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Title
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Permalink
https://escholarship.org/uc/item/6z99m2zr

Author
Spitzeck, Heiko

Publication Date
2007-06-25

Peer reviewed

Innovation and Learning by Public Discourse: Citigroup and the Rainforest Action Network

A paper prepared for the Center of Responsible Business, University of California at Berkeley, Haas School of Business.

Heiko Spitzeck
Pre-Doctoral Visiting Fellow University of California at Berkeley
PhD candidate at the University of St. Gallen, Switzerland

Summary
This paper presents the project finance controversy between Citigroup and the Rainforest Action Network (RAN) from a moral learning and innovation perspective. Using Kohlberg's framework for moral development and learning it shows, that Citigroup improved its moral organizational cognition and implemented innovative processes and standards. This case demonstrates that public criticism can trigger social innovations.

Keywords
Moral organizational development, innovation, moral organizational learning, Kohlberg, discursive struggle, discourse ethics.

Introduction
In 2000 Citigroup's involvement in highly controversial project financing activities, including the Three Gorges Dam in China and the Camisea gas pipeline in Peru, lead to a call for boycott by the Rainforest Action Network (RAN). This engaged Citigroup and its critics in "language games" (Mauws & Phillips, 1995) or discursive struggles over 'responsible project investment practices'.

RAN and other non-governmental organizations (NGOs) criticized Citigroup's institutionalized ways of acting and threatened Citigroup's public image and reputation. RAN portrayed Citigroup as opportunistically maximizing profit without giving consideration to environmental and social concerns. The critique led Citigroup into questions of identity (Corley & Gioia, 2005) and de-legitimized established finance practices of the whole banking sector.

By promoting the Equator Principles as a new governing process for responsible project finance, Citigroup not only accepted responsibilities it previously denied, but became a proponent of environmental responsibilities in the finance sector. This change in attitude towards responsible project finance was accompanied by moral organizational learning and innovation at Citigroup on a cognitive as well as structural level.

The paper first outlines the theoretical framework used to analyze the case of Citigroup and the Rainforest Action Network. In the next section the methodology and data analysis is presented before the relevant moral arguments of both organizations are analyzed. In the next step the paper draws conclusions from the case study in regard to the outcomes of the interaction between the two organizations. Finally, practical and theoretical implications will be presented in the final discussion.

Theoretical framework
Traditionally scholars would address the case of Citigroup and RAN from a issue management perspective (Chase, 1977; Coates, JF Coates Inc., & Electric Power Research Institute., 1986). Issue management is defined as "a firm's identifying, analyzing, and responding to social and political concerns that can significantly affect it" (Greening & Gray, 1994: 467). This approach treats external criticism as a threat to organizational objectives regarding *organizational success*. Issue management strategies either try to encounter or pre-empt criticism. It uses communication *strategically* in order to maintain and establish corporate control (Cheney & Christensen, 2001: 237). The aim of its asymmetrical communication is to maintain the core operating logic of the corporation, and in most cases (re-) assure that shareholder rights are given primacy over stakeholder rights (Gioia, 2003: 436). However, it is apparent that discursive struggles emerge exactly due to this core operating logic oriented at organizational success and favoring a certain group of stakeholders namely the shareholders. In these cases affected stakeholder seek not for strategic, asymmetrical forms of dialogue, but for symmetrical communicative action (Habermas, 1995: 384), asking the organization to *legitimize* its actions (Cheney et al., 2001; Ulrich, 2001: 122). Symmetrical communication demands openness in discourse and the application of democratic decision-making principles.

This struggle between organizational success and its legitimacy has been defined by Ulrich (adapted from Ulrich, 2004: 60) as the dual nature of the corporation.

Figure 1: The dual nature of the corporation
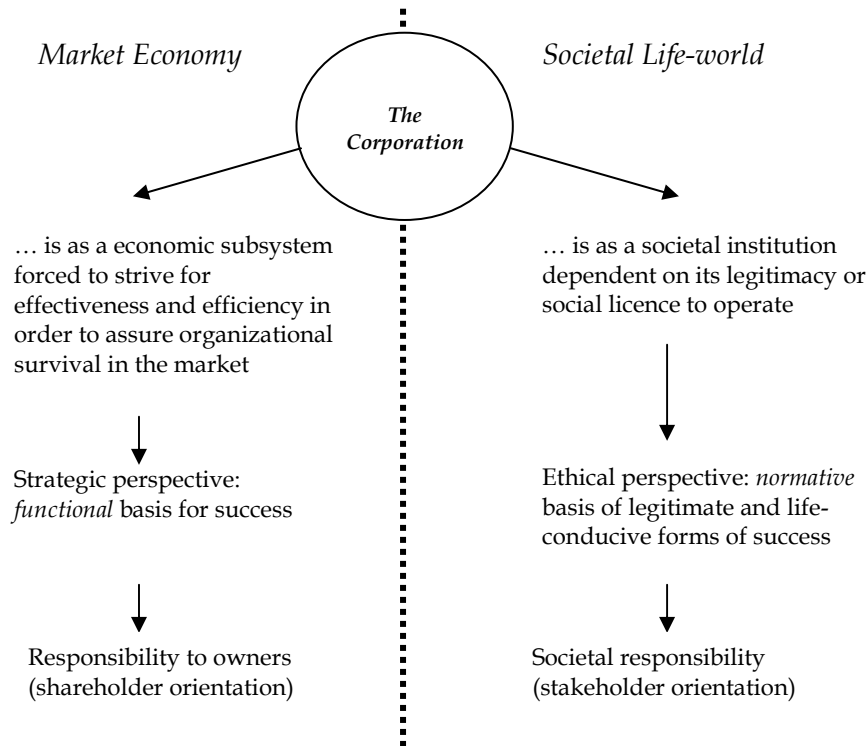
Whereas the market perspective demands organizational processes to be designed to ensure effectiveness and efficiency, the life-world perspective demands legitimacy. The market perspective has dominated organizational research during the last decades. However, different researchers see the corporation as also fulfilling a societal role (Gioia, 2003) or at least have to consider their non-economic responsibilities (Carroll, 1979; Epstein, 2000; Waddock, Bodwell, & Graves, 2002). The basic dilemma of any kind of organization is that they have to address issues of success orientation and societal responsibility at the same time. These two dimensions can also be viewed in the following way **(**adapted from Oser, 1994: 61**)**:

Table 1: The dual nature of organizational conduct

	Legitimate	Illegitimate
Successful	I	II
Unsuccessful	III	IV

Quadrant I represents successful and legitimate behavior. In research this is currently best demonstrated by research on the business case for corporate responsibility (Vogel, 2005). Quadrant II represents the real test for moral organizational conduct, where activities are successful, but illegitimate. An example might be the mafia. Highly successful in term of turnover it pursues also a highly illegitimate and in most countries illegal business model. Quadrant III represents unsuccessful but legitimate activities. One might think of NGOs engaged in good causes, but having difficulties in assuring their financial survival. Quadrant IV is irrelevant, as unsuccessful and illegitimate organizations will be forced to close operations rather quickly. The interesting question arises how can we contribute to organizational development from Quadrant II to I? How can organizations be convinced to pursue their success in legitimate ways and which kind of innovations would that trigger?

Legitimacy requires that organizational activity be justified by good reasons (not by power) to any kind of stakeholder (Evan & Freeman, 1988; Ulrich, 2007). To ensure legitimacy, the organization needs to be *response-able*, e.g. having the ability to respond to any kind of critique to its legitimacy. Traditionally, and due to the market paradigm, corporations have focused their attention to the *response-ability* towards shareholders. They use *processes* like the general assembly to communicate and try to give good (e.g. profits after tax) *arguments* to justify their decisions and actions. In the same way, ensuring legitimacy towards other stakeholders requires organizational communications processes and good arguments to justify corporate conduct. So far we have defined the organization as having a dual nature in the market system and as part of the life-world. But what is an organization?

To define an organization this paper takes a social constructionist (Berger & Luckmann, 1966), enactment (Weick, 1979) and identity theory (Albert & Whetten, 1985; Cheney et al., 2001) perspective, in which language is constitutive for organizations. Language constitutes organizational reality, and by its recursive nature provides a mean to change organizational behavior. Social constructivists understand organizations as a result of continuous discursive practice instead of material entities (Taylor & Robichaud, 2004: 396). Constant communication by various stakeholders creates the reproduced purpose of a collective activity and defines the horizon of possible goals and actions (Engeström, 1999: 170). Manifestations of these discursive processes are found in texts, as text is (Taylor et al., 2004: 396 f.): "a manifestation of human sensemaking (Weick, 1995). The making of text is how organizational members reflexively (Giddens, 1984) and retrospectively (Weick, 1995) monitor, rationalize, and engender the action of organizing." As organizational reality has to be reproduced every day by discourse, it holds the possibility of changing this socially constructed reality and offers a mean to develop organizations from Quadrant II to I. In fact several researchers agree that discourse is a significant leverage for organizational change (Barrett, Gail, & Hocevar, 1995; Grant, Michelson, Oswick, & Wailes, 2005; Heracleous & Barrett, 2001; Livesey, 2002; Seeger, Ulmer, Novak, & Sellnow, 2005).

In order to see if public discourse is able to trigger such a development, this paper focuses on texts generated by Citigroup and RAN as organizational sensemaking and caters for their implicit moral perception of the world as socially constructed by organizational members as well as stakeholders. Its social constructivist approach lately finds widespread use in organizational studies (Cheney et al., 2001; Livesey, 2001). According to this view, issues are disruptions of established organizational practices (Smircich & Stubbart, 1985: 732) urging the organization to legitimize its conduct or change its practices. An issue is an invitation to discuss and to find a legitimate solution by means of an open-ended symmetric dialogue, rather than an unresolved matter ready for management decision (see also Cheney et al., 2001; Smircich et al., 1985).

Due to language effects, discourse theory enables an explanation of the issue and its resolution. An important part of the issue consisted of the struggle of guiding principles – profit versus the environment and human rights. Discourse ethics (Habermas, 1983, 1991; Ulrich, 2001: 78 ff.) sheds light on the normative implications of chosen guiding principles by the actors. Statements used in language games reveal the guiding principles of organizational action, which define an actor's ethos. As Ulrich and Maak state (2000: 20) "The Greek term ethos can be understood as the moral awareness that a person uses to define him or herself and which defines the moral principles guiding the way a person lives". Thus *organizational ethos* describes the implicit moral patterns underlying an organization's talk, action and perception.

Organizational ethos is central for an understanding how an organization views and resolves ethical issues (Snell, 2000: 267).

Moral development and learning theory (Kohlberg, 1981; Oser & Althof, 1992) help to see if the discourse led to significant changes to the organizational ethos of Citigroup, enabling the organization to improve its ways of dealing with moral dilemmas.

Organizational ethos applies to all organizations, whether they are corporations or non-governmental groups. Neither corporations nor NGOs represent an *ethical tabula rasa*, even if the normative implications of their aims and values are not clear to them. They orient organizational behavior around *their perspective* and *their principles* and therefore express *their organizational ethos*. The organizational ability to respond (response-ability) to ethical issues determines how internal and external stakeholders perceive the organizational ethos. Moral learning theory takes these ethical issues or identity struggles as impulses for moral learning and innovation. Furthermore, due to the crisis, organizations are forced to use organizational reasoning publicly – enabling the moral analysis of their speech acts. Kohlberg provided a framework for analyzing the moral quality of arguments made.

Kohlberg and the quality of moral arguments
Kohlberg (Kohlberg, 1964, 1976, 1981; Kohlberg, Levine, & Hewer, 1984) distinguishes three different levels of moral development: a pre-conventional, conventional and post-conventional way of moral reasoning. A different perspective on the relation between the self and the other, a different kind of moral autonomy, and most essentially, a different type of moral arguments used, characterizes each level. The basic levels for organizations are the following (for similar approaches to organizational morality see Falkenberg, 2004; Logsdon & Yuthas, 1997; Reidenbach & Robin, 1991; Sridhar & Camburn, 1993):

On a *pre-conventional* level the social orientation of the organization is egocentric. Its moral autonomy is limited through options of conduct, which either promise rewards or avoid punishments. Due to this perception decisions are taken based on the consequences of actions alone (utilitarianism). A certain course is pursued if *rewards* are expected or *sanctions* can be avoided. In this view the organization perceives itself as acting in the market system alone.

On the *conventional* level the organization realizes that maintaining public order is a goal in itself and thus is determined to sacrifice the pursuit of success (profit), if the course of action would contradict *laws* and *social expectations*. The social perspective is extended to a peer group or operating area and takes concerns of other stakeholders into account as they affect the organization's *reputation*. The moral autonomy is limited by the rules and expectations (or morality) of the regional community. In this perspective decisions are taken to generate profits within the rules determined by a regionally defined community. In this view the organization takes the life-world as a constraint into its consideration and feels determined by its social environment.

On the *post-conventional* level the organization becomes aware of value pluralism. It recognizes that economic as well as legal arguments are not a guarantee for legitimacy granted by stakeholders (as Ulrich, 1996 has shown for the Brent Spar case). Its social perspective becomes universal and raises its moral autonomy to freely deciding on its course of conduct and legitimizing it by the forceless force of the better argument (Habermas, 1971: 137). In this perspective decisions are taken if they can be defended *universally*. In this view

the organization becomes autonomous and realizes that it can actively change the environment, which in turn has effects on organizational actions.

Oser – Discursive processes of balancing different moral points of view
Oser (Oser, 1992, 1994; Oser et al., 1992; Oser & Althof, 1993) proposes discourse ethics as a way of balancing different moral points of view within a conflict and differentiates his approach from a Kantian perspective (Oser, 1992: 111): "… while Kantian ethics focuses on the individual's use of rationality to create a more complex and internally consistent form of moral reasoning, discourse ethics focuses on a group of individuals' use of a more inclusive procedure that allows each person to present and absorb moral points of view. In discourse ethics, moral decisions are made by use of a moral group-centered procedure (Apel, 1988). (…) Further, while the focus on Kantian ethics is on whether the proposed maxim of a solution is in accordance with a generalizable law, discourse ethics is a procedural approach to morality in which process is at stake; the most appropriate procedure is one in which the 'ideal speech community' is realized."

The ideal speech community has to be understood as a regulative idea, which will never be realized in practice. Oser (Oser, 1992; Oser et al., 1992: 395; 1993) therefore proposes a form of realistic discourse and distinguishes three different communication processes. (1) *Non-discourse* represents the situation, in which an organization sticks to autocratic decision-making processes and does not involve outsiders in decision-making. Here usually avoidance- and unilateral decision-making strategies apply. (2) *Incomplete discourse* represents again an autocratic decision, which is justified publicly and where external stakeholders have been consulted. This enables external observers to judge the reasons, which led to the decision. Finally, (3) within *complete discourse* stakeholders are given the right to participate in decision-making and to take responsibility for a just resolution of the conflict.

This paper analyzes the quality of moral arguments of Citigroup and the Rainforest Action Network to cater for a) an improvement of the quality of arguments used during the conflict (e.g. from a conventional to a post-conventional form of reasoning) and to see which process-innovations might have resulted by the discourse.

Data sources and analysis
The analysis follows an exploratory case study approach (Eisenhardt, 1989; Yin, 2003). The data consisted of 177 pieces of texts, consisting of newspaper articles, academic articles as well as publications from Citigroup and its opponents before, during and after the conflict covering the years from 1999 to 2006. [1] These texts represent the manifestation of organizational sensemaking by Citigroup and RAN. The articles have been selected from factiva and Lexis-Nexis databases by searching for "Citigroup and Rainforest Action Network", "Citibank and Rainforest Action Network" and "Citigroup and Equator Principles".

The moral analysis is based on the Moral Judgment Interview elaborated by Colby and Kohlberg (Colby & Kohlberg, 1987a, b). This method identifies the moral arguments used in order to defend ones position in the conflict and relates them to a moral development stage. Central for the moral argument are the *norms* and *values* stated in order to justify a certain course of action. In this sense the relationship between means and ends becomes important. The three levels can be identified in the following exemplary way:

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[1] A detailed list of texts used for analysis as well as the case study database can be obtained from the author.

The statement: "We respect human rights because it makes good business sense in the long run" takes human rights as a mean for profitability. Human rights are the mean for the end of profits. The used norm is *civil rights* and the underlying value is *seeking reward* for the organization from honoring human rights. This clearly depicts a *pre-conventional* way of reasoning.

The statement: "We will not make loans to companies that we know to be in violation of local or national laws regarding illegal logging" follows the *norm of law*, neglecting possibilities of profit in order to *maintain social order*. The organization sticks to rules as defined by a limited community where these local or national laws apply, positioning the statement on a *conventional* level.

The statement: "We will not finance projects related to harmful child labor" categorically and thus universally excludes profiting from harmful activities. It puts life over profit and could reasonably be expected of everybody (universal principle). In this case the *norm is life* and the expressed *value is human dignity*, positioning the statement on a *post-conventional* level.

In this way the organizational ethos becomes visible in organizational statements and reveals the moral quality of arguments applied by the actors. This approach comes close to "guess scoring" described by Colby and Kohlberg (Colby et al., 1987b: 181 ff.), and the organizational response analysis used by Sridhar et al. (1993). The analysis has been done for each year and actor separately in order to show the moral judgment development of the organizations involved. Following the argument of Schulz von Thun (2006) every speech act contains a fourfold message: (1) the speaker says something about himself, (2) about how he perceives the other, (3) about an issue and (4) gives some recommendation to act. This analysis does focus on the first two aspects. In this way it is possible to define the moral development level of Citigroup by at least two means: First, by the arguments Citigroup uses to defend its course of action. Second, by the way RAN talks about how it perceives Citigroup and its moral motivation to act. The issue (3) criterion has been used in identifying relevant texts.

Corporate talk as discursive struggle – Citigroup and RAN's moral talk
The issue and its background
Randy Hayes and Mike Roselle founded the Rainforest Action Network in 1985. The organization "campaigns for the forests, their inhabitants and the natural systems that sustain life by transforming the global marketplace through education, grassroots organizing, and non-violent direct action."[2] In the 90s RAN concentrated its activities on single projects like Occidental's oil project in Colombia affecting the indigenous community of U'wa people.[3] Also it joined an international NGO community in Seattle protesting against the WTO and the World Bank.[4] However, the 1999 protests in Seattle and other regions have not brought the progress RAN wanted to see in rainforests and indigenous communities. In order to create more leverage on saving forests and protecting the rights of indigenous people RAN looked for a common denominator in environmental and social disputable projects around the world and found a new target in the financial industry. In retrospective Ilyse Hogue, RAN director for the global finance campaign during the Citigroup controversy reflected in an interview:

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[2] Taken from the RAN Homepage at http://ran.org/who_we_are/about_us/ (accessed 12/2006).
[3] See RAN (1999-2000).
[4] See RAN Press Releases from June 28th, 1999 and August 5th, 1999 available from the RAN Homepage at http://ran.org.

"In 2000 we started to look for more of a holistic solution to the series of threats to rainforest preservation – including mining, logging and fossil fuel development – as well as to climate change, which threatens not only rainforested regions around the world but the stability of the entire global ecosystem. We began to look at global economic trends, understanding that any kind of destructive project that we were looking at had one common denominator: the finance and capital investment necessary to make it happen. (...) We were seeing private banks fund projects that even the World Bank wouldn't touch, because they were too controversial. We felt we needed to get at the private financial sector. When we started to look at potential candidates, the name Citigroup just kept coming up. There were a lot of reasons Citigroup was attractive to us as a target. First, when attempting to change a whole sector, we think it is helpful to change the leader, because if you can get concessions out of them, they set a standard to be followed by the other players. Second was a much more pragmatic concern: everywhere we looked at destructive projects – from the Chad-Cameroon pipeline in Africa to the Camisea gas project in Peru to the OCP pipeline in Ecuador – Citigroup was involved. So changing Citi's policies would most quickly make a difference in communities and ecosystems around the world."[5]

RAN's operations are financed by an average annual budget of $2.0 million (between 1999 and 2005). RAN already was depicted by the media for successful campaigning against transnational operating corporations: "… best known for driving Home Depot so crazy with protest and letters that the company recently agreed to stop selling wood from old-growth forests".[6] The goal of its global finance campaign was to "redirect corporate financial support away from industries that promote forest destruction and fossil fuels and toward projects that embrace ecological sustainability."[7] RAN had high hopes of transforming the whole industry by transforming the industry leader.

In contrast Citigroup employed 240.000 employees, held assets in excess of $700 billion, and generated revenue of $112 billion. Citigroup was sixth on the Fortune 500 list in 2001. The media described the interactions between the two different actors as a fight between David and Goliath.[8]

In April 2000 RAN began exploring a campaign against Citigroup. In an initial letter RAN had approached Citigroup presenting its point of view of project finance practices and asked Citi for consultation and changing its practices. In a second letter RAN outlined a potential campaign and reinforced this threat in the 2004 Citigroup shareholder meeting. A diplomatic answer of Citi often quoted by media was: "We strive to keep open lines of communication with a number of organizations on relevant social and environmental issues, and look to find common ground."[9] This was indeed the fact. Erick Brownstein (RAN) met Joan Guggenheimer (Citigroup's General Counsel), Pamela Flagherty (Senior Vice President of Global Communications) and Iris Gold (Vice President of Environmental Affairs at Salomon Smith Barney) in April 2000 and invited Citigroup to a forum to discuss a proposal to ensure that "social and environmental concerns are aligned with economic objectives".[10] Despite its openness towards communication Citigroup was perceived as reluctant to discuss the matter

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[5] NN. (2004c).

[6] Cook (2000).

[7] RAN Annual Report (1999-2000: 5).

[8] Trigaux (2001).

[9] See usage in the following articles: Gopinath (2000), Wells (2000), and Piskora & Clow (2000).

[10] Gopinath (2000).

seriously and to follow through on the concerns voiced by the group. So RAN started to campaign the corporation and organized a first day of action in October 2000. This included a wide array of actions like demonstrations at Citigroup branches, students activities on campus disturbing Citigroup recruiting events, street theatre and unfolding banners depicting Citi as irresponsible or 'ethically bankrupt'.

RAN's position
The guiding principles for RAN throughout the years 1999-2006 showed a deep concern for human rights and the protection of the environment. Cited norms were life, civil rights and the underlying values were human dignity, procedural justice and life-preservation. The following statements express *typical statements* of RAN for different points in time throughout the conflict:[11]

2000 - "*The goal of RAN's campaign is to redirect corporate financial support away from industries that promote forest destruction and fossil fuels and toward projects that embrace ecological sustainability. The campaign aims ultimately to create a global economy that reflects the importance of protecting the environment, preserving democracy, and building a just and equitable global society.*"[12]

2002 - "*Corporate investment in resource-extractive industries finances the destruction of ecological systems around the world. Globalization and the disintegration of trade barriers, namely the rights of indigenous people to control their land and destiny, have further enabled industries to operate outside of local regulations designed to protect the environment. The absence of meaningful social and environmental standards among the timber and oil industries and their financial sponsors poses a severe threat to the entire planet, especially the remaining temperate and tropical rainforests.*"[13]

2006 - "*Wild naturally evolving forests are an essential component of the biosphere's life support system. Aside from providing innumerable services to humanity, forests fulfill the vital functions of preserving wildlife habitat, stabilizing the Earth's climate, protecting watersheds, and maintaining soil productivity. They are home to most of the world's vast array of life forms.*"[14]

All moral statements identified reflected a *post-conventional way of reasoning*. None of RAN's arguments was falling into the pre-conventional or conventional realm of argumentation (see table 2). The media representation of RAN asserts this post-conventional perception in statements like the following:

"*The Rainforest Action Network has launched a campaign against 'the financiers of ecological destruction and human suffering' (...) Each such campaign is a partial*

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[11] For a complete overview of moral arguments used see table 2.

[12] RAN (1999-2000: 2). The moral argument justifies the norm of life (forest destruction/ecological sustainability) by the universal value of life (protecting the environment) as well as procedural justice (democracy/equitable global society).

[13] RAN (2002: 2). In this case the norm of the law (regulations/standards) is justified by procedural justice (rights of indigenous people to control their land) and the value of life in itself (designed to protect the environment).

[14] RAN 500 Year Plan by Randy Hayes 2006, source: http://ran.org/temp/info_center/ five_hundred_year_plan _by_randy_hayes (accessed 12/2006). Here the norm of life (life support systems) is justified by the value of life itself (vital functions/life forms).

representation of the movement's vision, goals and program, reflecting fundamental values of human dignity, self-government, environmental sustainability and human solidarity."[15]

Critics could argue that RAN is as opportunistically fighting for the environment as Citigroup for profits, thus neglecting other legitimate claims on responsible project finance. In fact a few organizations like the Center for Defense of Free Enterprise perceive RAN as anti-capitalist and have launched a campaign against the organization. Also during the conflict with Boise Cascade the company wrote letters to the donors of RAN asking them to stop funding the organization. However, the RAN statements mentioned above clarify that it is not the purpose of the organization to end capitalism, but to establish a sustainable basis for ongoing economic activity. External observers confirm this view on RAN.

"[RAN] launched a new global campaign to demand "an alternative, humane, democratically accountable and sustainable system of commerce that benefits us all."[16]

Another indicator for RAN's appreciation for the social aspect of Citigroup's business model is the fact that RAN asked for more Citigroup branches in some areas in order to serve the people with financial services they need.[17] Furthermore, RAN did not ask for ceasing project finance, but to alter the nature of the investments:

"These same institutions have failed to make sufficient funding available to renewable energy and tree-free alternative projects, making it difficult for sustainable alternatives to become viable options in the marketplace. The goal of RAN's campaign is to redirect corporate financial support away from industries that promote forest destruction and fossil fuels and toward projects that embrace ecological sustainability."[18]

RANs depiction of Citigroup
From the launch of the campaign to the 'cease-fire' (2000 – beginning of 2003) RAN labeled Citigroup as the *world's most destructive bank* due to its project finance practices. Typical statements for this period are the following:

"Award for the 'World's Most Destructive Bank'. 'Citigroup has rightfully earned a triple A credit rating as the world's most destructive and corrupting bank,' said Erick Brownstein of the Rainforest Action Network. 'Whether it is buying influence with Republican and Democratic officials, financing the most environmentally egregious projects abroad, or employing predatory lending practices here at home, Citigroup comes out Number One in a highly competitive private finance industry.'"[19]

"In dealing after dealing, Citigroup and its subsidiaries have shown utter contempt for environmental and social rights. Be it through the funding companies, which log the redwoods… practicing discriminatory and predatory lending policies against people of low

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[15] Brecher, Costello & Smith (2000).
[16] Brecher et al. (2000).
[17] Citigroup was encouraged to show more presence in the South Bronx where Citigroup just had 3 branches to serve more than 450.000 people (Boyd, 2001).
[18] RAN (2000: 5).
[19] RAN Press Release titled "Citigroup Awarded Honor as World's Most Destructive Bank", 02.08.2000.

income and color, or cooperating with corrupt and oppressive governments, Citigroup is making a profit out of worsening the world."[20]

All statements displayed Citigroup as "making a profit out of worsening the world"[21] and demanded "Hey Citibank: People over Profit"[22]. Citi was portrayed as putting profits above everything else, stating profit as a norm and seeking reward as the corresponding underlying value for action – putting Citi on a clear pre-conventional stage of moral development.

In early 2003 Citigroup asked RAN for a 'cease-fire' of their campaign.[23] RAN started to air TV commercials with prominent TV stars in the New York area asking customers to 'cut their [credit] cards' and was about to broadcast these commercials on a national level. RAN agreed to a halt its campaign until Citi came up with new environmental guidelines. Citigroup published the Equator Principles on 4th of June 2003. The Equator Principles are a voluntary set of guidelines for managing social and environmental issues related to the financing of development projects. RAN reacted skeptically and called for *categorical exclusions* of areas of high environmental value as well as for monitoring mechanisms.

"The concern is the loopholes in the principles, said Ilyse Hogue, the group's global financial campaign director, in an interview. 'We're not seeing the most ecologically endangered areas pulled off limits for investment and mega-development projects.' She also said the Equator Principles lack a built-in mechanism for banks to monitor borrowers' practices."

The characterization of Citi changed drastically, as the company launched their New Environmental Initiatives in January 2004 including the demanded no-go areas.

"We are witnessing the beginning of a sea change in the relationship between ecology and economy. U.S. banks are waking up to the fact that if the environmental bubble bursts, the global economy bursts with it. Economic democracy is redefining profit to guarantee that the natural capital of our environment and communities are preserved indefinitely. There is a new bottom line on Wall Street, and financial institutions that don't reconcile with it are destined to become financial fossils."[24]

"Rainforest Action Network has witnessed Citigroup grapple with and embrace its environmental responsibility over the last five years. With the adoption of programs such as the Equator Principles and Citigroup's new and more comprehensive Environmental Initiatives, Citigroup has positioned itself as a corporate leader addressing the twin issues of natural ecosystem preservation and the current climate crisis. Although these programs do not make Citigroup a sustainable company, they are evidence of a sincere commitment to integrate profitability and social responsibility – in essence, to do well by doing good. The severity of these environmental challenges requires bold leadership and a dedication to continuous improvement. We look forward to working with Citi to enhance these programs, and hope that the rest of Wall Street follows Citi's example."[25]

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[20] Santoli (2000).
[21] Santoli (2000).
[22] Daleo (2000).
[23] RAN agreed to a 90 days cease-fire on April 15th, 2003. See Brenneman (2003).
[24] Michael Brune, RAN's executive director in NN (2004a).
[25] Statement by Ilyse Hogue from RAN in Citigroup's Annual Report (Citigroup, 2004: 31).

Here Citigroup is seen as putting the environment over profit, honoring the norm of life and following the value of life-preservation, human dignity and procedural justice – thus expressing a post-conventional rationality.

As the citation also indicates RAN shifted its focus towards the whole financial industry and sent letters to ten leading banks they called 'the liquidators', asking them to 'meet or beat' the new standards set by Citigroup. This call was quite successful and eight banks agreed within the deadline set by RAN to subscribe to the Equator Principles.[26]

On January 22, 2004 RAN and Citigroup issued a statement that a pact has been reached between the two organizations. Citi announced its new Environmental Initiatives and RAN lauded the company with the following words:

"Today, Citigroup has articulated the strongest environmental policies yet of any private financial institution in the world".[27] In the same month 12 civil society organizations including RAN initiated BankTrack, an NGO with the purpose to monitor policy initiatives aimed at improving banks' performance, such as the Equator Principles and UNEP-FI.[28] The focus shifted from convincing the industry leader to apply stricter environmental and social due diligence to set a new industry standard for every bank. BankTrack issued a set of reports evaluating the progress of the industry regarding the implementation of the Equator Principles. In this regard NGOs like RAN and BankTrack spoke less about the moral qualities of Citigroup in particular as on the moral climate in the industry in general.[29] Outlining the responsibilities of the financial industry in the Colevecchio declaration endorsed by more than 100 civil society organizations, BankTrack and its members are working for "the effectiveness of the EPs by how they are applied to projects and day-to-day operations, including whether the lives of project affected communities are improved as a result."[30]

By the end of 2006 a total of 45 banks committed to apply the Equator Principles to their project financing practices counting for more as 80 percent of the global project finance market.[31]

The position of Citigroup
The relationship between profits and (other) principles becomes clear in Citigroup's Corporate Citizenship Reports and statements defending Citi's course of conduct.[32] The following statements represent typical arguments used by Citi during the first years:

2000 - «Internally, we seek to manage potential environmental issues in our operations and help our business better understand and find financial value in environmentally sound business transactions.»[33]

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[26] NN. (2004a).

[27] See NN. (2004b) and Citigroup Media Release January 22, 2004.

[28] See www.banktrack.org/?show=11&visitor=1 (accessed 12/2006).

[29] Following the moral arguments of BankTrack the industry climate is still dominated by pre-conventional behavior and a predominance of profit orientation.

[30] BankTrack (2006: 3).

[31] See www.equator-principles.com (accessed 12/2006).

[32] The case study database as well as a summary of moral arguments used can be obtained from the author.

2001 - «Citigroup was one of the first companies to set up an environmental affairs office several years ago, Johnson said. The division's work includes tracking environmental regulatory and legislative trends that might have an impact on industries of interest to Citigroup and its clients.»[34]

2002 - «Citigroup was exposed to risk stemming from the possible environmental impact of the uranium's use or misuse: These included the reputational risk of being associated with the shipment and potential financial impacts of any consequent legal action. (…) Outcome – We declined the transaction on the basis that we were not in a position to perform the necessary additional due diligence in a manner that would be either timely for the client's purpose or cost-effective considering the potential revenue. »[35]

2003 - «The banks "believe this will lead to more secure investments on the part of our customers and safer loans on the part of the banks," said Chris Beale, head of Citigroup's global project-finance business. "Because if you finance something that's dirty or something that harms people, there's a likelihood that the host government or local people will interfere with it or even take it away from you."»[36]

At the beginning of the conflict Citigroup thus argued on a *pre-conventional level of moral development*. This attitude changed already slightly in 2003 (see table 2 and 3) and finally brought Citigroup on a *conventional argumentation level* from 2004 onwards. The following statements are typical for the years 2004 and 2005:

2004 - «2004 was a year of many successes for Citigroup, both in terms of our financial results and our corporate citizenship. But we also faced significant reputational issues resulting from two separate situations, one in Japan and one in the U.K., where we did not meet the high standards that people have come to expect from Citigroup and that we expect of ourselves. Our goal for Citigroup is to be the most respected global financial service company»[37]

2005 - «Our goal for Citigroup remains the same – to be the most respected global financial service company – and during 2005 we took many steps to get there. (…) Our businesses want the products and services we offer to make a positive impact on communities as well as our bottom line.»[38]

Case results

As shown by the following table RAN consistently argued on a post-conventional level, whereas Citigroup applied arguments at all levels of moral development.

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[33] Citigroup (2000: 2). In 2000 the typical statement of Citi refers to the norm of life (environmental issues), but seeks to take financial advantage in doing so (find financial value).

[34] NN (2001). In 2001 Citigroup places emphasis on the norm of law (regulatory and legislative trends) again due to the organizational interest of the corporation (interest to Citigroup).

[35] Citigroup (2002: 33). In this example the financing of an atomic power plant is evaluated. Again Citi refers to the norm of law (legal action) which seems to be worthwhile obeying because of financial reasons for Citigroup (potential financial impacts).

[36] Phillips & Pacelle (2003). In this argument Citi refers to the norm of life (harms people), which is important for avoiding harm to the enterprise (take it away from you).

[37] Citigroup (2004: 0). Here the norm of affiliation (Japan and in the UK) is justified by reputational benefits within the community (reputational issues, most respected global financial service company).

[38] Citigroup (2005: 1). Here again the norm of affiliation (communities) is considered important due to reputational issues (most respected global financial service company). Also reputational value is clearly separated from financial rewards (as well as).

Table 2: Overall amount of moral statements used by RAN and Citigroup

Year	1999-2000		2001		2002		2003		2004		2005	
	RAN	*Citi*	*RAN*	*Citi*	*RAN*	*Citi*	*RAN*	*Citi*	*RAN*	*Citi*	*RAN*	*Citi*
Post.	11	1	2	0	5	2	9	2	17	3	2	2
Conv.	0	0	0	2	0	6	0	5	0	10	0	4
Pre.	0	4	0	6	0	3	0	5	0	3	0	3

Calculated from the amount of statements alone, Citigroup would have reached a conventional level already in 2002. However, the dominant form of the moral argument – structured by a norm and the corresponding value to justify the significance of the norm shows, that in 2002 Citigroup's main argument was still on a pre-conventional level. However, the amount of arguments used as well as the different moral development levels these arguments represent increased significantly over the course of the conflict. This indicates that Citigroup learned to apply more and more moral arguments in order to justify its actions.

Table 3: Moral argumentation structure used by Citigroup 1999-2005

Citi	1999-2000	2001	2002	2003	2004	2005
Total	5	8	11	12	16	9
Dominant	Life – Seek reward (2)	Law – Seek reward (4)	Law – Seek reward (2)	Law – Avoid Punishment (3)	Affiliation – Reputation (4)	Affiliation – Reputation (2)
Other	Life – Life (1) Affiliation – Seek reward (1) Law – Seek reward (1)	Law – Avoid Punishment (1) Law – Positive Group Consequences (1) Punishment – Seek reward (1) Affiliation – Positive Group Consequences (1)	Life – Maintain social contract (1) Life – procedural fairness (1) Life – human dignity (1) Affiliation – Reputation (1) Affiliation – Pos. Group Consequences (1) Law – Social Ideal (1) Law – Neg. Group Consequences (1) Law – Avoid Punishment (1) Profit – Pos. Group Consequences (1)	Life – Pos. Group Consequences (2) Life – Reputation (1) Life – Seek reward (1) Contract – freely agreeing (1) Law – Life (1) Law – human dignity (1) Law – Neg. Group Consequences (1) Law – Seek reward (1)	Life – Life (2) Life – Pos. Group Consequences (2) Law – Neg. Group Consequences (2) Life – Seek reward (1) Life – Reputation (1) Punishment – Avoid Punishment (1) Affiliation – Seek reward (1) Law – Maintain social contract (1) Law – Life (1)	Affiliation – Seek reward (1) Life – Life (1) Life – Reputation (1) Punishment – Avoid Punishment (1) Law – Seek reward (1) Law – Life (1) Law – Reputation (1)

First the norm is mentioned and then the value element to justify the significance of the norm. The number in brackets indicates how many times the argument in this structure has been used.

Innovation by walking the talk

Both actors had to take responsibility for the outcome of their talk and the agreements they reached. In chronological form the major innovations resulting from the intensive public debate were the following:

2002 – Citigroup started to report on project finance deals. In its Citizenship Report in 2002 four case studies are presented, out of which three are rejected due to social and or environmental concerns.[39] In every following Citizenship Report different case studies show

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[39] Citigroup (2002: 33).

how Citigroup tries to reach a conclusion on the social responsibility issues of the projects receiving funds. Also the company describes its project assessment process at a very detailed level in 2005.

2003 – The most visible innovation are the Equator Principles themselves. Together with nine other banks Citigroup pledges to handle its project finance practices responsibly and in a legitimate way. The discussions between RAN and Citigroup change from the public sphere into more private settings and are consequently institutionalized by stakeholder dialogue forums. Also the NGOs elaborate their expectations on responsible project finance practices in the so called «Collevecchio Declaration».

2004 – In 2004 Citigroup responds to the critique of «no-go zones» and issues its New Environmental Initiatives. Citigroup also implements a new ESRM Model (Environmental and Social Risk Management) and assigns an ESRM director. In order to monitor the banks performance with the Equator Principles RAN together with more than 10 other NGOs founds BankTrack. This new NGO defines itself in the following way: «BankTrack is a network of civil society organizations and individuals tracking the operations of the private financial sector (commercial banks, investors, insurance companies, pension funds) and its effect on people and the planet.»[40]

2005 – As a result of Citigroup's engagement Mike Brune, RAN's executive director awards the financial institution with the Global Greens USA «Corporate Innovation Award».

Graphic 2 and table 4 summarize the cognitive developments at Citigroup and innovations from the financial institution.

Limitations of the case
A critical reader might object that other issues like the Enron scandal led to the moral development of the corporation and that the impact of RAN is rather limited. While this holds true for the organization in general the laurels for improving the moral development level regarding project finance clearly are deserved by RAN. Citigroup came up with the Equator Principles exactly in the time of the cease-fire granted by RAN. Also the New Environmental Initiatives responded to RAN's claim for no-go areas and were announced jointly by both organizations. These policies build the ground for internal ESRM policies within Citigroup:

"In 2003, the CIB [Corporate and Investment Banking] adopted the ESRM Policy to establish internal procedures to comply with the Equator Principles. Moreover, we chose to implement this ESRM policy in order to go beyond the Equator Principles."[41]

So looking at the outcomes RAN achieved a significant progress with Citigroup institutionalized forms of acting and speaking *regarding their project finance practices*. It helped Citigroup to learn morally as it improved not only its moral argumentation skills, but also adapting organizational structures to allow for more moral debate and integrating stakeholder concerns more seriously.

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[40] See www.banktrack.org (03/2007). BankTrack was founded by more than 100 NGOs, including Rainforest Action Network (RAN), World Wildlife Fund (WWF) and the Declaration of Berne (EvB).
[41] Citigroup (2004: 39).

Strategically, RAN won all concessions regarding new environmental policies and no-go areas. The banks endorsing the Equator Principles account for more than 80% of the global project finance market – so RAN nearly transformed the whole industry by its campaign. However, some limitations remain. The responsible behavior by a few opens opportunistic fields of activity for other non-scrupulous institutions. This has already materialized in the industry:

"However, it is rumored that some non-Equator banks have proudly advertised their lack of environmental and social standards as a way of attracting less scrupulous clients. Although the EP banks have tried to avoid this practice by gathering a critical mass of endorsers, such "bottom feeding" is a weakness of practically all voluntary initiatives."[42]

The next step therefore is to make sure that the standards are applied universally. The limited success of assuring compliance to the Equator Principles by other banks might be due to the lack of moral debate generated in industry. While Citigroup has been heavily involved in dialogue, other actors only endorsed existing principles and thus did not have a chance to seriously debate and understand the necessity of new principles. This case suggests that as long as industry is not involved in intensive debate we will see low learning levels regarding the moral development level of the whole financial industry. As already Smircich et al. (Smircich et al., 1985: 735) noted: "… success should be measured only in terms of raising issues – not in terms of settling them."

Another serious limitation is the long-term effect of moral organizational learning. As people involved in the conflict leave Citigroup there is a threat for de-learning. If the debate socially constructing Citigroup's project finance practices shifts back towards profitability there is a danger of degrading back to a pre-conventional moral development level. This is seen as well by RAN campaigners:

"If it is a matter of making 100 billion dollars or having a strong environmental policy (...) I think a lot of these companies might down the road say (...) we rather make the money."[43]

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[42] BankTrack (2004: 9).

[43] Interview with Dan Firger, RAN campaigner during the Citibank campaign, November 20th, 2006.

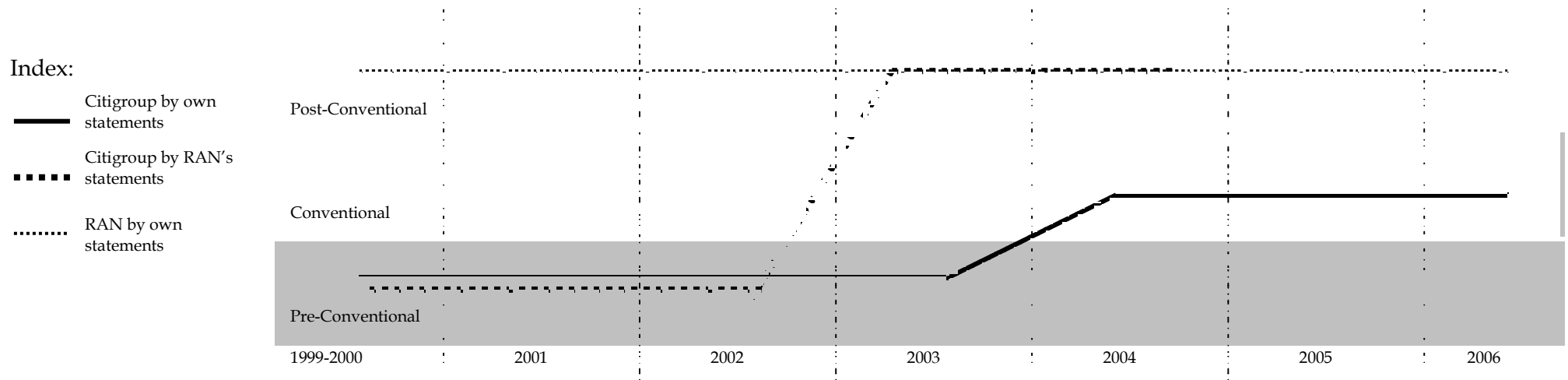Figure 2: Cognitive organizational learning at Citigroup

Index:

— Citigroup by own statements

▪▪▪▪▪ Citigroup by RAN's statements

·········· RAN by own statements

Post-Conventional

Conventional

Pre-Conventional

| | 1999-2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |

Table 4: Innovations at Citigroup and RAN

	1999-2000	2001	2002	2003	2004	2005
Innovation at Citigroup			Reporting on Project Finance	Equator Principles Create Stakeholderforums	New Environmental Initiatives	Corporate Innovation Award
Innovation at RAN				Colevecchio Declaration	BankTrack Monitoring of compliance via reports	

Conclusion

The case of Citigroup and the discursive struggle to reach a conclusion on how to define legitimate project finance practices demonstrates, that public discourse can help to develop a corporation from Quadrant II (successful/illegitimate) to Quadrant I (successful/legitimate). The moral arguments applied by RAN were difficult to counter by pre-conventional arguments focusing on profit maximization in the public domain. The fact that Citigroup had no serious counter-argument can be seen as an empirical manifestation of Habermas forceless force of the better argument. The advantage of RAN's post-conventional arguments is that they are of a universal nature. No one could reasonably argue that the protection of human rights and the preservation of nature is a bad thing to do. In this sense RAN was following what Kant termed the categorical imperative - acting only according to the maxim by which you can at the same time will that it become a universal law (Kant, 1974: 140). Morally speaking RAN had the better argument, leaving Citi basically without any moral recourse. By following its profit related logic Citi itself argued on the same moral level as its critics depicted it. Due to this cognitive cage Citi confirmed the perception of their critics and was at first unable to «see» and adequately respond to the crisis. However, by its strong corporate reflection Citi managed quickly to apply moral arguments of a conventional nature.

The different argumentation levels led to identity struggles within Citigroup supporting the theoretical perception of Cheney et al. (2001). This identity struggle is mirrored in the 2004 Corporate Citizenship Report, which on p. 6 titles "The Company We Want to Be". Citi realized that the external image created diverged substantially from what the company really wanted to be. Struck by yet another two reputational crisis,[44] the company was becoming even more aware of the intrinsic value of reputation. In a social constructivist perspective, what a company stands for cannot be defined independent from the environment. For identity construction the talk of external stakeholders becomes as important as internal communications. In this sense traditional organizational boundaries get blurred (Cheney et al., 2001: 243 f.). Further evidence for the impact of identity struggles is given in the following statement:

"I think they began to understand how vulnerable their corporate brand was when they became implicated in the Enron scandal – that was late 2002. (…) That was the first crack we saw. The first indication that there was some movement was then they decided to get out of the Camisea project in late 2002. Over the course of the campaign, we would hear that they issued a memo on a particular day of action, instructing their employees what to do, explaining to ignore us, that it was not a valid campaign. But then the next day of action, it would be slightly different – they'd say here's how to answer the questions about specific projects, yes we are involved with this. So in their public response to the campaign, there was a progression of admission of culpability over time."[45]

Citigroup's moral learning is not only reflected in their talk, but also in the establishment of innovative policies, organizational structures and corporate decision-making. In this sense Citigroup adapted its structures as it expanded its cognition from a profit-only perspective to a conventional development level. These new structures were necessary to better deal with any

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[44] In UK Citibank was engaged in a controversial bond trade and manipulating prices resulting in a penalty of 14 million British pound, see http://news.bbc.co.uk/2/hi/business/4629391.stm (accessed 12/2006). In Japan, Citigroup missed to apply due diligence in its operations allowing criminals to launder money. In the aftermath of the events Japanese regulators administered one of the toughest penalties ever. See Zaun (2004: 6).

[45] Interview with Ilyse Hogue (RAN), in NN (2004c).

other legitimacy issues (Cheney et al., 2001: 251). New policies include the Equator Principles, the New Environmental Initiatives, Illegal Logging policies and a continuous improvement of Environmental and Social Risk Policies.

It seems there are different learning paths for organizations depending whether they are profit/success oriented (corporations) or legitimacy and non-profit oriented (NGOs). Every orientation has its extremes. Within the success orientation it is opportunistic behavior, e.g. exploiting the weaknesses of any given legal order to make as much profit as possible. In the legitimacy orientation it is moral dogmatism loosing sight on what can feasibly be achieved. Putting this into a framework there might be different learning paths sketched for organizations:

Figure 3: Development paths for corporations and NGOs
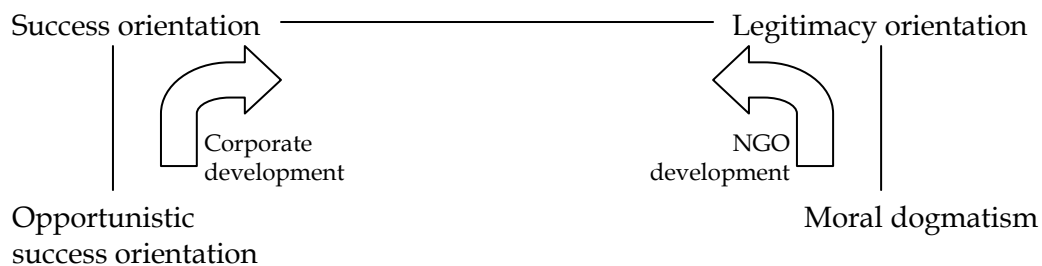
At the end of the conflict both organizations avoided the extremes of opportunism and moral dogmatism.

Discussion

As critical interactions between NGOs and corporations become more widespread (just think of cases like Shell and Brent Spar, Nike and child labor, De Beers and conflict diamonds, or upcoming issues like water privatization) corporations have to understand the moral nature of their talk (Smircich et al., 1985: 731) and the need to take legitimacy-related aspects into account. The example of Citi shows that the corporation had to learn to recognize the moral content of the criticism and integrate it into their own decision-making structures in order to become a responsible organization. Stakeholders in a globalized world will find ways to translate their universally applicable moral arguments into economic terms in order to convince companies to do the right thing. Companies, which understand the underlying moral nature of doing business, will thus experience fewer struggles with stakeholders and position themselves more comfortably as authentic corporate citizens. This seems to be true especially for companies with high brand values. The case also highlights the importance of the media in influencing corporate moral development by putting diverse arguments in the public sphere.

Researchers might argue 'so what?', stakeholders like RAN obviously did not understand that the purpose of business is to generate profits. At least this research shows, that there is growing opposition from civil society regarding this theoretical proposition. Interestingly enough, Citigroup found no convincing moral argument for publicly defending the purpose of profit maximization in project finance practices. As for practice the power of post-conventional argumentation also applies to theory as members of RAN outline:

"These larger-than-life industrial giants derive economic power from outdated economic models that account for destruction of our environment and communities as merely

'externalities'. It is a shortsighted paradigm that fails to recognize that if the ecological bubble bursts, the global economy goes down with it."[46]

The Citigroup versus RAN case shows that public discourse can foster moral organizational learning and innovation. However, the question remains whether the educational tools applied by RAN can also help a business organization to reach a post-conventional stage of moral development. Campaigning is basically punishment and treats the opponent on a pre-conventional level. It remains to be shown that a dialogical and co-operational attitude helps the corporation to reach a post-conventional stage of moral development.

Limitations
As this case is a single case study only other conflicts might be analyzed to add to its external validity by following a replication logic. The more cases show that public criticism leads to moral learning and innovation, the more the findings of this case seem to transcend this single case. Also regarding the data analysis triangulation of different researchers (interrater agreement) would further add valididy to the data interpretation. Furthermore there might be other «instruments» than crises followed by intensive public discourse helping corporations to develop some of their practices towards Quadrant I of legitimate and successful organizational behavior.

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[46] RAN (2003: 3).

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