

Understanding the CSR Landscape: A View from Corporate Australia

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Good morning ladies and gentlemen – my name is Katie Lahey.

I'm the Chief Executive of the Business Council of Australia which represents the country's top one hundred companies.

The role of the BCA is to advocate the opinions and views of big business.

That's why I want to speak to you today about navigating the CSR landscape in Australia, within the context of the corporation and corporate reputation.

This is a challenge for Australian corporations and doing better at it will be to the benefit of both business and the community.

I and the BCA believe there's a major shift going on in the Australian community in the way they view and relate to large business.

This shift's being driven by a fundamental change in the relationship between individual Australians and the economy.

In essence, 16 years of unbroken economic prosperity – combined with a major increase in share ownership among ordinary Australians – have created the potential for a new roadmap for the role of business in society.

Never before have so many individuals been directly involved and interested in corporations and the wealth they create.

We at the BCA think this is an exciting shift because it's creating the platform for a new dialogue between business and the community.

And there's no better place for this new dialogue to be developed than around CSR.

Yet CSR continues to be seen or spoken of – even within some sections of business – as a sort of extended apology for the corporation.

As a result, the objectives and outcomes of CSR activities are still being framed in some corporations as being different – or at arm's length from their core objectives and outcomes.

Yet, by defining CSR in this way, I would argue the very practice aimed at enhancing business reputation can often hinder it.

As the business community, we can and should be more confident and assertive about the competencies and value of the corporation.

Only by making it consistently clear that CSR is a natural and vital extension of these competencies and core values – not an offset or an apology for them – will business, and the community, reap a sustainable return from its CSR investment.

The Challenge - New Paradigm of Business versus the Old

To put this into context, I want to quickly review what I would call the traditional paradigm of the role of business in society.

At its crudest level, it's expressed as the corporation versus the community.

According to this view – one which was quite cleverly expressed by the recent film *The Corporation* – business activity and the pursuit of profit are in essence exploitative.

Communities, workers and the environment are potential victims of capitalism.

Business is out of sync – or at times, acts directly counter to the public interest.

As a result, business leaders face a never-ending and very difficult struggle to convince the community that business – particularly big business – does contribute by doing what it does best – running its enterprises in a long term sustainable way.

Many businesses have been caught in this cycle of compensating the 'victims of capitalism' by atoning for its sins through good works – notably CSR. These good works will ensure that the corporation deserves to enter the kingdom of heaven – or should I say deserves a licence to operate in society.

Let me say at the outset, I think this set of assumptions may have held water 20 years ago when Australia was a very different economy and society.

But now, in 2007, business can and should be encouraging a far more optimistic and soundly-based view of its place in contemporary Australia.

Fifteen years ago, the percentage of Australians who owned shares in business, directly or indirectly, was 15 per cent.

Now that percentage is 55 per cent.

In other words 8 million adult Australians own shares.

Outside of the United States, Australia has the highest per capita shareholding in the world.

In addition, we have an economy that's delivered 16 years of unbroken prosperity.

Since 1991, personal wealth has almost tripled. The average Australian is now \$180,000 wealthier.

Joe and Jane Public are more than likely to have their own direct and personal stake in the corporate sector.

They're also more likely to be landlords as well as homeowners.

And a growing number of Australians, particularly among our younger generations, are no longer content to be wage earners

They run or want to be the boss of their own business.

In short, never before has the economic wellbeing and prosperity of individual Australians been so directly tied to the wellbeing and profitability of business.

This is probably the time you ask me about all those opinion surveys that show the majority of Joe or Jane Publics think business is either out of touch or overly focused on profit.

Or the very high-profile instances of corporate misbehaviour such as Enron and HIH that everyone jumps on to confirm why business interests really are out of sync with the public interest.

Yes, this is true and very relevant – at one level.

But the reality is much more complex.

That's because the relationship between individual Australians and the economy has become much more complex.

The BCA has for some years conducted its own focus group work to track community responses to business and business issues.

With this research, we seek to delve beyond the predictable questions and answers about business and business reputation.

In doing so we've found the community has a much better understanding and appreciation of the role of business than even business might think.

Certainly, we find similar responses to the same touchstone issues – but with some important differences.

Yes, Australians believe CEO pay is excessive.

And yes, they are concerned with more competition from a global economy and how it might affect their future.

Most opinion surveys stop at this point and assert negative responses like these again show the extent to which business is out of touch.

Yet when the issue is probed in greater depth, Australians are willing to not only recognise, but endorse some quite different realities.

Most recognise – or at least accept – that in a globally competitive world, you need to have globally competitive pay scales to attract the best executive talent.

Implicit in this response is that most Australians don't want third-rate executives managing their share portfolios or retirement funds.

Most people also know the best way to meet competition is not to put our feet up and ignore it, or pretend that at the bottom end of the world, we can hide away.

Clearly there is now a greater understanding by the public of business and wealth-creation than 20 years ago. Progress has been made, but business still has a large task before it.

But I want to stress this new mindset in the community is still more potential than actual.

Business can and should do more to harness this potential for better alignment between the corporation and the community.

Now let me move on to the CSR credibility cap and how business perpetuates it

To many, CSR is supposed to be the panacea to poor business reputation.

At a time of record profits and prosperity, Australian companies are dedicating increasingly large amounts of their capital and in-house expertise to community and environmental projects, sponsorships and other activities.

However the extent of this contribution is often masked because it's divided among numerous smaller programs and activities

But the aggregate of all programs is huge.

But ask yourself is it really making the case that business is a major contributor to society in a broader sense? Are good works enough?

The Business Council sought to put some ballpark numbers around the CSR contribution of Australia's largest companies in its *Community of Business* report of 2004.

In just 60 of the BCA Member companies, we found 220,000 employee hours were contributed to social and community programs.

425,000 employee hours were contributed to environmental programs.

In addition, nearly \$200 million was spent on social programs, and \$300 million on environmental projects.

Yet according to GlobeScan, Australians are the most mistrustful of CSR activities of any country in the world.

Fifty-one per cent of the Australian community simply don't believe companies communicate honestly about their social or environmental activities.

This compares to Germany at 28 per cent, Canada at 27 per cent and the United States at 25 per cent.

Even accounting for the healthy streak of cynicism Australians have for their institutions, these figures make for stark reading for Australian business.

So what's going on? We're pouring more and more into CSR and being believed less and less.

Why the continuing gap between the scope of business investment in the community, the community's interest in this issue, and the way CSR is perceived?

I think part of the problem is the fragmented range of activities that is now CSR.

The BCA and the Australian Centre for Corporate Public Affairs is currently undertaking a major report on the state of CSR looking at what motivates companies in Australia to get involved and how CSR decisions are made.

In seeking to define what CSR means for business in 2007, we found more than 90 separate definitions, overlaid by multiple global and domestic guidelines, frameworks, protocols and codes.

Certainly, there is a good deal of overlap and semantic common ground between many of these definitions and frameworks.

But the range of definitions highlights ever-increasing confusion over what CSR is and how it should be practised.

While the nature of CSR means it is never capable of being fully categorised, making more sense of the practice from a business perspective is imperative.

If the business community can't pinpoint what CSR is – or even bring some better organising principles to the debate – we'll have difficulty convincing those outside of business of its validity.

As an organisation with the luxury of taking a birds-eye perspective on issues that are central to business, the BCA has a role in bringing greater clarity of thought to this area.

And this year we'll focus on helping to achieve this and our CSR report will be a step in that direction.

The other problem for CSR is a continuing defensiveness about the way it is conceptualised and communicated – that deep down it really is about making up for inherent shortfalls of the corporation.

This might explain why we still see some CSR practices and policies framed in terms of a woolly ethical framework, or even as big business righting the wrongs of the world.

Wal-mart, for example, has experienced its own 'Road to Damascus'.

On the cover of *Fortune* recently, the Wal-Mart slogan – coloured green – was accompanied by the headline:

'Wal-Mart Saves the Planet

The headline goes on to state that the world's largest retailer is turning a PR campaign into a green crusade.

Nothing wrong with that – if the company is in the business of religion or global aid.

But business *is* what it is – not what we *think* some want it to be.

Business' core competency is the organisation of large amounts of capital and expertise to achieve clearly defined and measurable outcomes, namely adding value and spreading prosperity.

Its capacity for good deeds is immense – not in spite of these competencies but because of them.

Leveraging Alignment of Business-Community Values

Now I'm not arguing the Milton Friedman the 'business of business is business' approach is the best way to conceptualise or communicate CSR.

What I'm arguing for is for business to do a better job of framing the dialogue about the role of the corporation in society on its own terms, particularly around CSR.

First, let's be clear about what CSR is and isn't.

It's not about pulling every business lever to fix every social or community ill.

It's not about corporations saying they want to minimise their footprint as if to give weight to the view we really do have two left feet.

It's about business doing exactly what it does best:

- marshalling resources and expertise;
- defining clear, achievable objectives;
- investing in programs and activities in a strategic and sustainable way, and
- measuring the outcomes.

It's about recognising that through its role, its footprint is deeply and indelibly embedded in the community.

It's about making sure that through all its activities and objectives this footprint enhances the alignment between business and community in all its forms – economic, social and environmental – and brings sustainable benefits to both.

CSR needs to be framed within a clear and concise credo – that as businesses, we can't sustain a first-rate economy with a second-rate community.

I would go so far as to say the business needs a more defined, if not a new language to frame CSR.

A language that is unambiguously and unashamedly based on doing business better – potentially with terms such as community value adding or investing in sustainable community growth.

On that note, why shouldn't corporations frame their corporate tax payments as part of their overall CSR efforts. Business tax has now grown to such an extent that was sufficient to pay for all the personal tax benefits in the last Budget and some.

Part and parcel to this approach is getting away from the obsession that business reputation is about being liked – and that CSR is the vehicle to enhance likeability.

We live in an age in which likeability can be determined by a five-second sound bite or whether the interviewee is colour coordinated.

We also live in an age of spin.

And the wages of spin are inherent and deep levels of distrust in the community.

This distrust is activated at the slightest whiff of an organisation or individual presenting as something they're not.

So when CSR is articulated or thought about in fuzzy language or framed in terms of moral or even quasi-religious concepts, is it any wonder the community is so mistrustful of it?

Business should be striving to be scrutinised and respected for the things it does well – if it simply seeks to be liked on the basis of what others want it to be, it will inevitably fall short.

It cannot, for example, substitute the role of governments in social welfare, but it can make a significant difference by selectively using its resources, people and skills in adding value to community organisations. Rigour is needed in making these choices.

Conclusion

One final note: it's not only business which sets the tone for the debate around CSR and corporate behaviour.

Politicians, the media and NGOs can also play a role.

We know that in the wake of any high-profile scandal involving an individual corporation, it's always tempting to portray all corporations in the same light.

At the BCA, we have argued the recent explosion in business red tape – particularly in the wake of HIH and Enron – can be seen as an extension of the old mindset that business needs to be on a very tight leash and requires constant vigilance.

The most recent parliamentary inquiries into CSR were an extension of that mindset.

In part, they were framed by an assumption that in the wake of Enron and HIH, CSR activities needed to be carefully watched and reported on in case companies were up to no good.

As the BCA argued in its submissions to these inquiries, the relative absence of regulation in this area has in fact allowed many companies to pursue highly innovative means to build sustainable and value-adding partnerships with the community.

But ultimately the challenge lies with business.

We need to communicate what CSR is and why it is central to both business and the community.

So in summary

With this new more sophisticated appreciation of business comes the need to better explain CSR. We need to move away from woolly notions of licenses to operate and righting the wrongs of the world. CSR needs a new framework around sustainable business. And finally, business needs to be proud of its contribution and find ways to communicate this to the non-business world.

Thank you.