

F O C U S



Going the corporate mile

The past decade has seen a growing recognition in the boardroom and among executives that there is more than just virtue and image to be gained for companies that choose to operate responsibly, value their employees and the environment, and foster the wellbeing of their communities. Why are Australian companies lagging behind? **Graeme O'Neill** reports.

If there were no laws to constrain their behaviour, would companies behave greedily and without conscience?

The long history of corporate misdeeds might suggest so, but a growing number of Australia's most recognisable companies are formally committing themselves to the pursuit of corporate social responsibility (CSR). It's less a policy than a philosophy that, taken to its logical end, can permeate every aspect of a company's operations.

Simon Longstaff, Executive Director of the St James Ethics Centre, an independent forum for promoting and exploring ethics and ethical decision-making in business, government, the professions and commu-

nity groups, defines CSR as companies developing and implementing an ethical approach to business, and integrating it into their operations in the market, workplace, the community and the natural environment – with measurable outcomes.

But according to Dr Longstaff, CSR is not yet a mass movement – Australian companies, have generally been slow to recognise the business case that CSR presents, or else are unconvinced that investing in it might benefit their bottom line rather than just their corporate image. He says Australian organisations still lag behind their international peers in CSR reporting and commitment.

However, the St James Ethics Centre, as national trustee for the Australian Corporate Responsibility Index (CRI) – a subsidiary of the international Corporate Responsibility Index developed in the United Kingdom – is witnessing some top-down changes. Increasing numbers of Australia's biggest corporations and non-government organisations are opening themselves up to CSR assessment.

Indexing corporate social responsibility

The CRI is essentially a strategic management tool designed specifically to enhance the capacity of businesses to develop,

measure and communicate best practice in the field of corporate social responsibility, through benchmarking strategy and implementation. This year, marking the third year of the CRI process, 29 CEOs of leading Australian and international companies submitted themselves and their businesses to a rigorous process of self-assessment, which was then validated by global management company Ernst and Young, to obtain a ranking in the 2005.

Companies are marked on their corporate strategy, integration, management impact, social performance and impact, environmental performance and impact, and assurance and disclosure.

Dr Longstaff said that participating in the CRI's warts-and-all evaluation process is a business risk in its own right – shedding light on areas for improvement in an organisation may set off a period of difficult changes. He said that while there is an obvious image payoff for multinational companies that perform well, the number of small to medium enterprises involved attests to a genuine commitment to good corporate citizenship.

Interviewed by *The Age*, which publishes the index, Dr Longstaff said, 'It's far easier to participate when general acclaim is the most likely result than to do so knowing that the results will reveal a daunting list of further challenges.'

This year's laurels went – for the third year running – to Australia's fourth biggest bank, Westpac, which scored a near-perfect 99.8 per cent, marginally better than its 99.5 per cent score in the 2004 index.

Toyota Australia was second, with 95.7 per cent, followed by the ANZ Bank (94.9 per cent) and mining giant BHP Billiton (94.5 per cent). The average score this year was 85.3 per cent, up from 81.9 per cent. The number of participating companies increased from 27 to 29, despite three dropouts by international companies (that withdrew from the global index).

Despite a lag in CSR reporting efforts generally, the Australian companies that participated in the CRI this year did at least as well as their international peers, and in some cases markedly better, according to Dr Longstaff.

'I don't know if the companies that don't participate are struggling in this area, but among those that do, there's a considerable gap between the best and the average,' he said.

In the executive summary of the 2005 CRI report, Dr Longstaff said there is a growing recognition that the changing



The dominance of corporate power has its roots in ethical founding principles around commitment to communities. Jamie Evans

demands of consumers, investors and employees represent nothing more – and nothing less – than the market at work.

'Boards and senior managers are realising that the market is now starting to move beyond assessment of the tangible qualities of goods and services, to value – often in equal measure – the intangibles that make up brand and reputation.'

'If you look at the history of corporations, then in the most formal sense, they have always been chartered as much for the purpose of public good as for private profit.'

Incentive backing will help evolution

While involvement in CSR is voluntary, Dr Longstaff says governments can help by creating a permissive and supporting environment, but one that stops short of legislation, regulation and surveillance.

'You need a belt-and-braces regulatory framework. If governments put all their efforts into legislation, as a single response to the problem of managing complexity in society, nobody can choose to do anything wrong, nor choose to do something right.'

'You improve skill levels and capacity, and as the interests of business and the community become aligned, the interests of business are served by the development of better management tools and improved performance, including financial performance.'

'Eventually, you edge towards a compliance-based society, building a kind of resilience into the system that invites people to exercise good judgment and to take responsibility for their actions.'

Old values reinforced

Dr Longstaff said the concept of CSR goes back to the dawn of big business.

'If you look at the history of corporations, then in the most formal sense, they have always been chartered as much for the purpose of public good as for private profit.'

'The great innovation in 19th century corporate law was the development of limited liability for company owners. Even here, it was not for the benefit of private capital, but as a strategy for the benefit of the community, as a means for the broader public good.'

In the 20th century, some big companies built model towns around their factories, or began to soften harsh working conditions. Dr Longstaff said a variety of influences began to coalesce in the 1980s, as a consequence of increasing concern about environmental and social dislocation.

'Business did not always cause these problems, but it needed to be engaged in addressing them.'

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Dr Simon Longstaff of the St James Ethics Centre: companies that nominate for the CRI are courageous leaders. EPA/St James Ethics Centre

The CSR movement emerged from the inner-city riots in Britain during the Thatcher years.

'Business realised that its capacity to prosper was severely curtailed when it operated in an environment of civil unrest. Rather than leave the solutions to government, companies tried to address the causes in their own backyards, as an act of enlightened self-interest.'

That development led companies to conclude that if they were going to pursue CSR, they needed to bring to it the same disciplines with which they approached other aspects of their business performance; this led to a framework for measuring and reporting CSR performance, which drove improvements.

Attracting performance

Anecdotal accounts suggest today's younger workers have a heightened social and environmental conscience that makes them more discriminating about who they work for – which has profound implications for recruiting policy and corporate behaviour.

'Where once an employer would seek references from a job applicant, the prospective employee now seeks evidence that a company deserves their support, and will require certain terms and conditions of employment,' Dr Longstaff said.

'Because of the shortage of skilled labour, it's easier today for a bright young person to secure a position in which they believe they can flourish.'

'We may have mis-characterised earlier generations as selfish, or perhaps they had

reduced expectations about their ability to influence the environment in which they worked.

'But today's networked generation seems to have a more optimistic sense of what is possible when individuals and groups are tied together.'

'They have a deep need for company and community, things that have been diminished in today's society.'

'The most progressive companies have always sought to provide a working environment at least as hospitable as that sought by the trade unions.'

A new era for employee relations

How do such expectations intersect with the Federal Government's new workplace legislation, which gives smaller companies the power to dismiss workers as they see fit, or to reduce their terms and conditions of employment?

'The government is probably banking its political future on the likelihood that companies will not treat their employees in an adverse manner because it is not in their immediate interests to treat employees badly,' Dr Longstaff said.

'The most progressive companies have always sought to provide a working environment at least as hospitable as that sought by the trade unions.'

Dr Longstaff said counterintuitive things were beginning to happen because of CSR commitment. One Australian company that followed a current trend to reduce its labour and production costs by outsourcing in a developing nation had recently returned to onshore production.

'It realised its reputation could be adversely affected by what is done in its name in countries where CSR standards are lower,' he said.

'In China, manufacturers are now moving up the value chain as their own middle class becomes wealthier. Mature markets are looking not just at price, but at how well products are made,' Dr Longstaff said.

'The same may be true of casual employment; there is a tradeoff between having a flexible workforce with minimal labour costs, and maintaining access to a supply of skilled and loyal labour.'

'When companies add up the costs of high labour turnover, the costs of recruiting and training new staff can add up to millions of dollars in lost value. There are also costs associated with the declining loyalty that individuals once felt they owed their companies – the costs of embezzlement or theft from one's employer.'

'Today, a vital employee who walks out the door may well take their entire team with them. That makes the calculation of how companies manage competing values and costs much riskier.'

'Employee theft increases in an environment in which senior management sets a tone that the only individual value worth pursuing is self-interest. If all a corporation has to do is to look after itself, it's hard to argue that employees shouldn't do the same.'

'There are paradoxical moments when self-interest may actually compel companies to pursue things of more enduring value.'

Playing catch up in Australia

Molly Harriss Olson, director of the Canberra-based sustainability consultancy company Eco Futures Pty Ltd, and convenor of the 2006 National Business Leaders Forum on Sustainable Development, which hosts the CRI Awards, says most Australian CEOs have yet to embrace the concept of 'sustainability' – the emerging development paradigm that

includes comprehensive social and environmental responsibility.

She said relatively few Australian companies had a clear understanding of what CSR meant.

'The idea of CSR has been around in Australia only a few years, and there are some really excellent companies that should be doing it,' she said.

'But only brave companies, or those that absolutely have to be involved because they are under so much scrutiny, are involved at present.

'The transparency notion makes it difficult – CEOs want to know where their companies would rate on the Corporate

'But I'd be surprised if many companies see it as a public relations exercise – they wouldn't go to the trouble when they could buy airtime with a lot less heartache.'

The more companies that become involved in CSR in a willing and transparent way, the more pressure builds on non-committed companies to become involved.

'This is a dramatic shift – we're really talking about fundamental change in the way companies do business,' Ms Harriss Olson said. 'There will be brave leaders, and those who wait behind to see what happens – the benefit of getting involved early is that early adopters will win advantages for their business.'

measures to reduce their own carbon emissions.

'Five major energy companies, including BHP, have examined the cost of moving to a reduced-carbon economy, and concluded that the costs are not as great as we have been led to believe.

'Companies have become the *de facto* leaders in reducing carbon emissions – BP and DuPont, for instance, reduced their greenhouse emissions to 1990 levels years ahead of the Kyoto schedule.'

Ms Harriss Olson said while the community might not understand the jargon, it is now much more aware of environmental issues like global warming and



Is there a future where most corporations are primarily committed to communities in order to generate shareholder returns? Jamie Evans

Responsibility Index, relative to their competitors, before they publicly commit, and that's not a natural thing.

'From my viewpoint, the CRI ranking is less important than the value of CRI as an internal tool for companies to learn how to do business responsibly. It's still evolving, and as it improves, winning companies like Westpac should set their internal bar higher.'

Asked whether some companies were committing to CRS largely in hope of improving their image, rather than making a genuine commitment to improving their social responsibility, Ms Harriss Olson said, 'Someone once said that hypocrisy is the first step towards change.

Ms Harriss Olson said governments should involve themselves in setting the 'standards and goalposts' for CSR, but should then stand aside and leave companies to pursue their own CSR initiatives.

She is critical of the Australian and US governments for failing to do 'basic things' like supporting the Kyoto Protocol.

'Kyoto, for example, is an enabler to help industry know where it's going in relation to emissions reduction, an increasingly central part of corporate operation – industry is quite happy to innovate, but it needs clear signals.

'Many industry leaders in Australia and the US are way ahead of their governments in advocating change, and in implementing

water quality and supply problems than 50 years ago, and wants governments to act to lead change.

'The reluctance of governments [to endorse major sustainability initiatives, such as Kyoto] makes it much more difficult for industry to move quickly and make the transition to a reduced-carbon economy in an efficient manner,' she said.

'The great majority of companies will move forward – they want to be part of the solution.'

More information:

Corporate Responsibility Index: www.corporate-responsibility.com.au
The St James Ethics Centre: www.ethics.org.au