Academic Article Award Entry Summary

Article: O'Sullivan, N. and O'Dwyer, B. (2009), "Stakeholder perspectives on a financial sector legitimation process: The case of NGOs and the Equator Principles", *Accounting, Auditing and Accountability Journal*, Vol. 22, No. 4, pp. 553-587.

> "Civil society is increasingly questioning financial sector accountability and responsibility, and challenging FIs' [financial institutions'] social license to operate" (The Collevecchio Declaration, 2003, p.1).
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> "I think they [NGOs] were [influential], and I think you know, we would acknowledge that as well…I mean certainly … it was that that prompted Equator to a large degree…. I mean people talk about your license to operate, your social license to operate. And I mean I think it is a driver, I think you can over emphasise it at times, but clearly when you get it wrong the situation can turn very quickly and … yes, I mean I don't think the man on the street wants to see his trusted bank engaging in areas of business that he finds ethically or morally deplorable. So I think a social license to operate is important." (Dutch Equator Principles financial institution Interviewee[1])

Launched on the 4th June, 2003, by 10 international commercial banks[2], the Equator Principles (EP), represent one of the first major sustainable finance initiatives by the financial sector. The Principles, based on International Finance Corporation (IFC) performance standards, act as a set of environmental and social risk management guidelines for project finance activities. The EP are now considered as the 'standard' for sustainable project finance with 67[3] adopting Equator Principles financial institutions (EPFIs) worldwide.

Published in *Accounting, Auditing and Accountability Journal*[4] in May 2009; O'Sullivan and O'Dwyer (2009), is the only study examining the EP within the social accounting literature to date. It is also one of the few existing studies on the EP within the broader sustainable finance literature (see e.g. Wright and Rwabizambuga, 2006; Scholtens and Dam, 2007; Wright, 2009) and, to the best of the authors' knowledge, the only peer reviewed academic publication on NGO stakeholder perspectives on the EP. It therefore

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[1] From the first named author's PhD study.
[2] ABN AMRO, Barclays, Citigroup, Crédit Lyonnais (now Calyon), Credit Suisse First Boston, HVB, Rabobank, Royal Bank of Scotland, WestLB and Westpac.
[3] As per October 2009.
[4] This is a leading peer reviewed international accounting journal published by Emerald examining accounting and accountability in its social and organizational context.

significantly contributes to existing knowledge of stakeholder perspectives on sustainable finance activities.

O'Sullivan and O'Dwyer (2009) present a context rich, stakeholder-centred perspective on the legitimation dynamics surrounding the initiation and evolution of the EP between 2003 and 2006. They conduct an in-depth analysis of how international NGO campaigns which questioned the moral legitimacy of commercial banks' (largely) project finance based operation were highly influential in the development and progression of the EP. The authors draw upon a combination of semi-structured interviews with NGO leaders, extensive documentary analysis and participant observation in order to understand and explain, from an NGO perspective, the financial sectors' use of the EP as a central element in their attempt to legitimise their project finance activities. Key aspects of legitimacy theory are therefore used to theoretically frame the analysis of, what the authors term, 'the EP legitimation process'. The paper reveals and analyses this (legitimation) process in which campaigning NGOs conferred a nominal level of legitimacy on financial institutions' project finance activities and then proceeds to unveil how and why this attained legitimacy unravelled over time. O'Sullivan and O'Dwyer argue that a perceived lack of EPFI accountability at an institutional, organisational and individual project level was the central reason why NGOs failed to grant complete legitimacy to EPFIs, and the EP initiative as a whole between 2003 and 2006.

This paper forms part of a broader PhD study focused on the institutionalisation of the EP and its affects on EPFI social accountability between 2003 and 2008. It is extended by in-depth, semi-structured interviews with 10 international EPFIs, as well as broader EP stakeholders (EP lawyer, EP consultant and two clients); in order to understand and explain how and why the EP have become a 'taken-for-granted' (i.e. institutionalised) aspect of commercial bank project finance activities. The PhD study is theoretically framed through the use of the Dillard et al. (2004) model of institutionalisation, and views the EP institutionalisation process as occurring over societal, organisational field and organisational levels over the course of 2003 to 2008. In doing so it also evidences how this process has impacted upon EPFI social accountability over the same period. As this PhD research prioritises theoretical and empirical approaches and concepts and perspectives that are largely absent from the existing literature, more academic papers will be produced following its completion in early 2010.

References:

1. (The) Collevecchio Declaration (2003), available at: http://www.banktrack.org/download/collevecchio_declaration_1
2. Dillard, J., Rigsby, J. and Goodman, C. (2004), "The making and remaking of organization context: Duality and the institutionalisation process", *Accounting, Auditing and Accountability Journal*, Vol. 17, No. 4, pp.506-542.
3. (The) Equator Principles (EP) II (2006), available at: www.equatorprinciples.com/documents/Equator_Principles.pdf

4. Scholtens, B. and Dam, L. (2007), “Banking on the Equator. Are banks that adopted the Equator Principles different from non-adopters?”, *World Development*, Vol. 35, No. 8, pp. 1307-1328.
5. Wright, C. (2009) **“**Setting standards for responsible banking: examining the role of the International Finance Corporation in the emergence of the Equator Principles”, in: Biermann, F., Siebenhüner, B. and Schreyögg, A., (Eds.) *International Organizations and Global Environmental Governance*. Routledge, London.
6. Wright, C. and Rwabizambuga, A. (2006) “Institutional pressures, corporate reputation and voluntary codes of conduct: an examination of the Equator Principles”, *Business and Society Review*, Vol.111, No. 1, pp. 89-117.

Corresponding author:
Niamh O’Sullivan can be contacted at: N.A.Osullivan@uva.nl