and profitability, and that the strategies of governments are intended to promote the social and economic welfare of their citizens. Stated differently, the state acts locally and the MNE acts globally. Some might say that because of the globalising trend the role of the state is diminishing. However, the state as an institution is not disappearing, but neither can it make the claims they once did. “The state is becoming just one source of authority among several, with limited powers and resources” (Strange, 1996:72).

In The Oxford Handbook of International Business Kobrin (Ch. 7) states that “given the increased reliance of governments on the private sector to accomplish economic objectives, the emergence of MNEs has resulted in a higher probability of a divergence between state and firm objectives.” This increased economic dependence and the optimizing nature of the MNE has reduced the degree of control that governments can exert over their economies and economic actors. This results according to Jensen (2003) in the need to attract foreign direct investment (FDI), thereby pressuring governments to provide a climate more hospitable to foreign organisations and possibly challenging the state’s ability for democratic governance, leading to democratic deficit.

Democratic deficit within states impersonates policies characterized by leader domination, pervasive lack of accountability, the absence of checks and balances, and a lack of emphasis on the rule of law (Alper & Onis, 2003). Moreover, governments cannot always impose their will on MNEs, as MNEs cannot be forced to invest and to trade. Due to the
asymmetry in objectives MNEs will not adjust freely to the host country’s wishes, but instead try to move in given space for their own best interest.

Vernon already suggested in 1971 that MNEs have strong incentives to influence host country government policies to safeguard their investments, especially given the threat of repatriation of earnings, trade laws, and investment laws (Vernon, 1971). A number of researchers (e.g. Baysinger, 1984) congruently claim that many firms engage in political strategies or proactive actions to affect the public policy environment in a way favourable to the company. It is acknowledged that MNEs try to encroach on the sovereignty of host countries to achieve their economic goals. Political means are used to that end.

Several reasons why MNEs have benefit in politically influencing their host countries can be identified. According to Baron (1995) states represent major sources of uncertainty for firms, because they often control important resources and opportunities that shape the firms' competitive environment. Once a MNE has invested in a foreign market, they face political risks. Governments may change policy, adversely affecting the profitability of the investment. These political risks can be a major factor in a MNE's decision to invest in a foreign market. “In systems with lower levels of political risk, multinationals will invest via FDI. In systems with higher levels of political risk, multinationals will be wary of entering a foreign market, and either avoid the market or establish a contractual relationship with a domestic firm” (Jensen, 2003:592).

To lower the level of political risk, MNEs engage in political relationships with the host country. Because the state is dependent on the MNE, the MNE has a more competitive position in the global market. According to Boddewyn (1988) this idea often helps to explain why certain MNEs exist in certain countries or why one MNE prevails of another when the competitive and/or global market could not account for their presence, survival and growth.

3.2 Issue Ownership

In the first section of this chapter has been discussed why MNEs have incentives to influence public policy and how they are able to do so. Also states themselves can be actively involved in this process of collusion. A reason for this is provided by Yeung (1998) who claims that governments may extend their help to domestic capital, so that MNEs gain a better position in the borderless world. Hereby they use the MNE to become more competitive on the global market as a state. Lack in regulations due to democratic deficit can empower states to also act on local concerns. An example of this that MNEs have been granted special tax benefits to set up manufacturing operations in developing countries, based on what for the government is a local concern: job creation (Husted & Allen, 2006).
It is therefore not that straightforward that only MNEs are to be blamed. So, who is to become the issue owner? In his book *International Business-Society Management* Van Tulder & Van der Zwart (2006:171) discusses three types of issues in the assignation of primary and secondary responsibilities: stretch issues, institutional issues, and agenda-setting issues. Stretch issues are characterized by firms being the cause of the problem. With institutional issues firms are partially responsible, while in agenda-setting issues firms are not part of the problem, but only part of the solution. Democratic deficit can be seen as an institutional issue. As discussed, MNEs are a cause of the problem. However, states are also responsible for the occurrence of democratic deficit. They are inclined to look at short-term economic effects, without looking the consequences for their citizens or the ecology. “If governments do not assume their responsibility to prevent or limit negative externalities or are not prepared to abandon economic growth in favour of longer term ecological sustainability, individual consumers will have great difficulty exerting enough buying power to influence the strategies of firms” (ibid., 2006:179). Both MNEs and states are therefore a cause of the problem of democratic deficit and because of that they are also both responsible for initiating solutions.

The division of responsibilities is directly translatable into the position of the issue in the societal triangle as presented by Van Tulder & Van der Zwart (2006). The triangle consists out of three primary institutions: the state, market and civil society. As can be seen in the figure 3, the functioning of the three spheres overlap, providing the license to operate. Issues can be positioned in the triangle and arise when there are tensions between the societal spheres, resulting in a society which is not functioning optimally. The position of the issue of democratic deficit can be disputed. The issue can be viewed as a desire for growth by both MNEs and states. As Van Tulder & Van der Zwart state that “growth issues can be positioned at the core of the societal triangle and, therefore, involve shared responsibility for governments, firms, and citizens” (2006:188), it seems straightforward that the issue of democratic deficit should be positioned at the core of the triangle. The influence of the spheres ‘state’ and ‘market’ are undisputable. However, although one can say that the civil society also has responsibilities in this issue, we do not see civil society as a primary cause of the issue. We do however see civil society as an important sphere in providing solutions. Therefore, we will leave the sphere ‘civil society’ out of the positioning in the triangle, but we will definitely discuss the influence of civil society when discussing initiatives and partnerships in a later phase of this paper. This leads to the following position of the issue of democratic deficit in the societal triangle:
3.3 The call for democracy

One type of state is particularly interesting for MNEs because of the degree to which it can be influenced. This is the authoritarian regime or the so-called weak democracy. (Jensen, 2003) Authoritarian leaders can provide MNEs with better entry deals, mainly because of the lack of popular pressure from below and the repression of labour unions. This relationship is appealing for MNEs and therefore leads to higher levels of FDI inflow to authoritarian states. Various researchers (e.g. Leeds, 1999 and McGillivray & Smith, 1998) have found that democratic institutions can be a mechanism by which these political preference activities can be decreased. Democratic states have been found to be more credible in making agreements with other states, thereby diminishing the options for MNEs to influence their public policies.

According to Alper & Onis, “weak democracies are confronted with the negative side of financial globalization, including overdependence on short-term capital flows, speculative attacks, and recurrent financial crises leading to slow growth and a more regressive income distribution” (2003:5). Additionally, MNEs makes production, management, labour, and technology increasingly internationally mobile. That combined with the increasing linkages between trade and FDI certainly diminishes the ability of states to control domestic economies and economic policy (Stopford & Strange 1991). Together, this makes weak democracies more dependent on FDI than more developed and stronger democracies. The result is that they are more open for and dependable on the economic power of MNEs. Moreover, they lack in the presence of other pressure groups to control the influence of MNEs.
The complex interplay between the government and MNEs permeates domestic politics in the weaker democracies. However, this problem becomes even more outspoken when one looks at individual political leaders. McGillivray & Smith (1998) illustrate this by arguing that political leaders play an ‘Agent Specific Grimm Trigger Strategy’, in which political leaders in one state refuse to cooperate with other political leaders that have "defected" in the past. MNEs also play this strategy the other way around with states that institute legislation or reverse policy in ways that positively affect multinational organisations. By intensifying the intertwined relationship between the MNE and the state, the negative effects on other stakeholders are neglected. In democracies, citizens have “the incentive and the opportunity to replace leaders with tarnished reputations through electoral mechanisms. Thus the leadership turnover in democratic systems (or the potential for leadership turnover) can be associated with more market-friendly policies” (Jensen, 2003:595). To obtain this mechanism a strengthening of democracy in the developing world is needed.
Chapter 4: Firms as part of the solution?

In this chapter the nature of tension of the issue is discussed. Furthermore, it provides options for solutions as MNEs and their leaders can be a part of the solution. It concludes with introducing the third sphere of the societal triangle, the civil society, and its role in solving the issue of democratic deficit, leading to a change in position of the issue in the societal triangle.

4.1 Nature of tension

Every issue has a particular type of tension; otherwise it would not be classified as an issue. Four types of natures of tension can be identified by the type of optimal solution they imply. (1) The puzzle gives one optimal solution, (2) the trade-off has one optimal solution line, while (3) the dilemma has two ‘either-or’ solution points. Finally, (4) the tension as paradox has multiple innovative reconciliations. The nature of the tension also depends on the two pressures that result in the issue. In the issue of democratic deficit we have identified the two pressures as ‘Power of the state’ and ‘Power of the market’. Please note that although the term market is used, referring to the three spheres of the societal triangle, in this paper the term market only relates to MNEs.

With democratic deficit several factors play a role: the degree of democracy in a state, the intention of MNEs to influence the state, the context, the competitiveness in the market, and the presence and degree of influence of the civil society. Of course more factors can be identified. However, only these factors are taken into account, the rest is beyond the scope of this paper. Since every individual relationship between a state and a MNE is influenced by the given factors, on different levels, and are unique in their characteristics, an optimal solution cannot be provided. We furthermore think that there are multiple options for MNEs, depending on their strategy and market. As a result, we categorise the tension as a paradox.

Figure 3: Tension of the issue Democratic Deficit defined as a paradox
4.2 Firms as part of the solution

As stated above there are multiple solutions for every individual relationship between a state and a MNE. The initial approach of MNEs is probably to make use of the weaker position of the weak democracy and use the democratic deficit to obtain a stronger position in the competitive market. Although this may seem the easiest and most effective solution on the short term, it may however not always be the most sustainable one. There has been a growing awareness that by improving the broader socio-political environment MNEs can enhance the business climate for their future survival and growth. One of critical issues and prerequisites for this involves the establishment and maintenance of legitimacy in the multiple host countries, as Kostova & Zaheer (1999) point out. Hybels (1995) provides three sets of factors that shape this organisational legitimacy: (1) the environment's institutional characteristics, (2) the organisation's characteristics, and (3) the legitimating process by which the environment builds its perceptions of the organisation. In this paper the focus will be on the MNEs characteristics and how they use corporate social responsibility to shape the perceptions of the environment on the organisation.

There is no agreement in the literature on a definition of corporate social responsibility (CSR). Jones’ approach seemed the most comprehensive and applicable to the issue of democratic deficit. Therefore, in this paper CSR is seen as “corporations having an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contract” (Jones, 1980:60). This definition takes into account the responsibility of MNEs towards multiple groups in society, so not only relating to stockholders what MNEs tend to do, but also to other stakeholders. It furthermore relates to the issue of this paper in the sense that it states that this responsibility also applies beyond law, a force which is (partly) absent in the issue of democratic deficit.

CSR practices are not as clear-cut as stakeholders might wish. “The interactions and compromises emerging from efforts to balance the power and pressures of various interest groups do not necessarily result in the maximization of any single goal” (Adizes & Weston, 1973:115). The strategic importance of CSR is disputed. On the other hand, effective strategic management of CSR can reduce risks (Husted, 2005) and CSR initiatives may also bring significant benefits to the firm (Hillman & Keim, 2001 and McWilliams & Siegel, 2001).

An MNE that handles CSR strategically deals with global and local CSR issues independently. The difference between global and local CSR is the community that demands it. A local community is ‘a self-defined, self-circumscribed group of people who interact in the context of shared tasks, values or goals and who are capable of establishing norms of
ethical behaviour for themselves’ (Donaldson & Dunfee, 1994:262). In contrast, global CSR focuses on moral rights and obligations, reflecting ‘a set of standards to which all societies can be held’ (Walzer, 1992:9). On the one hand there are strong pressures for global CSR due to multinational customers and competitors, technological developments, access to raw materials and energy, and the need to leverage investment and achieve economies of scale. On the other hand, pressures for local responsiveness are due to different customer needs and tastes, market structure, and governmental requirements (Prahalad & Doz, 1987). Both seem to be strategically necessary, although in different proportions based on the MNE’s strategy.

4.3 The role of leadership

CSR cannot be seen in isolation from the overall business strategy. Socially responsible business behaviour does not happen automatically. Consequently, Brice & Wegner state that instead CSR must be “a deliberate and conscious attempt by senior corporate executives to guide their organisations to-wards the formulation of specific objectives, strategies and plans with respect to CSR” (1989:164). Business executives are expected to balance the various public demands for social goals and the MNE’s objective to remain economically viable. Van Tulder (2008:144) identifies four CSR approaches with their congruent behaviour of companies and their business executives:

<table>
<thead>
<tr>
<th>Inactive</th>
<th>Reactive</th>
<th>Active</th>
<th>Pro-/interactive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate self-responsibility</td>
<td>Corporate social responsiveness</td>
<td>Corporate social responsibility</td>
<td>Corporate societal responsibility</td>
</tr>
<tr>
<td>Inside-out</td>
<td>Outside-in</td>
<td>Inside-out</td>
<td>Inside-out/outside-in</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Equity/Ethics</td>
<td>Effectiveness</td>
<td></td>
</tr>
<tr>
<td>Transactional and Team leaders</td>
<td>Charismatic leaders</td>
<td>Visionary and Moral leaders</td>
<td>Transformational leaders</td>
</tr>
<tr>
<td>Narrow CSR</td>
<td></td>
<td></td>
<td>Broad CSR</td>
</tr>
<tr>
<td>Firms as part of the problem</td>
<td></td>
<td></td>
<td>Firms as part of the solution</td>
</tr>
</tbody>
</table>

*Table 1: Four CSR approaches and how they relates to the role of firms and their leaders*

The focus on CSR ranges from narrow to broad. In relation to the issue of democratic deficit it relates to MNEs trying to make use of the democratic deficit by influencing or bypassing the state on the one hand and MNEs trying to positively influence their host
countries by global and local CSR on the other hand. In other words, from firms being a part of the problem to firms being a part of the solution.

In the first paragraph of this section references to corporate executives or business executives are made. These terms are used deliberately to be able to clearly distinguish between executives and leaders. Zaleznik (1977) separates managers and leaders among others in that managers ensure that people do things, do things right, and do things better. Leaders on the other hand ensure that people want to do things, do the right things, and do better things. Leaders are the ones who can create the right context and by that create the right output for their organisations. However, ‘right’ does not always mean stimulating CSR. The attitude of the leader towards the CSR strategy determines the amount of effort that is put into CSR. The leader is therefore one of the most important factors determining the role a firm plays in the issue of democratic deficit.

Also looking internally into the MNE the leader is important and controlling. The findings of the research by Conger et all (2000:760) indicate that “indeed followers of leaders develop a reverence for their leader and that this appears to be based most strongly upon their perceptions of the leader's sensitivity to the environment. Secondarily, the leaders’ abilities at formulating and articulating an inspiring vision and their sensitivity to member needs play a role. Presumably followers see the leader's environmental sensitivity and visioning abilities as exemplary skills in their leaders which are deserving of admiration.” For that reason, the assumption that leadership functions as a predictor of managerial CSR values can be proposed.

4.4 Civil society as another part of the solution

Although active leadership and a proactive approach towards CSR and diminishing the issue of democratic deficit is certainly helpful, that alone cannot solve the problem. According to Braithwaite (2006) networks of global governance are more oriented to advancing the interests of the European Union and the G7 than those of developing countries. To overcome this problem responsive regulation was invented. The basic idea is that “governments should be responsive to the conduct of those they seek to regulate in deciding whether a more or less interventionist response is needed” (Ayres & Braithwaite, 1992:4).

Since responsive regulation deals with the fact that no government has the capacity to enforce all laws, it is important to think about options for regulation in developing countries with weak enforcement capabilities. Slaughter (2004) provides several reasons for this. Firstly, state regulatory bureaucrats are more vulnerable to corruption because of their poor salaries. Secondly, weaker states lack the organisational capacity to be responsive. They have
fewer regulatory staff and less educated staff to come to grips with responsive regulation. This section will deal with this second reason in discussing how this problem can be overcome.

There is the need to retain control and influence over the decision-making process of MNEs through expressing value-based preferences and perceptions (Brice and Wegner, 1989). To this regard human judgements must be central, but the problem is that voices of ‘normal’ citizens are not often heard. Hence, at the level of national companies in developing economies Braithwaite hypothesises that “national NGOs can sometimes network with state regulators to improve the responsiveness of regulation” (2006:894). While states can lack the organisational capacity to be responsive, civil society has the potential to mobilise cheaper forms of social control. The most important reason for this is that, unlike developing states, NGOs are interested in networking with international NGOs that have people on the ground (ibid.). Moreover, the growth of international NGOs presence on the ground in developing countries has been considerable in recent decades, providing them with even more human capital.

NGOs have several regulatory options, focused on the relationship between states and MNEs or solely on MNEs. Concerning MNEs, NGOs have the ability to directly regulate businesses. Options for this are naming and shaming, consumer boycotts, restorative justice, strikes, and litigation. Furthermore, they can stimulate qui tam actions, better known as bounty hunting by whistle blowers. In this a whistle blower (usually someone at a senior level inside a lawbreaking organisation who knows what is going on) prosecutes and claims 25 percent of a regulatory penalty.

To regulate the relationship between states and MNEs, NGOs have other measures at their disposal. Their strongest ‘weapon’ is networking regulatory partnerships, which is a type of responsive regulation by the use of networks. In his book *Regulatory Capitalism* Braithwaite (2008) states that networking regulatory partnerships structurally reduce the benefits of capture and corruption in developing countries that are endemically prone to corruption. However, responsive regulation can also be a worrying strategy in corrupt states, as it puts more discretion to regulatory bureaucrats who can use this discretion to increase the returns to corruption. But still, both strategies of networking and mobilizing private markets for enforcing virtue result to a great extent in exposing and preventing regulatory defeats due to regulatory incapacity or uncooperativeness by states.
4.5 On the interface

In the first positioning of the issue of democratic deficit in the societal triangle, the sphere ‘civil society’ was left out. This was because the sphere of civil society is not a direct cause of the problem, if only because of its possible absence. However, it is a factor in the solution of the issue that cannot be underestimated. Therefore, the societal issue is presented again:

![Image of the societal triangle]

*Figure 4: Revised position of the issue Democratic Deficit in the societal triangle*

As can be seen, the issue is now positioned on the interface of the three spheres of the societal triangle. The government should provide the legal framework that structures society. The market sector should create value and welfare by converting inputs into outputs within the bounds of the legal framework, and the civil society should represent the sum of social relationships among citizens and check the market and state (to: Van Tulder & Van der Zwart, 2008). This position is chosen since in the issue as a whole, all three spheres of the societal triangle play a very important role, providing the society with the license to operate.
Chapter 5: A sector analysis

Defining the most important firms and sectors for the issue of democratic deficit is difficult. In this part of the paper the focus will only be on the sectors of the extractive nature, where natural resources are being extracted by the multinational and the state benefits from the revenue taxes paid by the multinational. These sectors have faced the most problems resulting from democratic deficit in the last thirty years (Bennett, 2001), and also belong to the top ten fastest growing industries in terms of revenues (Fortune, 2009).

5.1 The petroleum refining sector

At the moment the largest petroleum refining company in terms of revenue is Royal/Dutch Shell (Fortune, 2009). Shell has had a lot of issues in the past caused by democratic deficit. Due to these past conflicts, Shell has developed different strategies for the issues they are confronted with. After the Ogoni issue in Nigeria in 1993 (Van der Zwart & Van Tulder, 2006), Shell cooperated with Amnesty International to work on its human rights policies (Bennett, 2001). Now Shell has become a member of several international partnerships and developed extensive codes of conducts. They mainly focus on addressing competition laws, human rights and doing business in politically sensitive countries.

Shell proposed to be as open and transparent as possible about how much and why money was paid to governments. This is especially important for payments made to governments in developing countries. Shell also stresses that it believes that the taxes they pay in developing countries can help towards the development of those countries and therefore transparency of payments is very important. Shell wants to decrease corruption and stimulate good governance in these countries. Shell is also an active member of the Extractive Industries Transparency Initiative (EITI, 2009). The majority of the Shell staff is trained on how to handle bribery and collusion. To increase its transparency Shell has set up a whistle blowing helpline and website run by an independent company (Royal Dutch Shell, 2009). Their main guideline on how to tackle these issues are the Business Principles developed by Royal Dutch Shell, including help from several non-governmental organisations such as Amnesty International (Royal Dutch Shell, 2008).

According to the Fortune 500 of 2009, Exxon Mobil is the second largest company in the world (Fortune, 2009). Exxon Mobil is probably the most criticised petroleum company for its lack of corporate social responsibility. That is why it is interesting to see what they proposed as solutions to the issue of democratic deficit. Exxon Mobil has dedicated a large part of their website to inform stakeholders on the community and society initiatives. Exxon
Mobil is an active member of the Extractive Industries Transparency Initiative (EITI, 2009; Exxon Mobil, 2009). Through this program it helps mainly African governments to implement the EITI guidelines and become more transparent. It has also set up various codes of conduct on how to do business in foreign countries, especially related to political stability, corruption, and human rights. They have developed a special program called ‘Operations Integrity Management System’ which they use to manage global external affairs. Exxon Mobil says to engage in dialogue with NGOs and other stakeholders as much as possible. One way they do this is through several initiatives: they are a member of the Clinton Global Initiative 2009, the Africa Health Initiative, and the EITI (Exxon Mobil, 2009b).

5.2 The Mining sector

Another large multinational enterprise which has been targeted by NGOs is Freeport-McMoRan Copper & Gold Inc (Freeport), one of the largest mining companies according to the Fortune 500 of 2008 (Fortune, 2008). In the late 1990’s, Freeport became heavily criticised due to its operations on the Indonesian island of Irian Jaya, where its production facilities were situated in an ecologically sensitive and politically unstable environment. Violence by Indonesian security staff believed to be carried out on Freeport’s behalf led to rioting and a lawsuit by one of the local indigenous communities (Bennett, 2001).

After several demonstrations, Freeport hired a special adviser on human rights, Gabrielle Kirk McDonald, who “is a prominent American civil rights lawyer and a former Federal judge” (Bennett, 2001:2). Ms. McDonald advised Freeport on how to improve their human rights policies. Now Freeport is a member of several international initiatives to improve transparency and human rights in the countries they work. Furthermore, they work on data gathering and proliferation of information on the impact that mining companies have. Like Exxon Mobil and Royal Dutch Shell, Freeport is also a member of the EITI. Additionally, it is a member of the Global Reporting Initiative, a global initiative to improve “disclos[ure] on environmental, economic and social performance” (Global Reporting Initiative, 2009). Another initiative Freeport joined is the Global Mining Initiative. Freeport uses these codes and initiatives to focus on how they think they can minimise their impact on developing countries and decrease the consequences of democratic deficit in these countries. Hereby Freeport mainly focuses on improving human rights, decreasing corruption and developing the communities they are active in (Freeport and GRI, 2008).

The largest diamond company in the mining sector is De Beers, which at one time sold over 80 percent of the world’s supply of diamonds (McAdams and Reavis, 2008). De Beers is a heavily discussed company concerning democratic deficit. The ‘blood diamonds’ case in
Africa will be discussed in the next chapter, but the measures taken during and after the crisis show how the company propose to deal with this form of democratic deficit. In order to stop buying and therefore hopefully stop the production and selling of conflict diamonds, De Beers set up various initiatives. De Beers now uses a new supplier program whereby suppliers are not expected to buy what is offered them, but are able to exercise their demand more. This included a Forevermark logo, which ensures the suppliers that the stones are ethically traded.

De Beers still works closely with the NGO Global Witness which exposed the problem of conflict diamonds in 1998 (De Beers, 2009). Both Global Witness and the World Diamond Council (of which De Beers Institute of Diamonds is a founding member) were involved in developing the Kimberley Process Certification scheme (KPCS). KPCS is a certification scheme to ensure that only non-conflict diamonds enter the supply chain. De Beers developed the Diamond Passport, a document that accompanies each diamond sold to show that “every single piece of De Beers jewellery is ethically produced and 100% conflict-free” (De Beers, 2009). Furthermore, De Beers requires its suppliers to ensure that their products are produced under circumstances consistent with the Universal Declaration of Human Rights and International Labour Organisation conventions of the UN.

5.3 The Banking sector

The largest bank in the world in terms of revenue is the ING Group (Fortune, 2009). Democratic deficits became an issue when it became clear that some of the projects the ING Group was funding, or companies it was lending money to, where involved in mal practices. In order to avoid this, the ING Group claims to not invest “proprietary assets in weapons-oriented companies that are directly involved in controversial weapons” (ING Group, 2009).

The issues for ING that arise due to democratic deficit are mainly linked to human rights and funding of ‘controversial’ companies and industries. The ING Group has set up various policies to ensure that they minimise their contribution to the issues (ING Group, 2009b). The following statement demonstrates the position of the ING Group on democratic deficit: “In many of the countries that we operate, laws do not provide answers to important questions on issues like deforestation, pollution, child labour or weapons. That is why it is important to us to form our own opinion on these issues” (ING Group, 2009b).

To conclude, these MNEs try and address different issues related to democratic deficit. Most of these problems are consequences of MNEs having more and more influence over states and its regulations. In the next chapter several global and sector specific initiatives undertaken will be explained, illustrating how the problems in the different sectors are trying to be solved.
Chapter 6: Global and Sector specific initiatives

In order to decrease the effects of democratic deficit and increase the regulation of the issues caused by democratic deficit, organizations have developed several different types of codes and partnerships. This chapter discusses some of the global initiatives taken to reduce the negative consequences of democratic deficit. These initiatives illustrate the practical solutions presented until now by the three spheres. Secondly, it elaborates on sector specific initiatives undertaken, to conclude with two cases on how MNEs handled the issue of democratic deficit.

6.1 Global initiatives

The United Nations Global Compact (UNGC) is targeted towards companies who are seeking to align their strategy with the ten universally accepted principles in the areas of human rights, labour regulations and anti-corruption. The goal is that companies can help development in all parts of the world. It is now the largest sustainability initiative in the world with more than 5200 corporate participants (UN Global Compact, 2009). The UNGC is a public-private partnership (PPP) with states, MNEs and NGOs developing different tools, practices and principles to improve e.g. their own transparency and accounting policy. The UNGC helps reduce the negativities of democratic deficit by bringing together all the main stakeholders from the three spheres. This helps to adapt to local and global differing circumstances. The benefits can be very large as stated on the Global Compact site: “The Global Compact seeks to combine the best properties of the UN, such as moral authority and convening power, with the private sector’s solution-finding strengths, and the expertise and capacities of a range of key stakeholders. The initiative is global and local; private and public; voluntary yet accountable.” (UN Global Compact, 2009).

The Organization for Economic Co-operation and Development (OECD) also has set up guidelines, varying from guidelines for MNEs to anti-corruption guidelines. “The OECD is a unique forum where governments of 30 democracies work together to address the economic, social, and environmental challenges of globalization” (OECD, 2000:4). The most relevant guideline of the OECD for democratic deficit is probably the OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones (Risk Awareness Tool). The Risk Awareness Tool was invented to help decrease the negativities of democratic deficit as it is targeted towards companies that are active in “countries where governments are unwilling or unable to assume their responsibilities” (OECD, 2006:3). It addresses the various types of issues MNEs can encounter while operating in countries with a weak government.
The Global Reporting Initiative (GRI) is currently the most used sustainability reporting framework. It is not an initiative such as the UN Global Compact, of which you can become a member. It is a freely available reporting standard which consists of the main sustainability reporting guidelines, protocols and sector specific supplements. The framework is developed by a large network of individuals representing all three spheres of society. (GRI, 2009). The Sector Supplements are written by the most prominent users of GRI in that specific sector and discussed with the rest of the framework developers. These enable different sectors to deal with their sector specific sustainability issues. At the last count there were 523 companies that used GRI as a reporting framework. The potential of GRI to help decrease the issues related to democratic deficit is that it would help in developing a global framework. The GRI and the UN Global Compact already have a “harmonization project” (GRI, 2009b) to create more synergy between the frameworks.

6.2 Sector initiatives

Like in chapter 5, the focus will be on the extractive sector for the same reasons. The extractive sector has set up various initiatives which they hope will help to reduce the negative effects of democratic deficit and help solve the issues related to democratic deficit. Before the World Summit on Sustainable Development in 2002 nine of the largest mining and metals companies created the Global Mining Initiative (GMI). In 1998, the CEOs agreed that sustainable development and the performance of the industry were very important subjects that needed to be developed further (ICMM, 2009). This meeting led to the so far largest and most extensive research project in this industry: Mining, Minerals and Sustainable Development (MMSD). This research was carried out by research teams from outside the industry and was led by Richard Sandbrook, then CEO of the NGO International Institute for Environment and Development and co-founder of the NGO Friends of the Earth. The council of the metals industry transformed their mandate and the International Council on Mining and Metals (ICMM) was created (ICMM, 2009). The ICMM has completed a framework on sustainable development, to which all corporate members have to adhere to. In addition, the ICMM wrote the Mining and Metals Sector Supplement to GRI 2002 Guidelines. Members are obliged to report their non-financial performance in accordance to the framework. The reports are verified by third-party organizations (ICMM, 2008).

Another important sector initiative is the Kimberley Process, whose aim is to stop the trade in conflict diamonds. Conflict diamonds are diamonds used by African rebel leaders to fund their activities. In May 2000, the African diamond producing countries met in South Africa to discuss how the trade in conflict diamonds could be stopped (Kimberley Process,
The Kimberley Process Certification Scheme (KPCS) resulted from a dialogue between “between governments, the international diamond industry and civil society organisations” (Kimberley Process, 2009). The KPCS works by imposing so-called ‘minimum requirements’ of participating countries and companies which entail “national legislation and institutions; export, import and internal controls; and also commit to transparency and the exchange of statistical data” (Kimberley Process, 2009). The aim of the KPCS is to enable countries to legally export their production of diamonds and be able to benefit from the revenues resulting from the trade. The members of the Kimberley Process believe that the legal increase in poor governments’ revenues will enable them to invest in the development of the country (United Nations, 2007 and Kimberley Process, 2009).

The Extractive Industry Transparency Initiative (EITI) is a standard to improve transparency in reporting. To ensure that all stakeholders are represented equally the board includes representatives from all three spheres of society. The standard endorses the transparency of revenue reporting in the host countries of the participating companies (EITI, 2009). The EITI informs countries on how to become compliant with the EITI rules. Methodology is also provided for the companies that are a member of the EITI, including several principles companies must adhere to (EITI, 2009b). EITI believes that if companies and countries implement the EITI rules, exploitation of natural resources and the trade thereof can lead to large revenues for countries which can improve development and reduce poverty. However, EITI acknowledges that “when governance is weak, it may result in poverty, corruption, and conflict” (EITI, 2009). Also researchers have been critical on the effectiveness of the EITI. Aaronson (2008) argues that even though the EITI “illuminates how public private partnerships and voluntary initiatives could be channelled to meet the shared business and public interest in transparent accountable governance” (Aaronson, 2008: 28), it is ineffective in reducing corruption. Aaronson (2008) also argues that “[it] is a ‘work in progress’” (Aaronson, 2008:10) and that “without citizen involvement, EITI won’t function effectively” (ibid.).

This critical mindset must be kept when discussing such initiatives, whether they are global or sector specific. As most of the frameworks and codes of these initiatives are voluntary, they do not have the power to force MNEs or governments to comply to them. As discussed in chapter 1, only mandatory codes enforced by the state have such power. The hope of many NGOs is that such voluntary initiatives such as the EITI some day will lead to a global treaty (Aaronson, 2008).
6.3 How MNEs handled democratic deficit: A good and bad example

Many MNEs have been faced with scandals caused by democratic deficit in the past. In the following section two of these cases are discussed. The first case is a case of a ‘sustainable corporate story’, where the MNE reacted in a positive manner and immediately undertook action to resolve the issue. The second case is a case in which the actions MNE had far reaching negative consequences for the company as well as for the issue itself.

ABN Amro and conflict diamonds

In May 2001, the Netherlands Institute of Southern Africa (NIZA) published a research conducted by the Centre for Research on Multinational Corporations (SOMO) on the bank ABN Amro and its role in the trade of conflict diamonds. As described in the case prepared by Van der Zwart and Van Tulder (2006), NIZA defined conflict diamonds as “diamonds which are used (by governments or rebel groups) to finance conflicts in which human rights are systematically violated. These diamonds are therefore indirectly stained with blood”. From the research it became clear that ABN Amro was a large player in financing the diamond industry. At the end of 1999, the total of debt of the diamond industry was 5,7 billion dollars, of which ABN Amro financed a third of (Van der Zwart & Van Tulder, 2006:3). These results led to the discussion how large the role was that ABN Amro played in “financing the ‘conflict trade’ and which measures it took to prevent involvement” (ibid.). The SOMO study did not show that the bank had any direct involvement in African diamond mines, but did reveal that ABN Amro was involved in trading rough diamonds, diamond cutting and retail of diamonds through several offices throughout the world. The NGOs involved accused ABN Amro of not being able to sufficiently guarantee its effective self regulation and that it needed to pay more attention to its CSR.

In response to the report and the following discussion, ABN Amro and one of its largest clients, De Beers, decided to withdraw completely from Angola. De Beers, as the largest diamond producing companies at the time, took drastic measures to assure that no conflict diamonds would be able to enter its supply chain. De Beers also changed its purchasing policy and presented all its suppliers with a contract to ensure that the diamonds it bought were conflict free. Additionally De Beers closed all its offices in Africa and stopped buying African diamonds on the open market (Van der Zwart & Van Tulder, 2006; De Beers, 2009). Following the report of the NGO Global Witness, accompanied by a lot of discussion about conflict diamonds, the Kimberley Process was initiated (Kimberley Process, 2009).
The different conflicts between the spheres of society are illustrated in table 2. It shows the position of ABN Amro and on which points it had to decide whether to involve itself in the issue or not. ABN Amro decided it was responsible and had to take appropriate measures. In the height of the discussion the earnings of ABN Amro “declined by more than 23 percent after exhibiting an increase for four years” (Van der Zwart & Van Tulder, 2006:5). The earnings per share showed a similar decrease in the course of 2001 (ibid.). According to the case, it is not entirely certain whether the decrease was entirely due to the conflict diamond issue. After the ABN Amro announced it had joined the World Business Council for Sustainable Development (WBCSD) the share price increased with seven percent in one week (Van der Zwart & Van Tulder, 2006). States did not react much during this issue with ABN Amro, and were more vocal through the formation of the Kimberley Process. Civil society was mainly voiced through NGOs such as Global Witness and NIZA. After the conflict, the NGOs admitted that ABN Amro had been a frontrunner and active stakeholder. However, NGOs still argue that banks can and should do more to control their activities and engage in CSR.

<table>
<thead>
<tr>
<th>PUBLIC / PRIVATE</th>
<th>PROFIT NON-PROFIT</th>
<th>EFFICIENCY</th>
<th>ETHICS / EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governments and citizens wage war, not companies</td>
<td>Interest in Africa fuelled by the numerous NGOs concerned with the troubled continent Dutch, Belgian and American NGOs approach to issue different?</td>
<td>Diamonds are the core business of ABN Amro Bank is significant player in the industry</td>
<td>War, martial law, human rights</td>
</tr>
<tr>
<td>African governments are responsible not foreign companies</td>
<td>Reputation risks on market for luxury products different from mass market</td>
<td>Can realise high margins without direct involvement in trade</td>
<td>It is often said that an increase in trade prevents war</td>
</tr>
<tr>
<td>Official supervisors do not take responsibility; who should institute certification?</td>
<td>Active involvement or not in WDC and/or WBCSD?</td>
<td></td>
<td>Transparency; trust is important in this industry</td>
</tr>
<tr>
<td>Endorsement of UN resolutions/not?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Who carries out border controls, governments or companies?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Conflicts that ABN Amro faced during the conflict (Van der Zwart & Van Tulder, 2006)

In this case ABN Amro is an example of a ‘sustainable corporate story’ because of several reasons. Firstly, they fully cooperated with the research carried out by SOMO, making all the information available that was needed. Secondly, after the issue became clear and NGOs clearly stated what they wanted to be done, ABN Amro directly undertook action to
implement several initiatives to tackle the issue. It also made sure it addressed all its suppliers and clients, announcing that they would not work with companies involved in conflict diamonds. Lastly, the bank continued to work together with Amnesty International and Oxfam to improve its policies and is a member of several international initiatives such as the WBSCD. In this case democratic deficit was reduced by increasing transparency of ABN Amro’s supply chain and its clients. Also, the issue contributed to the initiation of an initiative in combating democratic deficit in the diamond industry: the Kimberley Process.

**Shell and oil production in Ogoniland, Nigeria**

Royal/Dutch Shell (Shell) has been active in Nigeria since 1958. In Nigeria the operations of Shell are by the Shell Petroleum Development Company, of which the majority of the shares were in hands of the Nigerian state. In Nigeria oil exports are the most important source of revenue of the state. 80 percent of the state’s revenue comes from oil exports and 50 percent thereof came from Shell (Van der Zwart & Van Tulder, 2006b). Many different organisations such as Amnesty International and the Body Shop had been protesting against the dictatorial regime in Nigeria. It only became an issue for Shell when a conflict arose between the indigenous Ogoni people and the Nigerian state. Shell was operating on Ogoni land, extracting large amounts of oil from their land. A pipeline transporting the oil ran through Ogoni country, destructing the natural environment and endangering the livelihoods of the Ogoni people. The Nigerian state stopped paying the already small benefits to the Ogoni people after proceeds from oil declined in the early nineties (Van der Zwart & Van Tulder, 2006b). The activist leader Ken Saro-Wiwa used Shell as an example to draw attention to the circumstances of the Ogoni people and even accused the company of paying money to forcefully suppress the people. The activists’ main points of protest against the company were that they were not sufficiently compensated for their land and the pollution. Additionally, they protested that the tax money from Shell kept the dictatorial regime in place. Shell did not acknowledge the issue and went as far as accusing the people of sabotaging the pipelines and causing leakages (Van der Zwart & Van Tulder, 2006b).

The protests in Nigeria between the government and Ogoni people escalated, resulting in hundreds of deaths of Ogoni people, and the jailing of Ken Saro-Wiwa and eight other activists. They were sentenced to death, but Shell decided not to interfere as the company had decided that it was not its responsibility. It did, however, retreat from Ogoniland as it was concerned for the safety of its employees. Shell chose not to interfere on the grounds that it is a commercial organisation and has no place in interfering in local politics. Even when Ken
Saro-Wiwa and the eight activists were sentenced to death Shell stood by its statement. Only “after days of unyielding pressure and politics from public interest organisations, Shell eventually requested the Nigerian president to grant clemency to the nine prisoners” (Van der Zwart & Van Tulder, 2006b:5). Unfortunately even after so much protest from NGOs, states and organisations, the activists were executed.

Even though there was a massive outcry in the media, Shell still did not retreat from Nigeria, saying that the country needed its tax revenues to be able to develop further. The standpoint of Shell and the actions taken (or not taken) were of great influence on the organisation. It lost many large contracts including a contract with the city of Toronto in Canada, an investment in a project from the Worldbank, and the British Royal Geographical Society wished to stop funding from Shell (Van der Zwart & Van Tulder, 2006b:6). There was however no reaction on the stock markets. Civil society in the form of NGOs still criticised Shell heavily, however, a “wholesale boycott” (Van der Zwart & Van Tulder, 2006b:6) by consumers did not gain any followers in Europe.

Shell was a bad example of how to deal with issues relating to democratic deficit for several reasons. Firstly, it denied the presence of the issue, and went as far as to accuse the Ogoni people of sabotage. Secondly, even after much protest from different organisations and NGOs it still refused to get politically involved. Finally, it chose to stay in Nigeria and kept its production facilities there. After the scandal Shell undertook several steps to improve its policies and regulation. With the help of NGOs such as Amnesty International, it improved its General Business Principles. It also changed its standpoint and acknowledged in its new code of conduct of 1997 that it has certain societal, environmental, and political responsibilities. It was interesting to see society protested against the Nigerian state, but not against Shell.

This issue relates to democratic deficit because there was not enough regulation, from the Nigerian government or other regulatory bodies to control the actions of Shell in Nigeria at the time. Shell did not enforce any appropriate policies at the time, nor was direct action taken after the issue emerged, which also shows that there was a democratic deficit within the company. Until today, Shell still has problems in Nigeria, especially relating to ecological issues. Only in June of 2009 a court case against Shell in the Ken Saro-Wiwa case arose, settled outside of court for $15.5 million (Entine, 2009). This illustrates that even though Shell introduced many new policies after the Ogoni scandal, it has not yet been able to prevent other issues caused by democratic deficit.
Chapter 7: Conclusion

At the moment, there is increasing attention for democratic deficit. There is an increasing awareness that issues such as infringement of human rights and labour rights are caused by democratic deficit. More and more MNEs are realising that they need strong policies and systems in place when working in weak government zones. However, the issue democratic deficit itself is still over-shadowed by its consequences such as human rights infringement and environmental issues.

Regarding the number and different types of initiatives active today, it can be concluded that it is not the number of initiatives, partnerships or codes that are insufficient to solve democratic deficit. Rather, it is the type of initiatives that are active that are not able to solve the democratic deficit due to their structure and organisational type. The majority of initiatives dealing with democratic deficit, or one of the consequences of democratic deficit, are voluntary codes and frameworks. These will only help to the extent that MNEs and states are willing to implement them. In addition, the voluntary initiatives often do not have examination systems in place, where members are penalised if they do not adhere to the framework or code. Thus, it becomes easy for a MNE to become a member of such an initiative to improve its reputation, without actually having to change their policies.

In the authors’ opinion, the existing initiatives will not be sufficient to solve the democratic deficit. Firstly, the existing initiatives do not have enough power to be able to make a significant impact across the world. The UN Global Compact is a good example as it is an extensive initiative, but at the moment does not have enough support from the three spheres to gain more power. Secondly, because the majority of the initiatives are not mandatory, not every major firm is a participant or member of a large initiative. What is needed is a global initiative that would have the regulatory power to make companies adhere to the framework. In addition, sector specific frameworks must be developed to help sectors address their sector specific issues. However, the large global and sector specific initiatives are good examples of how a global mandatory framework could be organised.
Chapter 8: Discussion

This section discusses the drawbacks and limitations of the paper. The second section focuses upon what can be drawn from the current paper for future research projects.

8.1 Drawbacks and limitations

Most drawbacks and limitations of the issue paper relate to time constraints. Firstly, it was not possible to execute a full structured literature research in a one week time period. To concede to the reader, appendix A provides a full list of key words used and a list of journals with the highest impact factor based on the key words. This list is provided to show what is done and where possible gaps can be found. Secondly, only sectors in the market that were considered as most important are discussed. Finally, we focused on the relationship between the MNE and her host countries, without discussing the role of the home states.

The second drawback relates to the reflective cycle. We tried to include the whole reflective cycle in the issue paper; however, we might have not put as much stress on all aspects. Especially the implementation part was a challenge; a lot of information on cases is unknown, especially if MNEs did not yet try to improve their strategy and operational habits. That certainly influenced the research and comparison. Furthermore, if MNEs did promote their (renewed) ethical behaviour, this information is likely to be biased and subjective.

8.2 Recommendations for further research

Democratic deficit is a broad topic. This makes writing a good paper about it harder, but also giving recommendations for further research. Yet, we provide a few suggestions.

Firstly, we did not look at the role of the home state. We however neither found much information in the literature. As the home state has legitimacy to control the MNE with their regulation, they can play an important part in overcoming the problem of democratic deficit in developing states regarding their MNEs. Secondly, we briefly focussed on the role of the leader. It would be beneficially to focus on the styles of leadership and to compare them between MNEs involved in political relationships in developing states. If congruent behaviour is found, more direct solutions can be formulated to tackle that issue. This would be more beneficial for the academic world, but also more directly applicable to the market.

Finally, we recommend that current initiatives for codes and partnerships are evaluated more in-depth. These can be compared to the development in number of cases they should prevent against to measure their effectiveness. By use of this, more effective and comprehensive codes can be initiated and developed.
Appendix A: Literature research

When researching the literature for the issue paper, the following search keywords were used to browse the different databases. In search for the academic literature, the team also paid close attention in searching in the different databases available and on the impact factor that the academic journals had. However, we decided not to limit ourselves to these journals and to also search for other sources as relevant literature could not always be found.

- Multinational companies, multinational enterprises, multinational corporations, transnational organizations, international investment, foreign investment, cross national enterprise, foreign direct investment, multinationals, MNEs, companies,
- Democracy, good governance, accountability, legitimacy
- Influence state, power over state, influence competitive context
- Democratic deficit, lacking legitimacy, corruption
- LECD’s, developing countries, global South
- Initiatives for growth, growth approach, international
- Leadership style, stakeholder dialogue, CSR, corporate libertarianism
- Meta-analysis, case study
- diamond industry, mining industry, extractive sector, corporate cannibalism

Databases

- JStor, Business Source Premier, Sage Journals Online, ScienceDirect

Journals

<table>
<thead>
<tr>
<th>Number</th>
<th>Journal</th>
<th>Impact Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Academic Management Review</td>
<td>6.125</td>
</tr>
<tr>
<td>2</td>
<td>Academic Management Journal</td>
<td>6.079</td>
</tr>
<tr>
<td>3</td>
<td>Mis Quarterly</td>
<td>5.183</td>
</tr>
<tr>
<td>4</td>
<td>Quarterly Journal of Economics</td>
<td>5.048</td>
</tr>
<tr>
<td>5</td>
<td>Colombia Law Review</td>
<td>4.963</td>
</tr>
<tr>
<td>6</td>
<td>Journal of Economic Literature</td>
<td>4.842</td>
</tr>
<tr>
<td>7</td>
<td>Political Analysis</td>
<td>4.780</td>
</tr>
<tr>
<td>8</td>
<td>American Journal of Bioethics</td>
<td>4.378</td>
</tr>
<tr>
<td>9</td>
<td>Harvard Law Review</td>
<td>4.304</td>
</tr>
<tr>
<td>10</td>
<td>Journal of Retailing</td>
<td>4.095</td>
</tr>
<tr>
<td>11</td>
<td>Journal of Economic Perspectives</td>
<td>3.944</td>
</tr>
<tr>
<td>12</td>
<td>Yale Law Journal</td>
<td>3.944</td>
</tr>
<tr>
<td>13</td>
<td>Econometrica</td>
<td>3.865</td>
</tr>
<tr>
<td>14</td>
<td>American Sociology Review</td>
<td>3.762</td>
</tr>
<tr>
<td>15</td>
<td>Journal of Political Economy</td>
<td>3.725</td>
</tr>
<tr>
<td>16</td>
<td>Journal of Marketing</td>
<td>3.598</td>
</tr>
<tr>
<td>18</td>
<td>Strategic Management Journal</td>
<td>3.344</td>
</tr>
<tr>
<td>19</td>
<td>Marketing Science</td>
<td>3.309</td>
</tr>
<tr>
<td>20</td>
<td>UCLA Law Review</td>
<td>3.090</td>
</tr>
</tbody>
</table>
Bibliography


