

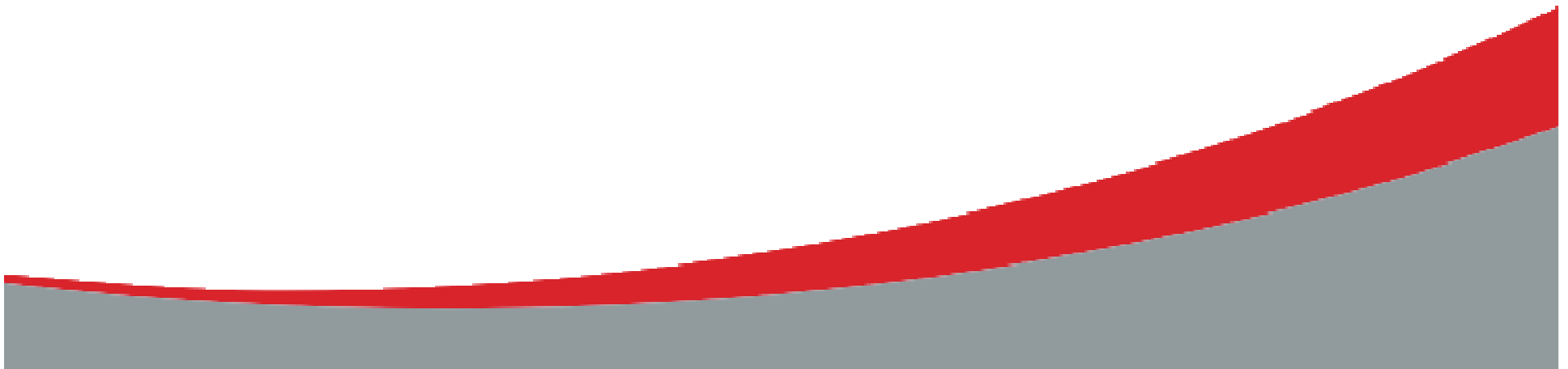


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Business and the Environment—a Role for Voluntary Codes? A Case Study of the ‘Equator Principles’.

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- The purpose of EP
- Such voluntary codes (like GRI) are important in intermediating between individual private action and uniform regulation.
- Concerns
- We give the first detailed analysis of disclosures now being made under EP Principle 10 (introduced in 2006), through case studies on Barclays and HSBC

Methodology

- Semi-structured interviews with senior representatives of Barclays and of KPMG consultants.
 - Conversation with a senior NED of HSBC (and Chairman of Anglo-American / former CEO of Shell).
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Are EP effective i.e.

- a) Help banks in managing their risks, and
- b) change banks' behaviour?
- Theoretical background: 'Shareholder Theory' / 'Stakeholder Theory' or 'Enlightened Shareholder Theory' (as in UK Companies Act 2006): 'the business case'.

- Sir Mark-Moody Stuart on ‘sticking to the knitting’:

‘You cannot produce decent clean knitting at high productivity in a messy room, with the kids fighting in the background and occasionally throwing stuff at you. The knitting is no good if you had to kill the sheep which provided the wool.’

• But who owns the sheep? Externalities?

For banks EP adds to:

- Credit Risk Management
- Reputation Risk Management
 - legitimacy
 - 'first-mover'
 - defensive (e.g. NGOs)
 - shift to borrowers

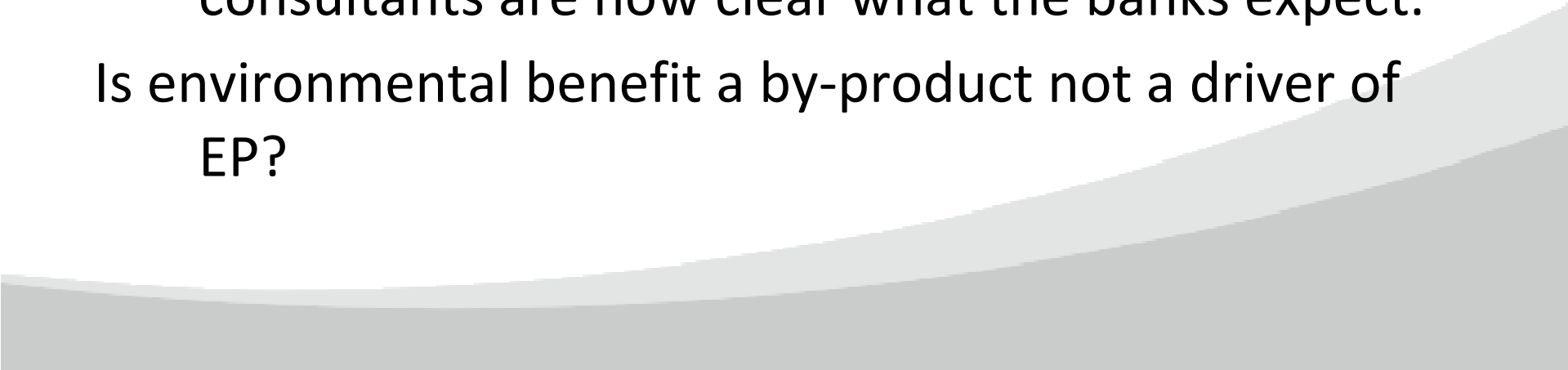
But no precise calculus of costs and benefits

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For Environment:

1. Internally, adoption of EP alerts the business to the environmental issues from the front-line to the highest level.
2. Externally, it sets a common guideline, so the borrowers, law firms and environmental consultants are now clear what the banks expect.

Is environmental benefit a by-product not a driver of EP?

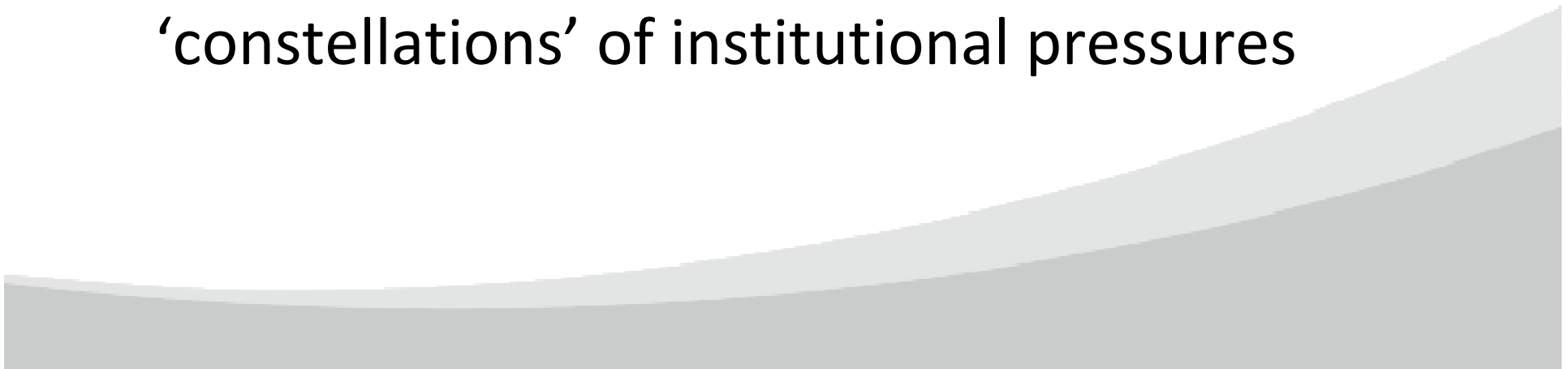




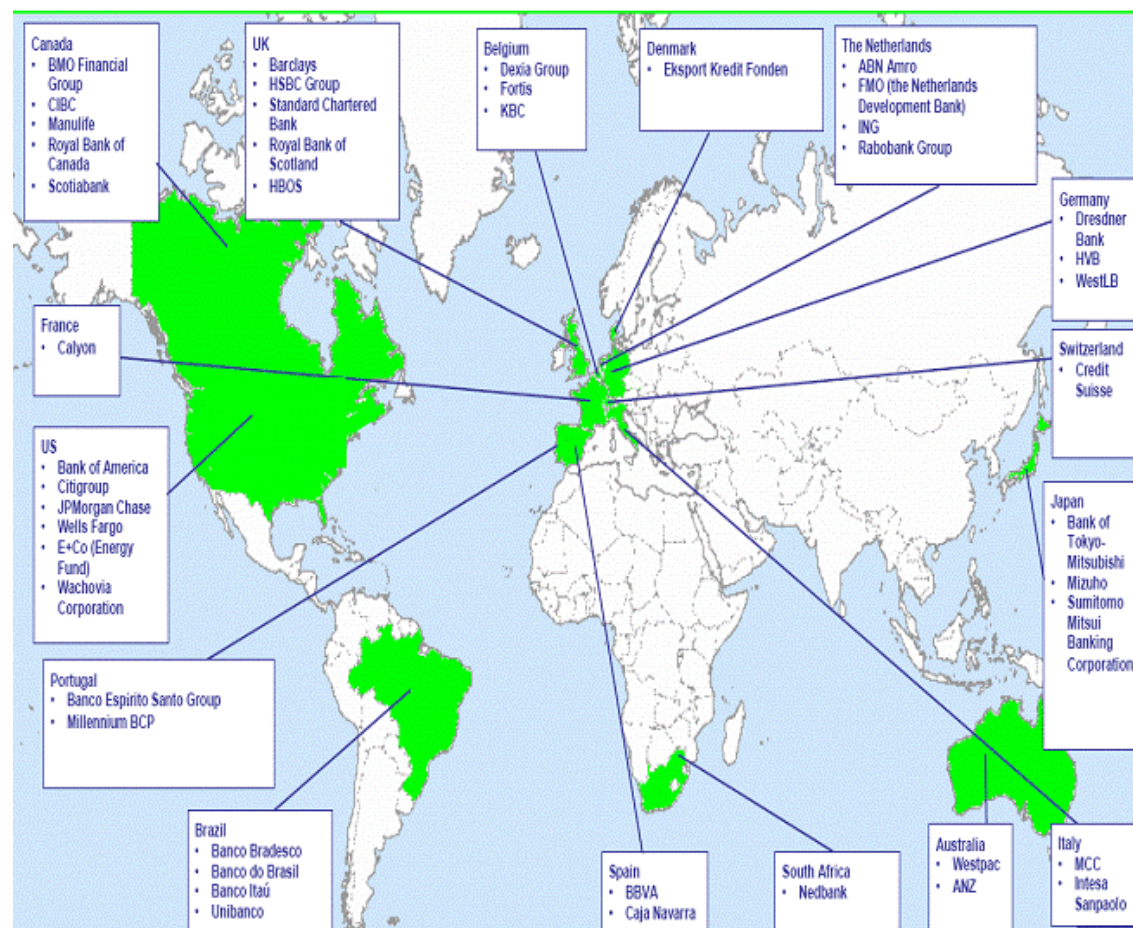
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- Most Equator banks are based in Western Europe and North America where the levels of human rights concern and public service delivery quality are high (although Brazil is also emerging) –see W,D & A (2007) map
- Banks in different countries face different ‘constellations’ of institutional pressures



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Disclosure by Barclays and HSBC (2007 reports) under EP10 (2006)

- See Tables 1-4
- The aggregated information does provide some detail on the project transactions, but it is overall too indefinite for outsiders to know how EP has impacted individual decisions, or how frontline staff are trained.
- Significance of ‘rejection rate’?



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- Overall, HSBC's EP disclosures are similar to Barclays' but they are better signposted.





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- For HSBC the independent DNV report gives greater assurance that the policies are carried through to the decision making levels.
- However, one might question whether a 'Head Office based' approach to the investigation is sufficient to fully verify that practices are internalized on the ground all around the world.

FINDINGS

- EP matches banks' strategic motivation
- Is environmental benefit only a by-product?
- difficult to measure EP's effectiveness without a standardised formal performance evaluation system.



Issues for further improvement

- Standardisation (e.g., give £, %).
- External assurers' reports: further specification of the *independence* and *competence*; codification of standards (e.g., comparable to statutory audit?).





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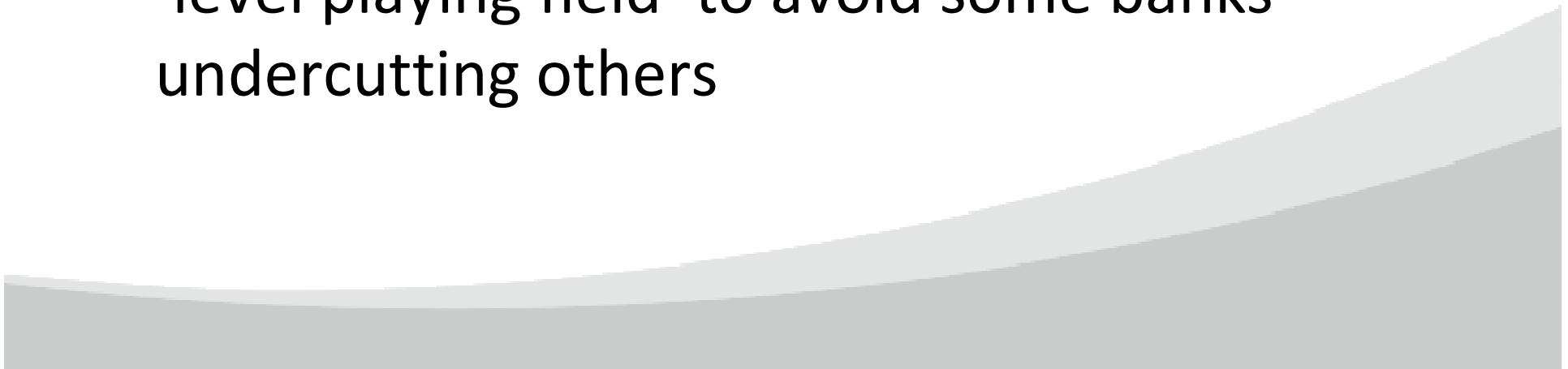
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- Requiring compulsory external assurance of EP compliance reporting is probably currently unnecessary.
- Stakeholder empowerment?



Suggestions for further research

- How future changes in markets and other developments affect the development of EP.
- How do markets react to banks adopting EP?
- Should EP be compulsory? E.g. to ensure a 'level playing field' to avoid some banks undercutting others



Suggestions for further research

- However, 'voluntary' allows flexibility for new entrants (like GRI): compare effectiveness of EP to other voluntary codes.
- Are NGO criticisms effective?
- Is international agreement on environmental and social legislation in individual countries needed before it can be possible and cost-effective to make EP compulsory?

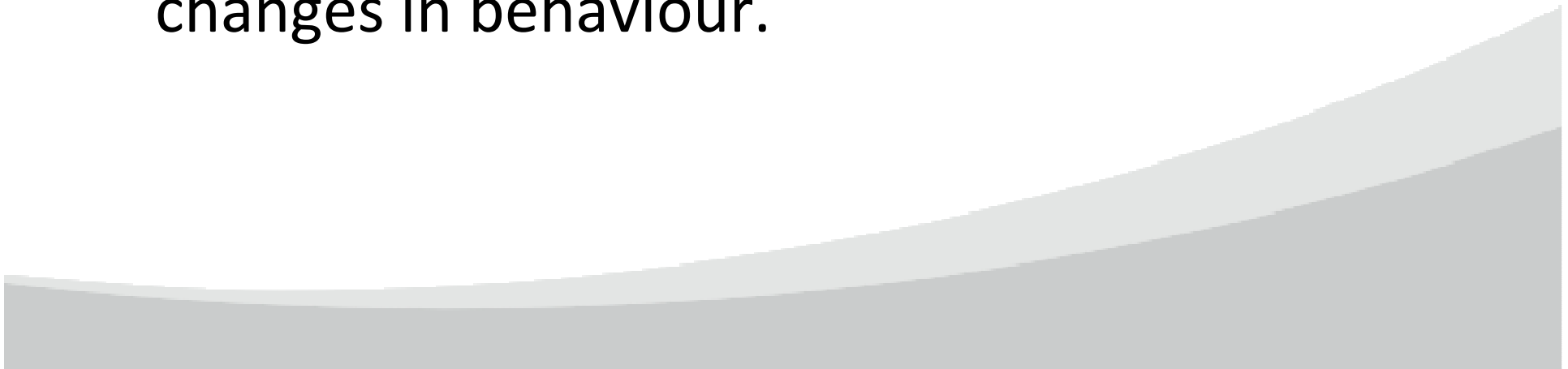
Suggestions for further research

- Other forms of incentive: e.g. reducing tax liability? Trading some forms of 'EP credit' comparable to the carbon credit regimes?
- Consider ways to strengthen the adequacy of disclosure and its credibility.



Suggestions for further research

- Extend the interviews to (e.g., frontline decision makers, other EPFIs, other stakeholders etc.) in order to understand whether and how ‘institutional isomorphism’ goes beyond external rhetoric to real internal changes in behaviour.





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