
OECD Watch response to the OECD Public Online Consultation on Corporate Governance and the Financial Crisis

OECD Watch is an international network of civil society organisations promoting corporate accountability. The purpose of OECD Watch is to inform the wider NGO community about policies and activities of the OECD's Investment Committee and to test the effectiveness of the OECD Guidelines for Multinational Enterprises. OECD Watch currently consists of 86 civil society organisations from 45 different countries around the world. For more information about the network, please visit: www.oecdwatch.org

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OECD Watch welcomes the OECD's initiative to address weaknesses in corporate governance that were revealed by the financial crisis.

The financial crisis has clearly demonstrated the need for better corporate governance, transparency and effective oversight to ensure that the short term profit motive of companies is balanced by a regulatory framework favoring long term, sustainable business practices. Given the potential of corporations to both contribute to and detract from an economic recovery that is early, equitable and sustainable, corporate governance and corporate social responsibility (CSR) can not be considered separately.

OECD Watch believes corporate accountability for social and environmental performance should be strengthened through enhanced corporate governance regulation and implementation. OECD Watch therefore calls for a revision of corporate governance principles that would include measures ensuring sustainable and responsible business practices. Good corporate governance is an essential prerequisite for realising responsible business conduct.

OECD Watch views the below issues as key elements for promoting sustainability through corporate governance:

- ***Director's duties for social and environmental impacts***

The OECD Principles of Corporate Governance would be enhanced by ensuring that the broader social and environmental responsibilities and obligations of directors and enterprises are addressed. Directors of companies have a duty to consider the environmental, social and economic impacts of their actual and proposed operations, and to consider the interests of their various stakeholders. Performance on social and environmental criteria should also be included in remuneration systems.

- ***Incorporating sustainability in risk assessments and due diligence***

The objective of reform of risk-management systems should not only be to avoid that enterprises, in particular those in the financial sector, create financial instability or lead to financial crises, but also ensure that corporate activities have positive effects on societies. In order to ensure a company's impact on sustainability is taken into account, risk management and due diligence duties should include social and environmental duties, such as those outlined in the OECD Guidelines for Multinational Enterprises.

- ***Ensuring transparency and disclosure***

Disclosure of information is crucial to corporate governance and CSR. Information on all matters regarding the corporation should be provided to all shareholders and stakeholders, consistent with the OECD Guidelines for Multinational Enterprises. Reporting on social and environmental impacts, governance structures and remuneration systems should be made mandatory. In the Principles of Corporate Governance, reference should also be made to the environmental, social and human rights impact of decisions by corporate boards and enterprise activity. In this respect cross-border financial and trade related activities, including intermediary 'chains' and production and supply networks, as well as industrial disputes, grievances and dispute resolution processes and complaints should also be taken into account.

- ***Rebalancing rights between shareholders and stakeholders***

There is a need to restore the balance between the legal duty companies, in particular banks, currently have to maximise profits for shareholders and the impacts their activities have on various stakeholder groups. Banks and other financial institutions and their directors should be legally responsible for social, environmental and human rights impacts of the projects that they finance and support. They must assume a legal duty of care not to commit or be complicit in human rights and environmental abuses.

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