Düsseldorfer Institut für Außen- und Sicherheitspolitik
Duesseldorf Institute for Foreign and Security Policy

Dr. Heiko Borchert

Linking Corporate Governance with Good Governance

An Increasingly Important Foreign Policy Task

DIAS ANALYSIS
No. 4 December 2003

www.dias-online.org

Düsseldorfer Institut für Außen- und Sicherheitspolitik e.V.
Juristische Fakultät der Heinrich-Heine-Universität
Universitätsstr. 1 D-40225 Düsseldorf

Heiko Borchert
heads the Directorate for Security and Defense at the Duesseldorf Institute for Foreign and Security Policy (DIAS). He runs a business and political consultancy specializing in strategic management, security and defense policy and security sector evaluations. Heiko has studied international relations and business administration at the University of St. Gallen (Switzerland) where he also received his PhD. He has published a monograph and numerous articles and studies on Europe's security architecture, transatlantic issues, peace-building and Swiss security and defense policy.

Heiko Borchert can be reached at borchert@dias-online.org.

Heiko Borchert
Linking Corporate Governance with Good Governance: An Increasingly Important Foreign Policy Task. DIAS Analysis No 4, Duesseldorf, December 2003.

Published by
Duesseldorf Institute for Foreign and Security Policy
Law Department of the Heinrich Heine University
Universitätsstraße 1 D-40225 Duesseldorf

www.dias-online.org

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ISBN

Contents

Globalization and the Role of Rules 5

Corporate, Good, and Global Governance:
Similar Questions, Different Labels 6

Corporate Governance:
A Joy for Shareholders and Foreign Ministers 7

Opportunities and Risks in
Linking Corporate Governance with Good Governance 9

Challenges to be Addressed 11

References 14

Abstract

A growing body of literature deals with the private sector's public role. However, only few studies identify how corporate governance, i.e., the sound and effective control and management of companies, can support good governance, i.e., the democratic and sustainable management of governments. This gap is addressed in a recent study by James Shinn and Peter Gourevitch. They argue that the corporate governance discussion should be put on the U.S. foreign policy agenda because it helps promote free trade and provide financial stability. Although this link is potentially beneficial it also bears some risks. Among other things it requires a close analysis of the interlay between business and economic aspects of corporate governance and of the political motives that stand behind this proposal (sustainable development vs. hegemony on the cheap). In the long run, the successful exploitation of linking good governance with corporate governance requires all actors to adopt a more holistic view of the respective governance agendas, diverging governance approaches must be integrated and current business ethics must be adapted.

Looking at the corporate sector's agenda for 2003 and beyond, Jeffrey Garten, Yale School of Management Dean, has identified the top issue as "involvement of business leaders in helping to shape the rules and institutions that will govern global society in the next few decades." In order to accomplish this task he advises corporate leaders, as one imperative among others, to embrace wholeheartedly the "ethos of corporate governance".[1] This plea for a more comprehensive corporate engagement in creating wealth "beyond the market" resonates well with the growing interest in the private sector's public role in general and its potential role to alleviate zones of conflict in particular.[2] This interest is based on the understanding that the successful and sustainable solution of today's global issues demands close cooperation among the public and private sectors and non-governmental actors. Achieving this goal will require more coordination and also more harmonization at all levels of activities, from the normative mindsets guiding the actors, to the processes and the organizations they work in, the instruments they apply, and the frameworks established for cross-sector cooperation.

Despite the launch of the Global Compact by UN Secretary-General Kofi Annan in 1999 and a number of issue-specific public-private partnerships, there has been a lack of general debate about the ways and means to achieve the necessary interaction. This is surprising, because there is a growing debate in the public and private sectors over how to improve their respective governance capability: While good governance tends to focus on the public sector's role in sound political and economic governance, corporate governance addresses the issues of the organization of a company's management structure, the power of the decision-making bodies, and the relationship between managers and investors. So far, the two strands have hardly been brought together. Recently, however, the New York-based Council of Foreign Relations published a landmark study that outlines initial ideas that overcome this gap. In „How Shareholder Reforms Can Pay Foreign Policy Dividends," James Shinn and Peter Gourevitch demonstrate how corporate governance can be used to advance U.S. foreign policy interests. The study findings can be generalized and advanced in order to set up a "joint governance agenda."

Before looking at the study in more detail, the first section of this review essay discusses the impact of economic globalization on national economic policy and the role of rules. Then I provide a brief description of the most important key aspects of corporate governance, good governance, and global governance. A summary of the Shinn and Gourevitch study is then followed by a discussion of the risks and opportunities that arise from linking corporate governance with good governance. The paper concludes with a discussion of the main challenges that need to be addressed in order to implement this linkage successfully.

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1 Jeffrey Garten, "A new year; a new agenda", *The Economist,* 4 January 2003, pp. 55-57.

2 Virginia Haufler, *A Public Role for the Private Sector. Industry Self-Regulation in a Global Economy* (Washington, DC: Carnegie Endowment for International Peace, 2001); Virginia Haufler, "Countering Conflict: Corporate Social Responsibility in War Torn Societies," Paper Prepared for the APSA Annual Meeting, San Francisco, 29 August-4 September 2001; Juliette Bennett, "Multinational Corporations, Social Responsibility and Conflict," *Journal of International Affairs* 55:2 (Spring 2002), pp. 393-414; Andreas Wenger and Daniel Möckli, *Conflict Prevention. The Untapped Potential of the Business Sector* (Boulder, London: Lynne Rienner Publishers, 2003).

Globalization and the Role of Rules

The increasing exchange of money, goods, and services during the past five decades has led to growing economic interdependencies among markets and countries. It is not yet clear whether this trend is leading to more homogeneity or more diversity. On the one hand, more homogeneity is the result of austerity rules, such as the criteria of the European Union's growth and stability pact that have helped discipline public spending. Similar effects can be witnessed in Mexico, Russia or in East Asia, where the International Monetary Fund and the World Bank have developed comprehensive reform packages.[3] On the other hand, member countries of the Organization for Economic Cooperation and Development (OECD) have opted for alternative policies to deal with the forces of globalization, thereby showing different preferences: countries with Christian Democratic governments seem to prefer stability; Social Democrats opt for equality; and where liberals prevail, the focus is on growth.[4]

Looking at the national responses is only one side of the discussion on the impact of globalization. The other side looks at different proactive ways to influence the process of globalization. In this context, the establishment of rules, norms, and principles is of major importance. Rules-based international politics creates order and stability, increases transparency, predictability and confidence, leads to a harmonization of mutual expectations, facilitates cooperation, and thus helps to reduce conflicts.[5] These benefits explain the public and the private sector's interests in rules-based activities, which are a perfect transmission mechanism to coordinate national and international developments.

However, in today's globalized world the influence of rules can hardly be confined to national areas of jurisdiction. The recent debate about how to deal with corporate scandals and the different proposals discussed and brought forward by expert committees in Europe and in the United States illustrate this fact. The U.S. Sarbanes-Oxley-Act adopted in June 2002 is one of the most far-reaching regulatory acts. Among other things, it toughens U.S. accounting standards and requires managers to swear under oath that their companies' financial statements are correct. Misconduct and factually incorrect financial statements can lead to prison sentences, heavy fines, and civil action for damages.[6] In addition, this act applies to all companies listed on U.S. stock markets. Despite the recent smoothening of some aspects of the Sarbanes-Oxley-Act, the extensive use of the principle of extraterritoriality, i.e., the application of rules to foreign legal subjects, has unleashed outcries all over the world, especially in Europe. Critics complain that this de facto global regulation based on U.S. domestic concerns might easily collide with regulations adopted in other countries, thereby forcing companies to deal with diverging regulatory standards.[7]

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3 Stephan Haggard and Robert R. Kaufmann, *The Political Economy of Democratic Restraint* (Princeton: Princeton University Press, 1995).

4 Torben Iversen and Anne Wren, "Equality, Employment and Budgetary Restraint: The Trilemma of the Service Economy," *World Politics* 50:4 (July 1998), pp. 507-546.; Peter Gourevitch, "Domestic Politics in International Relations," in Walter Carlsnaes, Thomas Risse, and Beth A. Simmons (eds.), *Handbook of International Relations* (London: Sage, 2002), pp. 309-328, here pp. 313-314.

5 Beth A. Simmons and Lisa L. Martin, "International Organizations and Institutions," in Walter Carlsnaes, Thomas Risse, and Beth A. Simmons (eds.), *Handbook of International Relations* (London: Sage, 2002), pp. 192-211.

6 <http://news.findlaw.com/hdocs/docs/gwbush/sarbanesoxley072302.pdf> (accessed 2 December 2003).

7 "In search of honesty," *The Economist,* 17 August 2002, pp. 49-50.

Corporate, Good, and Global Governance: Similar Questions, Different Labels

The adoption of the Sarbanes-Oxley-Act is the most recent step in a long discussion about corporate governance. Corporate governance entails rules, norms, and principles to guarantee effective control and sound management of companies. At the heart of the discussion is the famous principal agent phenomenon, whereby the interests of the investors who supply finance and own the firm (the principal) may not coincide with the interests of the managers who run the firm (the agent). In order to establish common ground between the needs and requirements of these parties, expert committees around the world have set up different corporate governance codes. Although an in-depth analysis of these codes is beyond the scope of this paper, it can be said that they set out detailed provisions to clarify the competencies and the responsibilities of different corporate bodies and entail procedures to monitor their activities. Among other things, corporate governance codes define shareholder rights, set up the necessary incentive mechanisms for managers, increase transparency, and facilitate the composition of and the cooperation between different corporate bodies.[8]

Against the background of globalization, the corporate governance agenda must be read in context with two other discussions that address similar issues. The first of these is the global governance debate that seeks new ways for successful public governance beyond the nation state and traditional institutions. Among other things, global governance

- tries to identify the key factors ensuring or hindering international cooperation,
- analyzes what institutional settings (e.g., networks, "light-handed" regimes, or proper international organizations with an administrative structure) are best suited to deal with what kind of problems,
- looks at ways to improve the legitimacy, efficiency, and effectiveness of international organizations,
- analyzes the problem-solving potential of network-centric governance, comprising various actors from the public and private sectors as well as non-governmental organizations.[9]

As to the second of these discussions, the good governance debate has identified a causal link between the institutional framework of a country and its political and economic stability and performance. Good governance has become one of the key concepts in development and transition policy. It is equally important in the area of conflict prevention and enjoys growing attention with regard to rebuilding failed and war-torn states. At its core, good governance

[8] For a general overview, see: Peter Gourevitch, "Corporate Governance: Global Markets, National Politics," in Miles Kahler and David A. Lake (eds.), *Governance in a Global Economy. Political Authority in Transition* (Princeton: Princeton University Press, 2003), pp. 305-331. The European Corporate Governance Institute, Brussels, provides a comprehensive list of different corporate governance codes. See: <http://www.ecgi.org> (accessed 2 December 2003).

[9] Commission on Global Governance, *Our Global Neighbourhood: The Report of the Commission on Global Governance* (Oxford: Oxford University Press, 1995); Joseph S. Nye and John D. Donahue (eds.), *Governance in a Globalizing World* (Washington, DC: Brookings, 2002); James N. Rosenau and Ernst-Otto Czempiel (eds.), *Governance without government: order and change in world politics* (Cambridge: Cambridge University Press, 1992).

- recommends the application of democratic principles such as the rule of law, the separation of powers, free and fair elections,
- focuses on a country's adherence to international rules and the guarantee of basic rights,
- looks at ways to increase the public sector's managerial capabilities in order to provide "value for money."[10]

Although all three discussions focus on the question of how to best organize legitimate, effective, and efficient governance, they have so far been developed more or less separately. This is surprising, because the parallels among the three strands are more than obvious. Economic data underlines the need to interlock these debates more vigorously. In a period of ten years, the worldwide total sum of foreign direct investments of multinational corporations grew from around US$ 100 billion (1989) to approximately US$ 895 billion (1999).[11] By contrast, the worldwide sum of bilateral development aid has decreased from US$ 60.8 billion in 1992 to US$ 53.1 billion in 2000.[12] Sound corporate management can support the implementation of good governance tasks, such as the fight against corruption, adherence to human rights and labor standards, and the protection of the environment. Finally, multinational corporations and their extensive production and distribution networks have a direct impact on local economic – and henceforth also political – conditions, either helping to bolster and advance or potentially undermining them. General Motors, to name just one example, is reported to manufacture in more than fifty countries, has a presence in about 200 countries, works with more than 30,000 individual suppliers, and has over 260 major subsidiaries, joint venture partners, and affiliates around the globe.[13]

Corporate Governance: A Joy for Shareholders and Foreign Ministers

The Council on Foreign Relation's recent study "How Shareholder Reforms Can Pay Foreign Policy Dividends" is a welcome contribution to overcoming the conceptual gap discussed above. It is one of the first studies to analyze the links between corporate governance and good governance. By analyzing the reasons for interlocking the corporate governance debate with U.S. foreign policy, James Shinn (Council on Foreign Relations) and Peter Gourevitch (University of California, San Diego) provide a conceptual framework for the coordination of activities already under way (e.g., corporate governance programs of the U.S. Development Agency, "Award for Corporate Excellence" honoring corporate social responsibility programs by U.S. companies abroad of the U.S. Department of State).

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[10] World Bank, *Governance. The World Bank's Experience* (Washington, DC: The World Bank, 1994); International Monetary Fund, *Good Governance. The IMF's Role* (Washington, DC: IMF, 1995); Organization for Economic Cooperation and Development, *Final Report of the Ad Hoc Working Group on Participatory Development and Good Governance* (Paris: OECD 1997). For information on how to assess adherence to good governance, see: <http://www.worldbank.org/wbi/governance> (accessed 2 December 2003).

[11] David Detomasi, "International Institutions and the Case for Corporate Governance. Toward a Distributive Governance Framework?", *Global Governance* 8:4 (October-December 2002), pp. 421-442.

[12] Stefan Mair, *Die Globalisierung privater Gewalt. Kriegsherren, Rebellen, Terroristen und organisierte Kriminalität [The Globalization of Privatized Violence. Warlords, Rebels, Terrorists and Organized Crime]* (Berlin: Stiftung Wissenschaft und Politik, 2002), p. 31.

[13] Haufler, "Countering Conflict: Corporate Social Responsibility in War Torn Societies", p. 5.

According to Shinn and Gourevitch, the United States is interested in promoting free trade, enhancing financial stability, fighting corruption and money laundering, and safeguarding its institutionally "light-handed" approach to securities regulation. Putting corporate governance on the foreign policy agenda helps achieve these goals. This is in the U.S. interest, not least because the cost-benefit-analysis of setting up the respective standards is positive:

> Corporate governance is an important element in the trade and financial negotiations that are increasingly prominent in the conduct of foreign policy. It is also an area where the economic predominance of the United States and the relative attractiveness of U.S. regulatory procedures tend to spread without any outside impetus, through private markets. This fact presents the United States with an *opportunity to set the rules of the game in the global economic system in ways that advance its strategic agenda*.[14]

The authors illustrate the benefits of putting corporate governance on the U.S. foreign policy agenda with reference to the four areas of interest just outlined. Their reasoning can be summarized as follows:[15]

Promoting free trade: Many trade disputes result from anti-competitive practices, such as hardly accessible producer-supplier networks (e.g., in Asia), fuzzy submission procedures or government stakes in companies (e.g., telecommunications in France, Germany, or Spain). These conflicts stem from diverging views on how market forces can control private enterprises. Competition and foreign direct investments can be increased by applying rigorous corporate governance standards that put a premium on managers' performance to create value for their shareholders. The more that these forces are strengthened, the more that anti-competitive practices come under pressure. In the long run, corporate governance might help transfer these trade issues from the political to the corporate agenda, thus alleviating contesting disputes and reducing political tensions.

Financial stability: In the financial sector, corporate governance standards can strengthen existing risk management regulations and thus increase transparency for all actors in the markets, especially for outsiders. The downside effects of insufficient or lacking regulations were clearly at play in many of the most recent financial hot spots. At the height of the financial crisis in Russia and in Indonesia, for example, the lack of regulations had allowed commercial banks to transfer hard currency out of the countries while international financial institutions were providing these markets with financial aid. By contrast, the growing number of foreign investors in Japanese banks, which have applied more rigorous standards, helped push back bad loans and thus alleviated the banks' commercial risks. These examples illustrate the contribution of corporate governance to stabilizing financial markets and to reducing the risk of financial interventions from outside in times of crisis.

Preserving U.S. securities regulations: The U.S. securities regulatory regime, with its strong emphasis on self-regulation, has been heavily exposed to the forces of financial globalization. Recent scandals have shown that the system is far from perfect and sometimes offers the wrong economic incentives with devastating long-term economic consequences (e.g., breakdown of Enron,

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[14] James Shinn and Peter Gourevitch, *How Shareholder Reforms Can Pay Foreign Policy Dividends* (Washington, DC: Council on Foreign Relations, 2002), p. 5. Italics added.

[15] Shinn/Gourevitch, *How Shareholder Reforms Can Pay Foreign Policy Dividends*, pp. 30-47.

MCI Worldcom and other leading companies). Industry consolidation, financial interdependencies, and innovation in the field of financial instruments have put U.S. banking and security regulators under strong pressure. In this situation the systematic and comprehensive application of corporate governance serves the dual purpose of strengthening the corporate sector's risk management and preserving key features of the U.S. financial markets. In that sense, corporate governance that is designed to strengthen internal oversight of financial conglomerates can efficiently support the work of regulatory authorities. As said before, this helps reduce the need for financial bail-outs in the long run.

Combating corruption and money laundering: Equally beneficial but more difficult to apply is the use of corporate governance to fight corruption and money laundering. On the one hand, corporate governance can help strengthen the financial markets' risk management and thus increases transparency. On the other hand, it provides a useful instrument to free company managers from state control, forcing them to face the competitive forces of the market. Both outcomes can make it more difficult to abuse the financial sector for illicit activities. However, to combat corruption and money laundering effectively, corporate governance regulations will have to be embedded in more comprehensive approaches that address the underlying causes of these problems.

Shinn and Gourevitch round off their study with a number of recommendations to accelerate reform. Among other things, they advise Washington to back endeavors aimed at strengthening the existing regulatory framework, for example by setting up internationally binding provisions based on the OECD Corporate Governance Code.[16] Furthermore, anti-trust regulations and other provisions strengthening competition initiated by international organizations or other countries should be supported. For this reason, the authors argue that Washington should make common cause with the European Commission in its efforts to strengthen European takeover rules, and it should work on liberalizing pension fund and money management services within the negotiations of the World Trade Organization. Shinn and Gourevitch conclude that the U.S. government should integrate different corporate governance activities into an overall concept and appoint a senior-level key person or office for coordination, which could be established in the National Economic Council, the Treasury Department, or the State Department.

Opportunities and Risks in Linking Corporate Governance with Good Governance

Putting corporate governance on the foreign policy agenda is no panacea. Unleashing its potential requires policy makers and corporate leaders alike to address the underlying opportunities and risks more seriously.

Basically, there are three opportunities. First, closer coordination and harmonization of the different governance strands outlined at the beginning will help strengthen the framework of multilateral organizations.[17] Complaints about the lack of democratic legitimation, efficiency, and

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16 <http://www.oecd.org/dataoecd/47/50/4347646.pdf > (accessed 2 December 2003). The principles are currently being reviewed with the aim of submitting a modified code at the beginning of next year. See: "OECD prüft Corporate-Governance-Regeln. Keine Ausweitung in ein universell gültiges Regelwerk," *Neue Zürcher Zeitung* 20 November 2003, p. 23.

17 Ngaire Woods, "Good Governance in International Organizations," *Global Governance* 5:1 (January-March 1999), pp. 39-62.

effectiveness could be overcome by analyzing lessons learned from boardroom governance to improve the governance of multilateral organizations. This holds especially true for the growing interest in policy networks, which require new processes, structures, and instruments for organizing successful cooperation among actors in the public and private sectors and non-governmental organizations. In addition, an integrated perspective on corporate governance and good governance opens the door for further developing existing economic and trade regimes, thereby putting a primary focus on overcoming current deficiencies and balancing economic asymmetries.

Second, a closer look at corporate and good governance can increase the coherence of political action. There is a high risk of jeopardizing development assistance, conflict prevention, and post-conflict peace-building if there is no synchronization of economic reform, the establishment of public institutions and the rebuilding of the civil society. In war-torn societies, public institutions tend to be very weak if they exist at all. Therefore, these countries are hardly capable of coping with potentially destabilizing effects of democratization (e.g., political competition inflicted by elections) or economic liberalization (e.g., cushioning the impact of global markets on domestic industries).[18] Combining corporate governance with good governance will substantially increase the need for coordination among various policies (e.g., foreign trade policy, development assistance, competition policy, securities regulation, law of taxation and many others) and thus help avoid contradictory concepts.

Finally, improving political coherence is a good example to show the practical benefits of linking corporate governance with good governance for the corporate sector. Coordinating these programs will require the foreign policy establishment and corporate actors to work together more closely. This could be used to harmonize business interests in entering new markets with public programs to stabilize and democratize certain countries. This is, of course, not to say that governmental policy should yield to the pressure of raw economic interests. Rather, the intention is to advocate the highest possible degree of synergy between both sectors by harmonizing their agendas and by jointly advancing their actions to the benefit of political and economic stability in foreign markets.

Besides these positive aspects, the following potential risks deserve special attention. First, the interplay between business and economic aspects of corporate governance in the financial sector requires closer analysis. Let's take the example of collateral loans. From the business perspective of risk management, banks will terminate loans when the prices of shares used to cover the loans are falling. In order to repay the loans, credit holders need to sell their shares. This accelerates the fall of share prices and aggravates the risks to cover remaining credits. In the end, financial markets will be destabilized rather than stabilized, with far-reaching economic consequences.

Second, policy makers in particular need to pay attention to the fact that the smooth interplay of corporate governance and good governance will only work under specific political, economic, and societal conditions. As David Detomasi has rightly pointed out, effective corporate governance requires strong public sector governance.[19] This is, however, hardly in place where underdevelopment and political upheaval prevail. This suggests that the respective countries will

[18] Roland Paris, "Peacebuilding and the Limits of Liberal Internationalism," *International Security* 22:2 (Fall 1997), pp. 54-89.

[19] Detomasi, "International Institutions and the Case for Corporate Governance. Toward a Distributive Governance Framework?", p. 426.

face major difficulties in setting up, implementing, and monitoring sophisticated regulations. This aspect becomes all the more important when corporate governance and good governance reforms are seen as prerequisites for development aid and assistance. Therefore, there is a significant risk "that the countries that need help the most will not be eligible for it, and the countries eligible for it will be the ones that need it least."[20] Public and corporate actors thus bear a high responsibility for assuring that their respective activities follow converging aims and apply similar standards.

Finally, the political motives for linking corporate governance with good governance need to be analyzed as well. Shinn and Gourevitch disclose U.S. interests honestly. However, the most recent criticism of the extraterritorial effects of the Sarbanes-Oxley-Act has made it clear that America's soft power, illustrated inter alia by regulatory proposals, is coming under pressure. In addition, contradictions between the authors' plea for opening foreign markets with the help of corporate governance and the current administration's decision to protect the U.S. steel industry by raising import taxes undermine the credibility of the proposed linkage. In the long-run it will be of key importance whether linking corporate governance with good governance is perceived as promoting political, economic, societal, and ecological sustainability (optimistic view) or whether it is nothing but "hegemony on the cheap" (pessimistic view).

Challenges to be Addressed

The motivation of the United States notwithstanding, the proposed linkage provides the international community with great opportunities. In order to promote the optimistic view, close multilateral cooperation will be required. To this purpose, the actors involved need to adopt a holistic view, integrate diverging governance approaches, and adapt the corporate governance debate as well as the business ethics behind it.

Adopting a holistic view presents the first challenge. The proposed joint governance agenda falls into the confines of different national and international bodies, which are all keen to safeguard their sectoral authority and responsibility. Implementing the joint agenda thus requires a specific issue network that will reach out to political and corporate actors as well as include representatives of non-governmental organizations.[21] In addition, the network-centric approach will also have to serve as a guideline for reform of public sector institutions. Preparing the discussed agenda will involve at the least departments of foreign affairs, trade, finance, and development aid. They might either join forces in inter-agency task forces or set up "virtual departments" to deal with the issue on a project-specific basis. In both cases, public servants will need to interact closely with the corporate sector and non-governmental actors. To this purpose it will be useful to consider pooling assets at home (e.g., joint offices for planning, joint steering boards for defining the strategic agenda) and abroad (e.g., joint offices for coordinating activities in target countries, joint evaluation methods and procedures to assess project performance, joint reporting pro-

[20] Ivo H. Daalder, James M. Lindsay and John B. Steinberg, T*he Bush National Security Strategy: An Evaluation,* Brookings Policy Brief No. 109 (Washington, DC: Brookings, 2002), p. 11 <http://www.brook.edu/comm/policybriefs/pb109.pdf> (accessed 2 December 2003).

[21] Detomasi, "International Institutions and the Case for Corporate Governance. Toward a Distributive Governance Framework?", pp. 432-437; Jean-François Rischard, "Global Issues Networks: Desperate Times Deserve Innovative Measures," *The Washington Quarterly* 26:1 (Winter 2002-03), pp. 17-33.

cedures to update project planning) to increase efficiency and effectiveness.[22] At the international level it will be equally important to clarify issue leadership. The United Nations has undertaken a first step into the right direction with the adoption of the UN Global Compact, which could be further developed along the lines discussed. The European Union, which follows a comprehensive security approach, seems equally well suited to play a key role, because it has all the political and economic instruments that are needed in order to deal with the linkage.

Second, today's governance discussions are too heterogeneous to have any real impact. Switching from conceptual diversity to setting up an integrated approach is a key necessity for success. Only integrative concepts will make sure that corporations, public agencies, and non-governmental organizations wishing to adapt their goals and business practices according to the joint governance agenda will be able to evaluate their performance and, if necessary, initiate reforms to overcome shortcomings. To this purpose, analytical stocktaking of the strengths and weaknesses of corporate, good, and global governance needs to take place. It should be complemented with a discussion on mutual lessons to be learned in order to identify key areas of knowledge transfer. The military sector's experience in guaranteeing interoperability should serve as an example of how today's diverging national and international corporate governance codes could be reframed to create common regulatory ground. At the same time, the redesign of existing codes should be harmonized more closely with the equally heterogeneous accounting principles and standards. Finally, new assessment models will be needed. Based on the idea of network centricity, these models should assess an institution's ability to cooperate with others and to produce sustainable outcomes, thereby advancing our understanding of the systemic interactions at play.

Finally, the current corporate governance debate is destined to face gridlock if it is not possible to advance the agenda and to adapt corporate ethics. This requires three things. First, it will be necessary to ease the current focus on corporate control. Although understandable in the wake of the most recent corporate scandals, the "control zeal" threatens to undermine the very basic idea of cross-sector cooperation. Recently, the question of how to assess company performance in adhering to the principles of the UN Global Compact had generated heated debate. Non-governmental organizations have presented themselves as issue champions of corporate monitoring and control, but others have questioned their objectivity and competence. Focusing on control only blinds both sides to the realization that changing behavior in favor of cooperation – rather than working against each other – is what is really needed in order to implement the joint governance agenda.

Second, if corporate governance is to advance good governance, it will not suffice to focus exclusively on shareholders and ways to safeguard their rights. Instead, it will be necessary to widen the spectrum and take into account all relevant stakeholders at home and in foreign markets. In this regard, the way the corporate sector deals with consumer organizations, trade unions, and other activist groups needs to become just as important. These relations should be managed as professionally as a company's investor relations and with as much attention as is devoted to financial analysts rating the companies.

Finally, the adaptation of current business ethics can be interpreted as the ultimate litmus test on the road to the joint governance agenda. Efficiency and effectiveness are necessary benchmarks of corporate performance, but they are not enough. In the future, corporate per-

[22] George C. Lodge, "The Corporate Key," *Foreign Affairs* 81:4 (July/August 2002), pp. 13-18.

formance will have to be analyzed against the background of political, economic, societal, and ecological sustainability. To this purpose, it will not suffice to merely rephrase the text of glossy corporate vision brochures. Rather deeds must follow words. This requires companies to adapt corporate goals, modify corporate cultures, redesign existing processes and organizations, improve management instruments, and update incentive mechanisms in order to reflect the comprehensive *leitmotif* of sustainability. At the same time, corporate managers, financial analysts, and professional accountants must be sensitized for the new needs of the joint governance agenda. "What can't get measured, won't get done" is a famous saying that captures the very essence of this challenge. As long as the outcome of implementing the joint governance agenda is not reflected in "facts and figures," the respective benefits will not appear on the radar screen of corporate managers. This explains the need for new assessment models and the need for improved training and education. Only if the corporate sector succeeds in embracing these changes will corporate governance help advance good governance and thus promote sustainability.

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