MONASH University

Submission to

Parliamentary Joint Committee on Corporations and Financial Services

Parliament of Australia

INQUIRY INTO CORPORATE RESPONSIBILITY

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Terms of Reference

The **Parliamentary Joint Committee on Corporations and Financial Services** will inquire into Corporate Responsibility and Triple-Bottom-Line reporting, for incorporated entities in Australia, with particular reference to:

a. The extent to which organisational decision-makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community.
b. The extent to which organisational decision-makers should have regard for the interests of stakeholders other than shareholders, and the broader community.
c. The extent to which the current legal framework governing directors' duties encourages or discourages them from having regard for the interests of stakeholders other than shareholders, and the broader community.
d. Whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders, and the broader community. In considering this matter, the Committee will also have regard to obligations that exist in laws other than the Corporations Act.
e. Any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and/or their directors.
f. The appropriateness of reporting requirements associated with these issues.
g. Whether regulatory, legislative or other policy approaches in other countries could be adopted or adapted for Australia.

In inquiring into these matters, the Committee will consider both for profit and not-for-profit incorporated entities under the Corporations Act.

This submission addresses the nature of corporate social responsibility and thereby term of reference **'a'** in particular.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

This submission is based on a discussion paper commissioned by the Australian Council of Super Investors (ACSI).

Corporate Social Responsibility (CSR) is now one of the most challenging concepts forcing change on business. Australia, with $550 billion under management, is the world's fourth biggest fund management market and the largest in the Asia Pacific, with about $30 billion of new funds flowing in every year.[1] Superannuation funds thus have potential to influence standards for accountability and re-define the boundaries of corporate responsibility.

However, CSR remains poorly understood by many who make business decisions. This submission reports recent Australian research on common perceptions of CSR, reviews the evidence of what it really means for business, society and government and provides a simple definition which every business manager, funds manager and superannuation contributor can understand. It gives investors a guide to the tools used to assess how well a company is practising CSR. Finally, it lists the things investors should look for in a responsible corporation offering its shares on the investment market.

The submission reviews the expert literature on CSR and reports original research with senior managers, including members of ACSI.

How Australians see CSR varies, not surprisingly according to the stakeholder's particular perspective on the conduct of businesses. The CEO trying to maximise a performance bonus can be expected to have different views compared with the casual employee working unpredictable hours. Some investors seek only to maximise quarterly returns; others find it repugnant to profit from some practices.

[1] Mallet, V. 2004. Vanguard Reflects Growth of Australian Funds Sector, ***Financial Times***: 4. London.

Most senior managers defined CSR as expanding the scope of corporate responsibility to include external stakeholders beyond immediate shareholders in the company. Stakeholder groups most frequently cited included local communities and employees. The research shows that beyond these very general principles, the perceptions of what CSR involves were much less clear. These included a wide range of business responses, some directly related to the impact of corporate activities, others only indirectly, if at all. Some thought it implied higher standards of governance, beyond simple compliance with legal requirements. However, others thought that compliance with legal provisions was all that was required of a corporation.

The unifying principle found across the definitions of CSR leads to the following definition:

> **CSR is acceptance by a corporation of responsibility for the social impact of its activities, including effects on the natural environment.**

Where CSR issues can be demonstrated as material investment risks, it can be argued that failure to identify and manage such risks would be a breach of fiduciary duty.

By placing an investment in a particular corporation, the investor is making a deliberate decision to endorse the aggregate performance of that corporation through the purchase of its shares or other equity. That aggregate performance includes the corporation's discharge of CSR. If, for example, the corporation has relied on unconscionable treatment of its workforce in achieving financial performance, the investor implicitly endorses that behaviour by placing investment in it. The investor would then have failed to exercise CSR.

CSR is widely regarded by the investment decision-makers interviewed to be a factor affecting risks and returns, and therefore a factor in investment decision making. Acting on this awareness presents various problems for

investment decision-makers, particularly with respect to the discharge of fiduciary duty.
The availability of robust information on material CSR risks is a critical requirement to provide investment decision-makers with the confidence to integrate CSR performance into investment strategies and the assurance that fiduciary responsibilities can be maintained.

Accordingly, the investor should consider a range of CSR factors as material to investment to decision-making. In this regard, a well managed company should:

- provide conditions of employment which include just remuneration and non-wage/salary entitlements and are fair & equitable according to local norms AND international minimum standards,
- provide safe and healthy work environments for both direct employees and indirect employment such as contractors,
- observe the highest standards of integrity in dealings with politicians, political parties, election candidates and public servants, including deliberate avoidance of campaign donations, gifts or other favours which may be perceived as inducements to influence decisions affecting the corporation or its industry,
- actively seek and/or develop and apply measures to prevent avoidable adverse impacts of the corporation’s activities on the physical environment, including incremental effects on health, biodiversity & climate,
- orientate their activities to produce only beneficial impacts upon on the social and economic conditions of each local, national or international community in which they operate and act to redress any adverse impacts,
- have regard to the employment effects of changes to technology used in the production of goods and services, and
- monitor the effects of their operations on suppliers and customers (including the social impacts of their activities e.g. the employment conditions under which supplies are provided) and interact to redress any adverse impacts.

The investor must be able to evaluate the CSR performance of a corporation and its affects on material risks in order to place funds wisely.
The submission reviews the methods and measures that corporations and investor can use to assess CSR performance, including a valuable overview of CSR norms, guidelines and available tools. Continuing effort is required to develop metrics suitable for mainstream investment applications however.

By outlining the principles involved and providing information and advice to assist investors exercise their responsibilities, this Submission adds to the resources available to both corporations and investors wishing to address the challenges and opportunities offered by Corporate Social Responsibility.

The superannuation sector is in a key position to stimulate enhanced analysis of CSR risks by including capabilities in these areas within the criteria used to select fund managers. Better disclosure by ASX companies is also a critical requirement, and superannuation trustees are in an influential position to advocate better disclosure to facilitate identification of material CSR risks.

INTRODUCTION

Corporate Social Responsibility (CSR) has become an important concept underlying interactions between business, government, and civil society. The CSR concept increasingly informs government policy and corporate strategies, yet there are highly divergent meanings attached to the CSR concept by different stakeholder groups. Moreover, superannuation investment flows into the corporate sector, worth hundreds of billions of dollars, are increasingly influenced by CSR yet hindered by lack of agreement on its relevance and application to investment decision-making. Clarification of these issues is vital to enable superannuation trustees to better understand CSR in the context of discharging their fiduciary duties whilst responding to changing societal expectations, and the expectations of those on whose behalf money is invested.

Without clear understandings of the meaning and the practical implications of CSR, making investment decisions incorporating CSR issues is fraught with difficulty. Similarly, investors are limited in their capacities to communicate clear investment policies to corporations providing investment opportunities. Specifically, the extent to which CSR is considered by investors as an issue of ethics, risk management/governance, and/or opportunity, is central to the development of clear investment guidelines. Comprehensive review of the meanings, values, and practices underpinning CSR in investment decisions will assist the understanding of trustees, and provide guidance on the relevance of investment products, services, and strategies addressing CSR that are consistent with these understandings.

This Submission reviews the concept of CSR and its applicability to investment decision-making and reports the results of an exploratory study into Australian investors' understandings of CSR. The aim of the paper is to assist ACSI members in understanding and evaluating the current and future impact of CSR as they discharge their fiduciary responsibilities; and to highlight some important questions for further discussion and analysis.

Sections 2-5 provide guidance on the concept of CSR. Section 2 reviews the historical development of the concept of CSR and provides a conceptual framework (Figure 1) for thinking about social responsibility from the perspectives of strategy, values and sustainability. Section 3 discusses the normative social responsibilities of business and the influence of the stakeholder concept on shaping expectations of social responsibility. Section 4 summarises the major arguments for and against CSR. Section 5 elaborates the major perspectives on CSR as suggested in the conceptual framework (strategy, values and sustainability). This section is weighted towards describing the role of CSR in risk management, which is a component of the strategic perspective of CSR. The risk management perspective of CSR is dominant among investors, including ACSI members, who participated in the exploratory study, reported in this paper. Section 5 concludes by summarising the prevailing view of CSR within Australian business and suggesting questions and challenges for investors.

Sections 6-8 turn from the broader considerations of defining CSR to the specific question of the relationship between CSR and financial performance. Section 6 describes typical measurement strategies applied in CSR research with their advantages and disadvantages. Section 7 describes the evolution of socially responsible investment (SRI). SRI investment is a small component of global funds under management; however it raises some important questions for mainstream investors who are concerned about the social responsibility or otherwise of the companies in which they invest. Section 8 considers the role of the active investor within the context of CSR.

Section 9 summarises the results of an exploratory study into current thinking about CSR by Australian investors, including members of ACSI.

The Submission concludes with a working definition of CSR and suggestions on its application by superannuation trustees. The contribution of this Submission is to provide clarity for investors about the concept of CSR and provide an informed basis for evaluating the CSR performance of corporations.

2. WHAT IS CORPORATE SOCIAL RESPONSIBILITY?

This section of the Submission outlines the historical development of the concept of CSR and describes the prevailing views of CSR from business and governance perspectives.

2.1 History of the CSR concept

The concept of corporate social responsibility arises from debates for more than 100 years about the purpose of business and the responsibilities that arise as a consequence of its purpose. Two schools of thought rule this debate.

The neo-classical view of the corporation holds that the purpose of business is to create economic value for its owners. Any responsibility to society can be met through the stimulation of economic activity and payment of taxes. This perspective was popularised in the famous article published by the economist Milton Friedman in the New York Times, in which he stated “the business of business is business”.[2]

Many changes in the nature of the corporation in recent decades justify a wider understanding of the purpose of business. This wider understanding is broadly described as the stakeholder view. As long ago as the 1930s, debates in Harvard Law Review argued that a sense of social responsibility ought not only to be encouraged but ought to be seen as the "natural and proper consequence" of a separate legal personality and limited liability.[3] This view is based on factors such as the separation of ownership from control in large modern corporations, together with their increasing size, resource control, power and impact.[4]

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[2] Friedman, M. 1970. The Social Responsibility of Business is to Increase its Profits, ***The New York Times Magazine***: 32f.

[3] Slaughter, C. M. 1997. Corporate Social Responsibility: A New Perspective. ***The Company Lawyer***, 18(10): 313-329.

[4] Freeman, R. E., & Reed, D. L. 1983. Stockholders and Stakeholders: A New Perspective on Corporate Governance. ***California Management Review***, 25(3): 88-106.

The stakeholder view has emerged to argue that corporations owe obligations, beyond shareholders, to others who are affected by their activities. Stakeholders are those groups and individuals who are affected by, or can have an effect on, business operations. Typical stakeholders of a corporation and their CSR issues are described in Section 3. This section also describes the "stakeholder view of the corporation" and shows how the stakeholder view underpins the concept and practice of CSR. The alternative views of the purpose of business and their relationship to CSR are depicted in Figure 1 and elaborated further in Section 5.

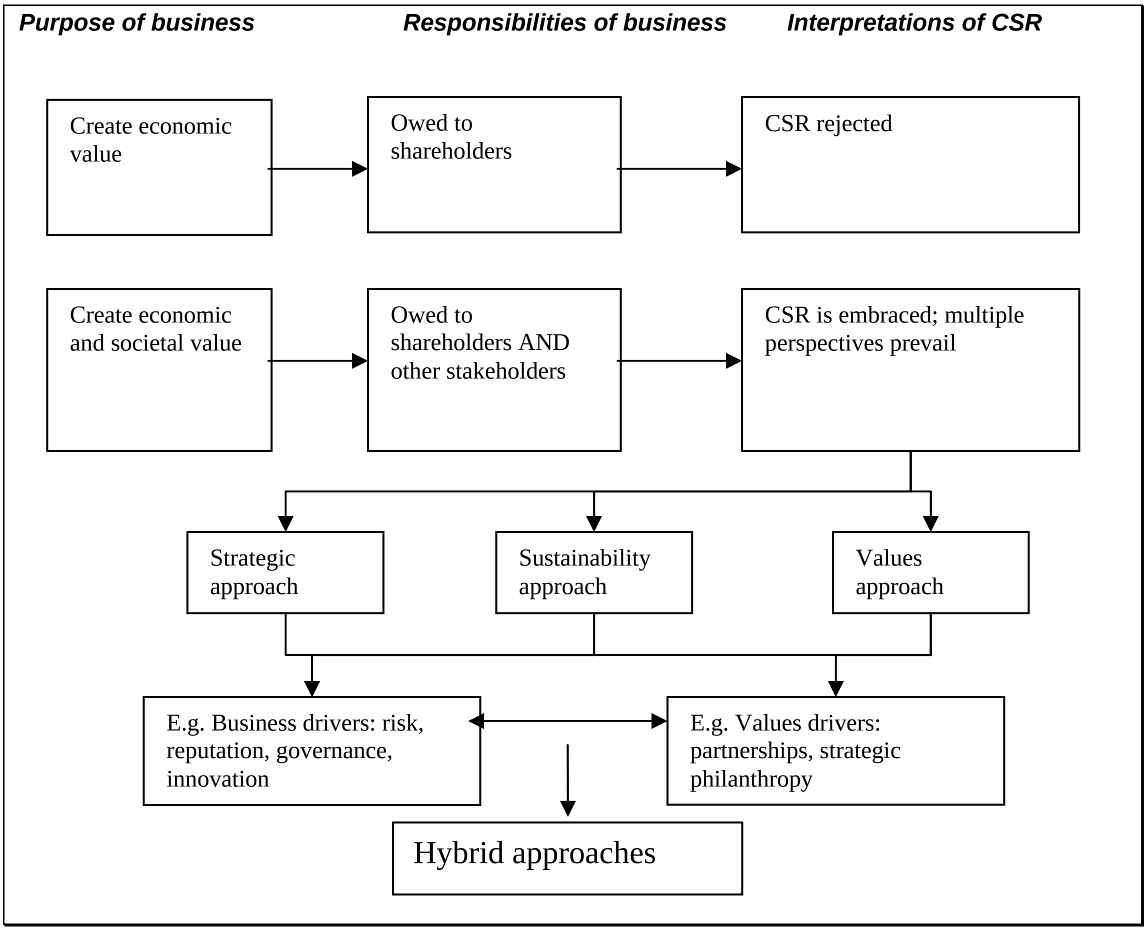

Figure 1 Overview of conceptual approaches to CSR

Despite longstanding debates about CSR, there is little agreement over its definition. Differences in definitions are due to:

- differences in national and cultural approaches to business
- differences in espoused motivation for CSR – doing it because it is morally correct or doing it because it makes good business sense
- differences in disciplinary backgrounds, perspectives and methods of scholars engaged with CSR

It is useful to realise that the notion of CSR has been developed in two major sectors: one is within business itself including business scholarship; and the other is within the realm of global governance institutions as will be explained next.

2.1.1 Business view of CSR

Business leaders and management scholars have generally understood CSR as a response to business failures that have accompanied the astonishing growth in size, impact and power of modern corporations. That growth is characterised by the separation of ownership from control and the rise of modern management techniques. While modern management has created great efficiencies, it has also led to a dilution of individual responsibility that is generally only visible when business gets into strife.

Business failures in Australia, such as HIH and One-Tel, together with crises in corporate accountability, such as at James Hardie, have led to a greater questioning here of the nature of corporate responsibilities, for example, through the current government inquiries into directors' duties and corporate responsibilities.[5]

Business leaders deal with CSR issues through specialist business organisations such as the World Business Council for Sustainable Development (WBCSD), Business for Social Responsibility (BSR) and Business in the Community (BITC). In Australia, business organisations such as the Business Council of Australia (BCA), the Australian Industry Group (AIG) and the Council for Economic Development of Australia (CEDA) all explore CSR and related issues to varying degrees. In contrast, scholarship related to CSR draws from many areas, including management, ethics, psychology, sociology, finance and accounting, sustainability, public affairs and communications.

Overlaying the general trend to view CSR as a response to business failures, business views of CSR have additionally been shaped by national and cultural contexts which are useful to understand for investors in global companies, and investors in companies that are planning global expansion.

[5] See the Corporations and Markets Advisory Committee inquiry at http://www.camac.gov.au/camac/camac.ns and the Joint Parliamentary Committee on Corporations and Financial Services Inquiry into Corporate Responsibility at http://www.aph.gov.au/senate/committee/corporations_ctte/corporate_responsibility/tor.htm

In the United States, the concept of CSR as it is practiced today began to develop in the 1970s in response to large scale societal changes such as the rise of the civil rights movement, the rise of consumerism (protection of consumers from exploitation) and growing anti-war sentiment (Vietnam). This values shift has been identified by the World Values Survey as part of a broad-based values shift that began after World War II among westernised societies.[6] As these societies successfully overcame material challenges in the aftermath of war, such as provision of jobs and housing, they moved gradually to embrace post-materialist values, in which personal expression, individual freedom and satisfaction of higher-order societal needs prevail. CSR in the USA arose as a business expression of this values shift, embraced initially by a handful of influential and vocal entrepreneurs with an almost religious zeal. Businesses such as Ben and Jerry's (now owned by Unilever) and Stonyfield Farm (now owned by Danone) had a disproportionate influence on business policy debate. By "selling out" to multinational corporations, they have attempted (possibly successfully) to mainstream CSR into business practice.[7] Referring to Figure 1, this is a values-oriented approach.

In the United Kingdom, the fundamentalist zeal of early "CSR-niks" was tempered by the view that CSR would be useful to business if it could deliver business benefits. A strategic view of CSR is thus more prevalent among UK-based firms.[8] The UK-based organisation Business in the Community (BITC) was established in 1982 in response to perceived failures of business against a backdrop of rising unemployment and urban rioting and attempts to integrate considerations of societal impacts into business strategy. BITC is

[6] Inglehart, R. 2000. Globalization and Postmodern Values. ***The Washington Quarterly***, 23(1): 215-228.
[7] Hollender, J., & Fenichell, S. 2004. What Matters Most: Business, Social Responsibility, and the End of the Era of Greed. London: Random House Business Books.
[8] Maignan, I., & Ralston, D. A. 2002. Corporate Social Responsibility in Europe and the US: Insights from Businesses' Self-presentations. ***Journal of International Business Studies***, 33(3): 497-514.

now becoming more influential in Australia.[9] Referring to Figure 1, this is a strategic approach.

In Europe, environmental considerations prevailed and the concept of sustainability may be expressed more than the concept of CSR. For example, environmental disclosures in company reporting are more prevalent than references to ethics [10]. Referring to Figure 1, this is a sustainability approach.

In Japan, CSR is expressed primarily through benefits to employees.[11] In India, leading CSR companies such as Tata Steel view extensive social investment as a core part of business strategy.[12] Referring to Figure 1, such culture-specific approaches can be termed “hybrid”.

In Australia, we see evidence of all of these approaches to CSR, although the strategic view as practiced in the UK, combined with growing attention to the concept of sustainability, is most prevalent among CSR leaders. A hybrid approach with an emphasis on strategic and sustainability considerations can be readily identified.

For example, the strategic driver for CSR is encapsulated in this CSR policy statement from Westpac, “At Westpac, we know that to produce sound results for shareholders we must not only constantly deliver for our customers, but must meet our responsibilities to staff and the community”.[13] A strategic, stakeholder orientation combines with an emphasis on sustainability in the BHP Billiton Charter, which lists the company’s stakeholders as employees, customers, suppliers, communities and shareholders, in that order, and

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[9] BITC’s website can be accessed at http://www.bitc.org.uk/index.html. Its Australian operations to date include the introduction of a corporate-community partnership program called Melbourne Cares and a CSR index that benchmarks corporate integration of CSR (see http://www.corporate-responsibility.com.au/

[10] Adams, C. A., Hill, W.-Y., & Roberts, C. B. 1998. Corporate Social Reporting Practices in Western Europe: Legitimating Corporate Behaviour? ***British Accounting Review***, 30: 1-21.

[11] Lewin, A. Y., Sakano, T., Stephens, C. U., & Victor, B. 1995. Corporate Citizenship in Japan: Survey Results from Japanese Firms. ***Journal of Business Ethics***, 14: 83-101.

[12] See http://www.tatasteel.com/

[13] See http://www.westpac.com.au/internet/publish.nsf/Content/WISPSASR+Our+social+responsibility

commits the company to environmental responsibility and sustainable development.[14] Both these companies have received international CSR awards. Similarly, AGL's CSR commitment reflects a combination of stakeholder and sustainability perspectives,[15] as does Fosters.[16] Other leading listed companies, such as Westpac and Coles Myer, espouse a values-based approach.[17] However, the majority of ASX-listed companies have no clearly articulated approach to CSR or related concepts.[18]

2.1.3 Governance view of CSR

Thus far, this Submission has summarised the history of the concept of CSR and looked at its application by business. CSR can also be viewed as a global governance mechanism. Understanding CSR from this perspective is useful for realising why civil society and government are interested in CSR. The involvement of civil society and government holds important implications for investors from a risk management perspective, as discussed in section 5.1.1.

The view of CSR as a global governance mechanism emerges from the global trans-national institutions that developed in the twentieth century, such as the United Nations, the International Labour Organisation, The World Bank and the Organisation for Economic Cooperation and Development (OECD), together with international treaties and agreements negotiated by governments and non-government organisations. These institutions and arrangements are designed to create international order around the pillars of democracy, respect for human rights, and economic development.[19]

In particular, the world's failures to redress poverty and abuses of human rights and the need to assure equitable benefits from trade liberalisation have

[14] See http://www.bhpbilliton.com/bb/aboutUs/charter.jsp
[15] See http://www.agl.com.au/AGLNew/About+AGL/Sustainability/default.htm
[16] See http://www.fosters.com.au/about/sustainability.htm
[17] See http://www.westpac.com.au/internet/publish.nsf/Content/WI+Corporate+responsibility and http://corporate.colesmyer.com/
[18] The AUSSI index tracks only 72 companies regarded as "sustainable".
[19] ISO. 2004. Working Report on Social Responsibility: 90: International Standards Organisation Advisory Group on Social Responsibility.

driven the rise of the CSR concept among these organisations. This explains the plethora of initiatives at this level such as the UN's Bruntdland Commission which popularised the notion of sustainable development and the proliferation of over 300 different codes and guidelines related to corporate social responsibility. Some of the key codes and initiatives are summarised in Appendix A, together with a range of management standards and tools that have emerged to help companies meet standards.

These initiatives are designed to regulate or self-regulate corporations. They can also provide a platform for corporations to contribute to increasing the efficiency and effectiveness of the global governance environment, because corporations as uniquely equipped to contribute to social capacity-building.[20] However, unlike the values-driven version of CSR that emerged in the USA, and unlike the strategic view of CSR that emerged in the UK, the global governance view regards CSR as an economic necessity that creates public value at the same time. A long-term perspective on creating economic and social value underpins this approach. Achieving CSR goals within this vision requires “far greater collaboration between different kinds of social actors than has ever been tried”.[21] Examples of CSR activity that illustrate this view include the Southern African Development Program run by BHP Billiton[22] and locally, aboriginal employment programs run by mining companies. Referring to Figure 1, capacity-building approaches may be termed “hybrid”. A capacity-building approach often combines sustainability and CSR as illustrated in Figure 2. The relationship between sustainability and CSR is elaborated further in Section 5.3.

[20] Ruggie, J. G., Kolb, C., O'Rourke, D., & Kuper, A. 2004. The Impact of Corporations on Global Governance. In A. Kuper (Ed.): 48. New York: Carnegie Council on Ethics and International Affairs.
[21] Ruggie, J. G., Kolb, C., O'Rourke, D., & Kuper, A. 2004. The Impact of Corporations on Global Governance. In A. Kuper (Ed.): 48. New York: Carnegie Council on Ethics and International Affairs.
[22] See http://www.bhpbilliton.com/bb/peopleAndEmployment/developmentProgram.jsp

Social contract

Whether CSR is seen as primarily a response to business failures or part of a broader response to global governance requirements, a single idea underpins both approaches and that is the idea of the social contract.[23]

The idea of the social contract is that there is an implied agreement between business and society in which society provides an enabling environment, legitimacy and consent for business activities in exchange for the satisfaction of needs such as the provision of jobs, products and services. Social issues are therefore relevant for corporations, and should be built into strategy in a way that reflects their actual importance.[24]

Whether the social contract should be interpreted in broad or narrow terms is the point on which much discussion about the need for corporate social responsibility turns. A narrow definition of the social contract could lead companies and investors to reject the idea of CSR. A broad definition of the social contract would lead to acceptance of the idea of CSR. The rise of the stakeholder concept has driven a broad interpretation of CSR and is described next.

3. TO WHOM IS THE CORPORATION RESPONSIBLE? THE RISE OF THE STAKEHOLDER CONCEPT

This section of the paper describes the stakeholder concept and discusses the nature of corporate social responsibilities from the perspective of stakeholders. It describes the stakeholder view of the corporation; its implications for understanding the quality of management in companies. It describes the nature of social responsibilities as enumerated in key international norms and from the perspective of stakeholders.

[23] Donaldson, T., & Dunfee, T. W. 1994. Toward a Unified Conception of Business Ethics: Integrative Social Contracts Theory. ***Academy of Management Review***, 19(2): 252-284.
[24] Davis, I. 2005. What is the business of business?, ***The McKinsey Quarterly***, Vol. 3.

The rise of the stakeholder concept has been attributed to the management scholar Edward Freeman.[25] Although Freeman did not coin the term, "stakeholder", he was the first to show how the stakeholder concept could be applied to the strategic management of business. The term stakeholder arises from the concept of ownership.[26] Stakeholders of an organisation have ownership claims which may be material (financial or non-financial), informational, political, or affiliative.[27] Material stakes can include financial stakes such as stock dividends, or salary and benefits as well as non-financial stakes such as access to clean air and water. Fear of loss often drives material stakeholders into action. Each of these types of stakes can be held by different stakeholders and each type of stake and stakeholder can potentially be a source of social risk for a firm (see section 5.1.1). For example, employees may have material stakes as well as informational and affiliative stakes (the need to feel a sense of belonging).

More recently, scholars have argued by reference to the experience of well known companies such as Shell and Motorola, that the corporation be understood as an entity with the purpose of creating wealth in all forms for its stakeholders.[28] "Wealth" is broadly defined as "the cumulative result of corporate performance over time, including all of the assets, competencies and revenue-generating capacities developed by the firm".[29] By attending to the interests and issues of a wider set of stakeholders, corporations can maximise their intangible assets such as relationships, goodwill, reputation, trust and opportunities for innovation.

[25] Freeman, R. E. 1984. ***Strategic Management: A Stakeholder Approach***. Marshfield, Massachusetts: Pitman Publishing Inc.
[26] Freeman, R. E. 1984. ***Strategic Management: A Stakeholder Approach***. Marshfield, Massachusetts: Pitman Publishing Inc.
[27] Wartick, S. L., & Wood, D. J. 1998. ***International Business & Society***. Oxford, UK: Blackwell Business.
[28] Post, J. E., Preston, L. E., & Sachs, S. 2002. ***Redefining the Corporation: Stakeholder Management and Organizational Wealth***. Stanford, California: Stanford University Press.
[29] Post, J. E., Preston, L. E., & Sachs, S. 2002. ***Redefining the Corporation: Stakeholder Management and Organizational Wealth***. Stanford, California: Stanford University Press p.36.

The key stakeholders for corporations are generally considered to be shareholders, employees, local communities (often represented by civil society organisations), customers and suppliers. Other stakeholders such as government, regulatory authorities and media are usually included in stakeholder management strategies pursued by corporations.

A key task for management is then, to identify these stakeholders and understand their salience for the strategic future of the business. A common way of prioritising stakeholders is by their power, urgency and legitimacy.[30] Other approaches look at their likelihood to act in the face of perceived or actual constraints[31] or examining the simultaneous influence of stakeholders within a network of corporate and stakeholder relationships.[32] A stakeholder view would therefore lead investors to the perspective that the ability of corporations to manage stakeholder relationships and the social issues that attend these relationships is fundamental to assessing the quality of management.

3.1 What are the social responsibilities of business?

The social responsibilities of business are those responsibilities that arise in the context of corporate-stakeholder relationships. Stakeholders have expectations about the behaviour and responsibilities of business that go beyond the provision of jobs and products or services. No two companies are likely to have the exact same set of responsibilities, because each corporation has different products, services and strategies and therefore, different combinations of stakeholders and stakeholder interests and issues. Nevertheless, a plethora of international initiatives have attempted to provide

[30] Agle, B. R., Mitchell, R. K., & Sonnenfeld, J. A. 1999. Who Matters to CEOs? An Investigation of Stakeholder Attributes and Salience, Corporate Performance, and CEO Values. ***Academy of Management Journal***, 42(5): 507-525.

[31] Grunig, J. E. 1997. A Situational Theory of Publics: Conceptual History, Recent Challenges and New Research. In D. Moss, T. MacManus, & D. Vercic (Eds.), ***Public Relations Research: An International Perspective***: 3-48. London: International Thomson Business Press.

[32] Rowley, T. J., & Moldoveanu, M. 2003. When will Stakeholders Act? An Interest- and Identity-Based Model of Stakeholder Group Mobilization. ***Academy of Management Review***, 28(2): 204-219.

guidance on the question of the social responsibilities of business, and are summarised in Appendix A.

3.1.1 Guidance from international norms

Of the many international norms, the best known and most relevant in Australia are the OECD Guidelines for Multinational Corporations.[33] These are recommendations by governments towards business. Australia is a signatory. The government supports implementation of the guidelines through the OECD National Contact Point, housed within the Federal Department of Treasury. These voluntary principles aim to "strengthen the basis of mutual confidence between enterprises and the societies in which they operate, … improve the foreign investment climate and … enhance the contribution to sustainable development made by multinational corporations". Although prepared for multinational corporations, the Guidelines set out general principles for business.

The OECD Guidelines require corporations to contribute to economic, social and environmental progress, respect human rights, encourage local capacity building, uphold good corporate governance, and foster trust between business and society. Highest standards of disclosure, labour and industrial relations and consumer protection are called for, as is the avoidance of bribery and anti-competitive behaviour.

Norms for corporate social responsibility are also encapsulated in the United Nations Global Compact, a voluntary set of principles that promotes human rights, environmental preservation and labour rights.

Many industries have developed their own norms of responsible behaviour, such as Responsible Care for the chemicals industry, the Fair Labor Association's Workplace Code of Conduct and the Marine Stewardship

[33] The OECD Guidelines can be accessed from http://www.ausncp.gov.au/

Council's Principles and Criteria for Sustainable Fishing.[34] Over 300 corporate responsibility standards are thought to be in existence; some of the key ones for Australia are listed in Appendix A and their implications for investors summarised in Table 1.

	How many are referenced in tools table at Appendix	Investment risk perspective	Investment opportunity perspective	SRI perspective
Standards	5	Adherence to voluntary standards may indicate reduced long term investor risk.	N/a	Use of standards may be a proxy indicator for commitment to CSR and gives insight into espoused corporate values.
Reporting Guidelines	4	Selection of KPIs may indicate reduced long term investor risk.	N/a	KPIs may provide useful data for SRI analysis; guidelines may become more useful in future as they are further developed and refined.
Assurance Standards	2	Provides a level of confidence in reported data.	N/a	Provides a level of confidence in reported data.
Data aggregation tools	4	Provides opportunity for easier access to data on which risks may be assessed.	Provides opportunity for easier access to data on which opportunities may be assessed	Provides opportunity for easier access to data on which assessments may be made.
Ratings and rankings	2	Possibly provides a degree of corroboration for investor assessments.	Reputational benefits to well rated companies may increase market opportunities.	N/a
Management frameworks	2	Use of management frameworks may be a proxy indicator of commitment to CSR and may thus indicate reduced long term risk for investors.	**If** data is disclosed, may be useful adjunct in assessing viability of superannuation trusteesinvestment opportunities.	**If** data is disclosed, could provide rich information for SRI assessments.
Diagnostic tools	8	**If** data is disclosed, could help identify material risks.	**If** data is disclosed, could provide a degree of assurance on ability of a company to capitalise on opportunities.	**If** data is disclosed, could provide rich information for SRI assessments.

Table 1 Overview of CSR standards and tools

3.1.2 Guidance from stakeholder perspectives

Different stakeholders have different CSR issues and expectations with different implications, which can be summarised as follows:

Employees

[34] Leipziger. 2003. ***The Corporate Responsibility Code Book***. Sheffield: Greenleaf Publishing.

Employees are concerned with traditional human resources management issues such as personnel policies and practices, pay, benefits, recruitment, etc. However, new HR issues are driving increased social responsiveness by corporations. These issues include work-life balance, care of dependent relatives, diversity, sexuality in the workplace, religion/spirituality in the workplace, minority hiring practices, responsible redundancy, use of temporary workers and workplace culture. Corporations that effectively respond to these issues are generally considered to be “employers of choice”. The benefits of socially responsible behaviour on these issues include improved workplace morale, higher productivity, reduced employee turnover costs and greater identification with employers. This last is thought to be a particularly important benefit as high employee identification increases the likelihood that employees will act in employers’ best interests, thus reducing risks of fraud and unethical behaviour.[35]

Suppliers

Supply chain CSR issues include ethical sourcing, prompt payment, use of migrant workers, doing business with oppressive regimes and human rights of outsourced workers. Supply chain issues have been at the heart of CSR crises experienced by some prominent US-based companies such as Nike and Gap, which rely on outsourced labour in third world countries. Consumer boycotts and demonstrations posed a threat to business continuity. Nike has in response increased its monitoring of human rights and labour relations practices and substantially increased disclosure of its suppliers.[36] As Australian firms become increasingly globalised, supply chain CSR issues are likely to become more prominent.

Customers

[35] Black, L. D. 2004. A Study of CSR Management Capacity: Report to Westpac.
[36] See http://www.nike.com/nikebiz

Many studies suggest that consumers are more likely to purchase from socially responsible firms or avoid purchases from socially irresponsible firms, and consumer preferences for products that are good for the environment (organic, or not tested on animals) are well documented.[37] CSR issues for consumers include product manufacturing (e.g. human rights of workers, product safety), labelling and packaging (disclosure and completeness), marketing and advertising practices, selling practices (redress) and pricing. Australia's tough regulatory environment does not necessarily protect corporations from rising CSR-related expectations of consumers.

Communities

Communities can include local communities around a business or a company site, as well as civil society organisations. Corporations often pursue community relations strategies that include corporate community investment, partnerships between employees and communities or traditional philanthropy. Objectives can include commercial advantage (brand, cause related marketing), legitimacy (relationships, political positioning) and workforce development. Benefits of attending to CSR issues in communities include improved reputation and reduced conflict with activist groups which is often conducted through the media.[38]

Investors

CSR issues for investors can relate specifically to socially responsible investment strategies, or more broadly to understanding and identifying material sources of social risk. This point is elaborated in sections 5.1.1 and sections 8, 9 and 10.

Cross-cutting issues

[37] E.g. Cowe, R., & Williams, S. 2000. Who are the Ethical Consumers?: 44. London: The Co-operative Bank; Mohr, L. A., & Webb, D. J. 2001. Do Consumers Expect Companies to be Socially Responsible? The Impact of Corporate Social Responsibility on Buying Behaviour. ***Journal of Consumer Affairs***, 35(1): 45f.

[38] Dougall, E. forthcoming. Revelations of an Ecological Perspective: Issues, Inertia, and the Public Opinion Environment of Organizational Populations. ***Public Relations Review***.

Some CSR issues cut across stakeholder groups and these include disclosure (the extent to which a company goes beyond disclosure required by law), the environment (company actions having an impact on the environment and corporate responses to environmental issues such as climate change) and donations to political parties.

4. WHAT ARE THE ARGUMENTS FOR AND AGAINST CSR?

This section of the paper describes the major arguments for and against corporate social responsibility. Corporate social responsibility has its share of advocates and cynics. CSR tends to get attacked from both the left and the right.[39] A left-leaning perspective on CSR is that it is little more than "green-washing", whereby a corporation may adopt a few environmental or social measures as window-dressing to deflect attention from deeper, more profound problems. A right-leaning perspective on CSR is that it is at best, a "sop to sentimentality", and at worst, a subversive doctrine designed to disrupt the very foundations of business, much as Milton Friedman argued.

Proponents of CSR argue that the costs of doing business must include a public context of responsibility, especially when corporations are of such size and power that their behaviour can destroy a public's environment.[40] Some of the arguments in favour of CSR from a stakeholder perspective are described above in section 3.1.2. An overview of the major arguments for and against CSR is encapsulated below.

4.1 Major arguments in favour of CSR:

- Potential advantages as an alternative to traditional forms of regulation, especially in reducing or avoiding legislative, regulatory and compliance costs/burdens

[39] Hollender, J., & Fenichell, S. 2004. ***What Matters Most: Business, Social Responsibility, and the End of the Era of Greed***. London: Random House Business Books.
[40] Reilly, B. J., & Kyj, M. J. 1994. Corporate Citizenship. ***Review of Business***, 16(1): 37, 37p.

- Reduces costly conflict with stakeholders that can divert management attention
- Helps ameliorate the negative impacts of business, sometimes in novel and innovative ways
- Minimises irreparable harm that may be a consequence of corporate activity
- Enables cost effective and flexible in responses to consequences of corporate activity (compared to government)
- Enables corporations to develop strategic differentiation in novel ways
- Enables corporations to attract quality workforces
- Facilitates innovation through interaction with diverse stakeholders to solve mutual problems
- Facilitates improved corporate reputation which increases intangible assets
- Superior investment returns

4.2 Major arguments against CSR:

- May detract from efficient operations of business/dilutes primary purpose of business
- Management has insufficient experience and training to deal with social problems
- Managers are not accountable to society
- Corporations cannot commit major resources to solving social problems
- CSR costs may drive out marginal firms in some industries
- Inferior investment returns

Of note, the argument of investor returns is used by both proponents and critics of CSR. This point is elaborated further in Section 7.

5. MAJOR PERSPECTIVES ON CORPORATE SOCIAL RESPONSIBILITY

It will be clear from the foregoing that there are multiple perspectives on CSR. In Figure 1 we suggested that there are at least three clearly discernable perspectives; strategic, values-based and sustainability. In this section we elaborate on the different approaches within each of these perspectives. This section concludes with guidance on the prevailing definition of CSR within Australian business and presents key questions about CSR from the investor's perspective.

5.1. Strategic perspectives on corporate social responsibility

This Submission devotes most attention to strategic perspectives of corporate social responsibility because research results reported in Section 9 indicate that the investors for whom this paper is prepared believe that there is a strong link between CSR and company value, yet have difficulty incorporating CSR information into decision-making. The strategic perspectives described next relate to risk management, reputation management, corporate governance and innovation, as these are the strategic pathways by which CSR is most likely to deliver business value. The major focus, in keeping with investor perspectives on CSR, is on risk management.

5.1.1 Corporate social responsibility as risk management

The perspective of corporate social responsibility as a form of risk management emerges from appreciating the increasing complexity of the business environment due to globalisation. Companies have become adept at managing economic, political and technological risk, and now face new challenges in risk management from social and environmental issues. This challenge flows from increased uncertainty in business due to structural changes imposed by globalisation: the advent of large extended enterprises made up of independent units but with tremendous pressures for coordination and growth; rapid rates of change in technology and information flows; and problems in managing scale.[41] Globalisation also introduces cultural pressures: can the same management standards and approaches be used globally or should local approaches prevail?

Kytle and Ruggie describe social risk as occurring when "an empowered stakeholder takes up a social issue area and applies pressure on a corporation (exploiting a vulnerability in the earnings drivers – e.g., reputation, corporate image), so that the company will change policies or approaches in the marketplace". They point out that social risk can arise from what appears to be a sound business decision; for example, the quest for cheaper labour to drive down costs may introduce social risk if the decision causes the company to run foul of labour rights watchdogs. Sometimes corporations will face social risks simply because their size, reach and decision-making speed makes them targets for social change activists e.g. Coca Cola was targeted by HIV/AIDS activists because of its reach in Africa. Starbucks was targeted by fair trade activists, despite its excellent record in paying above market rates to coffee bean suppliers, because its brand recognition and vast retail network provided leverage for gaining media attention for the fair trade cause.[42]

A risk management perspective leads to the understanding that "companies that treat social issues as either irritating distractions or simply unjustified vehicles for attacks on business are turning a blind eye to impending forces that have the potential to alter the strategic future in fundamental ways".[43]

Social issues can enter the corporate arena and increase risk through any of a corporation's stakeholders. Social risk entry points are summarised in Figure 2. This figure clearly shows that civil society actors have the potential to introduce social issues into the corporate agenda via direct engagement or other forms of pressure, on every stakeholder of a corporation. For example, NGOs can encourage customers to boycott a company's product or services,

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[41] Kytle, B., & Ruggie, J. G. 2005. Corporate Social Responsibility as Risk Management: A Model for Multinationals, ***Corporate Social Responsibility Initiative Working Paper Series, Kennedy School of Government, Harvard University***.

[42] Argenti, P. A. 2004. Collaborating with Activists: How Starbucks Works with NGOs. ***California Management Review***, 47(1): 91-116.

[43] Davis, I. 2005. What is the business of business?, ***The McKinsey Quarterly***, Vol. 3.

suppliers or employees to demand better conditions, or investors to take social and environmental issues into consideration in investment decision-making.

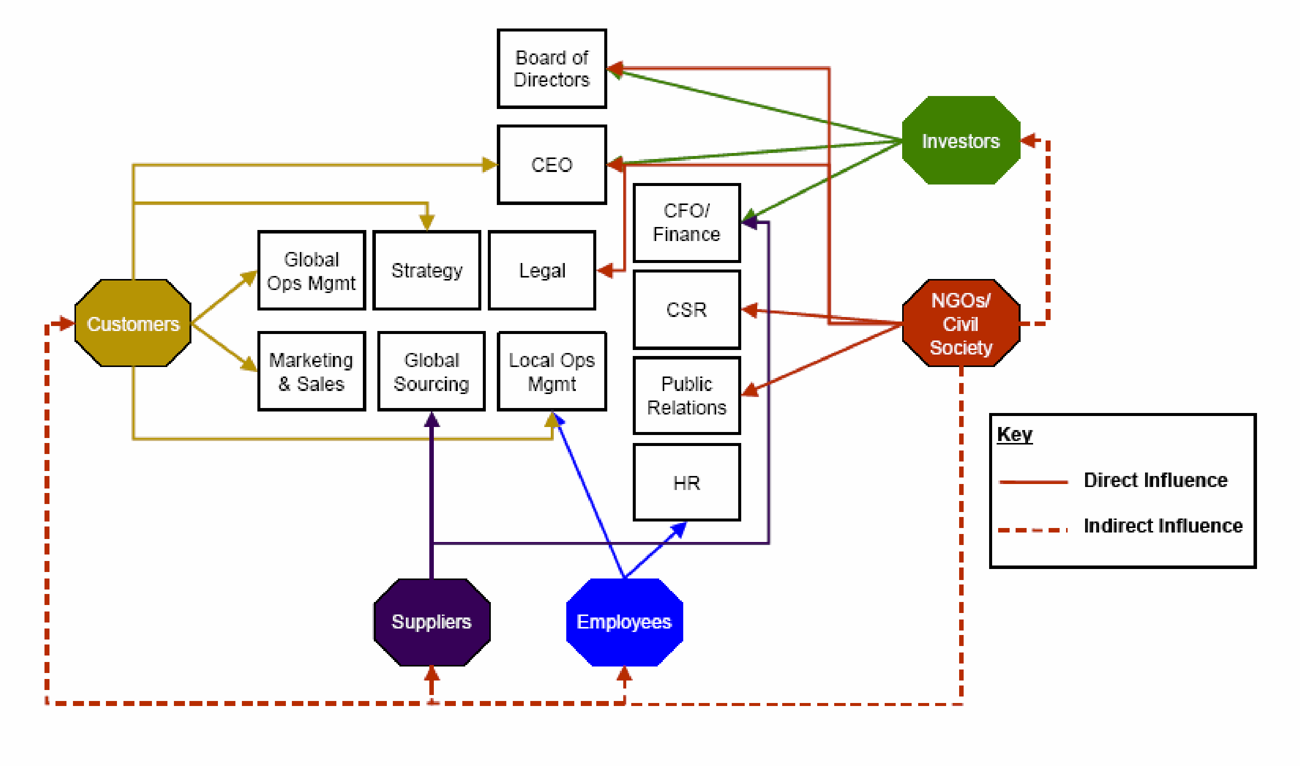

Figure 0-2 Sourced from "Corporate Social Responsibility as Risk Management: A Model for Multinationals", Kytle, B. & Ruggie, J. G., 2005

Social risks arise when stakeholders take up an issue for which a corporation is vulnerable because it has inadequate or absent countermeasures and controls.[44] Social risk countermeasures and controls can take the form of socially complex, cross-functional organisational capabilities for social responsibility such as dialogue, stakeholder engagement, value-attuned communications, social accountability and ethical business behaviour.[45] Capabilities typically describe a corporation's ability to deploy its tangible and intangible assets to meet challenges, perform tasks or improve

[44] Kytle, B., & Ruggie, J. G. 2005. Corporate Social Responsibility as Risk Management: A Model for Multinationals, ***Corporate Social Responsibility Initiative Working Paper Series, Kennedy School of Government, Harvard University***.

[45] Black, L. D., & Hartel, C. E. J. 2004. The Five Capabilities of Socially Responsible Companies. ***Journal of Public Affairs***, 4(2): 125-144.

performance.[46] They are measurable and manageable, and may in future become more important in assessments of CSR (see Section 7.1). High levels of these capabilities ensure companies will have good strategic intelligence about the issues and stakeholders that can introduce social risk; as well as the systems and structures for ensuring that issues are managed before they escalate into events that can threaten a corporation.

From the investor's perspective, identifying social or environmental risks at the point where they impact corporate profit and loss or share returns is simply too late to be able to influence companies through engagement methods such as are pursued by active investors (see Section 8). By the time a social or environmental issue becomes visible within a company's financial drivers, companies generally have few choices about how to manage the issues and are at the mercy of government and public opinion. Figure 3 shows how management discretion declines as a public issue moves through its lifecycle. As an illustration, once stakeholder concerns about asbestos compensation paid by James Hardie Industries galvanised political action in the form of a NSW government inquiry, James Hardie's discretion to manage the compensation issue shrank dramatically. The impact on earnings drivers could be anticipated before political action began, but was inevitable from that point on, persisting until the issue was resolved to the satisfaction of stakeholders.

[46] O'Regan, N., & Ghobdian, A. 2004. The Importance of Capabilities for Strategic Direction and Performance. ***Management Decision***, 42(2): 292-312.

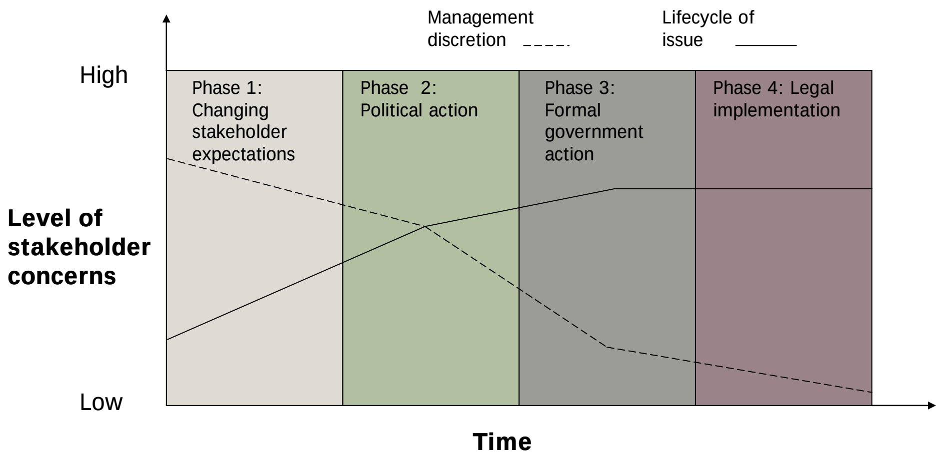

Figure 0-3 Phases of the issue life cycle, adapted from Post, Lawrence, & Weber, 2002[47]

Understanding and defining material social risks is therefore a key task for management and for active investors. Generalised sources of social and environmental risk can be identified, such as climate change, human rights or labour relations. However, the detailed or specific social and environmental risks faced by a given corporation will vary because they have different stakeholders and issues. In the past, the emergence of civil society scrutiny, especially by NGOs, has formed the major source of pressure for managing social risks. The key issues have related to human rights, labour relations and sustainability/environment, as well as access to medicine, animal testing, discrimination, exposure to endocrine-changing chemicals, product safety and responsible marketing.[48] In future, social risk could arise from any of these issues, as well as the key CSR issues for other stakeholders as enumerated in Section 3.1.2. A key challenge for investors is to understand the sources of social risk that may arise for the companies and industries in which they invest.

[47] Post, J. E., Lawrence, A. T., & Weber, J. 2002. ***Business and Society: Corporate Strategy, Public Policy, Ethics***. New York: McGraw-Hill Irwin.
[48] SustainAbility. 2001. Governance, Risk and Corporate Social Responsibility.

5.1.2 Corporate social responsibility as reputation management

If companies are recognised for their social responsibility, they can improve their reputation and thus their intangible assets such as goodwill. CEOs readily recognise the reputation benefits of corporate social responsibility, which is why they often give carriage of corporate responsibility to their communications or public affairs staff, and also why companies can be criticised by CSR sceptics. Paradoxically, low trust in corporations means that corporate communications about socially responsible practices are rarely credible.[49]

Sophisticated corporations will use a variety of direct and indirect methods to communicate their CSR performance. Direct communications are generally targeted at opinion leaders such as NGOs, analysts and union leaders. Social reports are one of the communications methods for this group. Indirect communications rely on having opinion leaders do the talking for them; the pursuit of ratings and awards are among typical methods. Investors should realise that artefacts such as social reports and ratings serve an important communications purpose for corporations; but neither the fact of the communications, or their origin in corporate affairs departments, of itself renders such efforts as “spin”. These communications efforts are resource intensive and require specialist input; they may rarely be undertaken by companies that have no significant investment in social responsibility management systems. Investors must develop the skill and knowledge to assess the extent to which such communications are a reflection of genuine CSR activity and evaluate the extent to which the underlying activity may have a positive impact on performance through influencing reputation.

5.1.3 Corporate social responsibility as a corporate governance mechanism

[49] Dawkins, J. 2004. Corporate Responsibility: The Communication Challenge. ***Journal of Communication Management***, 9(2): 108-119.

At a minimum, the concept of CSR suggests that directors need to be aware of the impact of their decisions on stakeholders.[50] However, corporate social responsibility has now risen in prominence to the point where it may now be considered a corporate governance issue. A study of 14 large UK companies showed that most see social, environmental and ethical issues as significant to their business and have developed systematic approaches to risk management.[51]

More recently, expanded notions of directors' liabilities have ensured that social responsibility is on the corporate governance agenda.[52] SustainAbility argues that director's liabilities are expanding from legal to moral and that legal liabilities are expanding across the value chain, through the whole lifecycle of a product's development, production and disposal, and across distance and time, as depicted in Figure 4. Their reports states that many of the traditional protections from liability such as geography, incorporation or time have been attacked and in some instances unwound in the past five years. Furthermore, moral liability is becoming increasingly complex and demanding – this is the liability that arises when a company violates stakeholder's expectations of ethical behaviour in such a way as to put business value at risk.[53]

[50] Freeman, R. E., & Reed, D. L. 1983. Stockholders and Stakeholders: A New Perspective on Corporate Governance. ***California Management Review***, 25(3): 88-106.
[51] SustainAbility. 2001. Governance, Risk and Corporate Social Responsibility.
[52] Lye, G., & Muller, F. 2004. The Changing Landscape of Liability: 44. London: SustainAbility Ltd.
[53] See www.sustainability.com

From passive to active responsibility

Dimension	Passive (legal)	Active (moral)
Honesty	Not lying/factually true	The whole truth/true to the spirit
Transparency & disclosure	'Need to know'	'Right to know'
Demonstration & engagement	Information/narrowly defined	Engagement/broadly defined
Respect	Compliance-driven	Accountability-driven

Adapted from The Changing Landscape of Liability, SustainAbility, 2004

Figure 0-4 Changing liabilities of company directors

The drive for increased accountability of company directors is driving CSR onto the corporate governance agenda. Thus, we are increasingly seeing stakeholder demands previously expressed by NGOs such as labour, consumer and human rights organisations, now entering the radar of investor activists.[54] Investor activists frequently use engagement with companies as a tactic to enhance corporate governance. Studies on the financial value of engagement offer mixed results, with most finding no significant overall association but either positive or negative associations for specific issues.[55] Investor tactics are elaborated in Section 6 on socially responsible investment.

Sir Adrian Cadbury has predicted that the question of human rights will be foremost among the CSR issues to which directors are increasingly attending.[56] He also predicts that investor influence on corporate governance

[54] McLaren, D. 2004. Global Stakeholders: Corporate Accountability and Investor Engagement. ***Corporate Governance***, 12(2): 191-201.
[55] McLaren, D. 2004. Global Stakeholders: Corporate Accountability and Investor Engagement. ***Corporate Governance***, 12(2): 191-201.
[56] Cadbury, A. 1999. What Are The Trends in Corporate Governance? How Will They Impact Your Company? ***Long Range Planning***, 32(1): 12-19.

will increasingly diverge into two camps; one that limits activities to the regulatory minimum, and another that uses its power to raise market standards “so that investors get a return and a bonus in the form of having a hand in influencing the nature of the business world”.[57]

5.1.4 Corporate social responsibility as a source of innovation

CSR perspectives as risk management, reputation management or governance management cast CSR as a defensive or protective strategy. CSR can also lead to innovation through ongoing interactions with stakeholders to resolve mutual problems. A stakeholder model of business value creation suggests that innovation is a consequence of CSR because it enables employees to access new ideas and collaborate with stakeholders.[58,59]

An example of stakeholder collaboration leading to innovation with beneficial strategic outcomes occurred at BHP Billiton’s Cannington lead and zinc mine. The company co-opted previously critical stakeholders to conduct a social and environmental audit of the mine’s operations. The suggestions of the stakeholders lead the company to develop a global product stewardship initiative for lead miners that has enabled the company to garner operational and reputational benefits.[60,61]

5.2 Values-based perspectives on corporate social responsibility

There would be few, if any, prepared to argue the case for CSR without reference to societal values or ethics. However, some advocates may focus on values or ethics as a basis for CSR with little or no regard to strategic

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[57] Cadbury, A. 1999. What Are The Trends in Corporate Governance? How Will They Impact Your Company? ***Long Range Planning***, 32(1): 18.
[58] Svendsen, A. C., Boutilier, R. G., Abbott, R. M., & Wheeler, D. 2001. Measuring the Business Value of Stakeholder Relationships. Vancouver: Centre for Innovation in Management, Simon Fraser University.
[59] See report on measuring social capital at http://www.sfu.ca/cscd/cli/research.htm
[60] Black, L. D. 2004. ***How Companies Manage for Good***. Unpublished Ph.D., Monash University, Melbourne.
[61] See http://www.greenlead.com/

considerations. This perspective regards CSR as simply the right thing to do, regardless of business benefits or costs, and is described as a “values approach” in Figure 1. Ethical arguments in favour of CSR may be derived from religious or moral principles or prevailing societal norms.[62]

As noted in section 2.1.1, societal norms such as consumerism and the civil rights movement motivated early business adopters of CSR. This view of CSR was further strengthened by a US-centric definition of corporate social performance as comprising a pyramid of responsibilities, the foundation of which was economic, followed by legal, then moral, and finally, discretionary responsibilities in which corporations voluntarily acted to prevent societal decay.[63] Discretionary responsibilities generally were discharged through philanthropy.

Since then, business has moved towards a model of strategic philanthropy in which philanthropic causes are chosen based on their fit with the corporate mission or strategy. The notion of CSR as community-business partnerships derives directly from this perspective of CSR.[64]

The community partnership model of CSR has been supported in Australia through the establishment of the Prime Minister’s Community Business Partnership.[65] With the passage of time, values-based perspectives on corporate social responsibility have become more closely aligned with strategic perspectives, notwithstanding occasional calls for companies to pay a “social dividend” as a moral responsibility.[66] Most Australian companies using CSR or related concepts combine ethical and strategic perspectives in

[62] Jones, M. T. 1999. The Institutional Determinants of Social Responsibility. ***Journal of Business Ethics***, 20(2): 163-179.
[63] Carroll, A. B. 1979. A Three-Dimensional Conceptual Model of Corporate Performance. ***Academy of Management Review***, 4(4): 497-505.
[64] Austin, J. E. 2000. ***The Collaboration Challenge: How Nonprofits and Business Succeed through Strategic Alliances***. San Francisco: Jossey-Bass Publishers.
[65] See http://www.partnerships.gov.au/
[66] E.g. Bagaric, M., & McConvill, J. 2005. Social dividend the way for the super prosperous to pay out to the people, ***The Age***. Melbourne.

developing their policy or case for CSR[67] and develop partnerships with social sector organisations as part of their CSR strategy. For example, research in Victoria showed that sponsorships, donations, community partnerships and environmental activities are the most common CSR activities.[68]

5.3 Corporate social responsibility and sustainability

Sustainability is one of key approaches to CSR as depicted in Figure 1. Sceptics who see CSR as “greenwash” (see Section 4) may prefer the concept of sustainability as being more about “substance” than “spin”. However, CSR and sustainability are closely linked concepts and are often used interchangeably. The key conceptual differences and relationships are summarised in Figure 5. Sustainability arose from concerns about depleting natural resources and focuses on ensuring sufficiency for future generations.[69] In keeping with its emphasis on cautious use of resources, its operating principle can be described as *“consume the income and not the capital”* (capital being broadly defined as including economic, ecological and social capital).

Whereas sustainability derives from a precautionary principle, CSR is focused on the equitable distribution of “income” among the stakeholders, and is fundamentally concerned with issues of fairness and equity. The operating principle of CSR is *“share the income fairly”*. The “income” or wealth generated by the corporation is broadly interpreted and includes monetary and non-monetary wealth. While it may be possible for companies to be sustainable but not responsible, and vice versa, in practice, the approaches converge. A commitment to one concept instead of another does not

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[67] Black, L. D. 2001. ***Towards Understanding Corporate Social Responsibility in Australia***. Paper presented at the International Association for Business & Society 12th Annual Conference, Sedona, Arizona.

[68] Birch, D. 2004. Corporate Social Responsibility in Victoria: Report for the Department of Victorian Communities, State Government of Victoria. Melbourne: Corporate Citizenship Research Unit, Deakin University.

[69] Dyllick, T., & Hockerts, K. 2002. Beyond the Business Case for Corporate Sustainability. ***Business Strategy and the Environment***, 11: 131-141.

necessarily hold different implications for investors. Rather, the implementation of the approach should be observed.

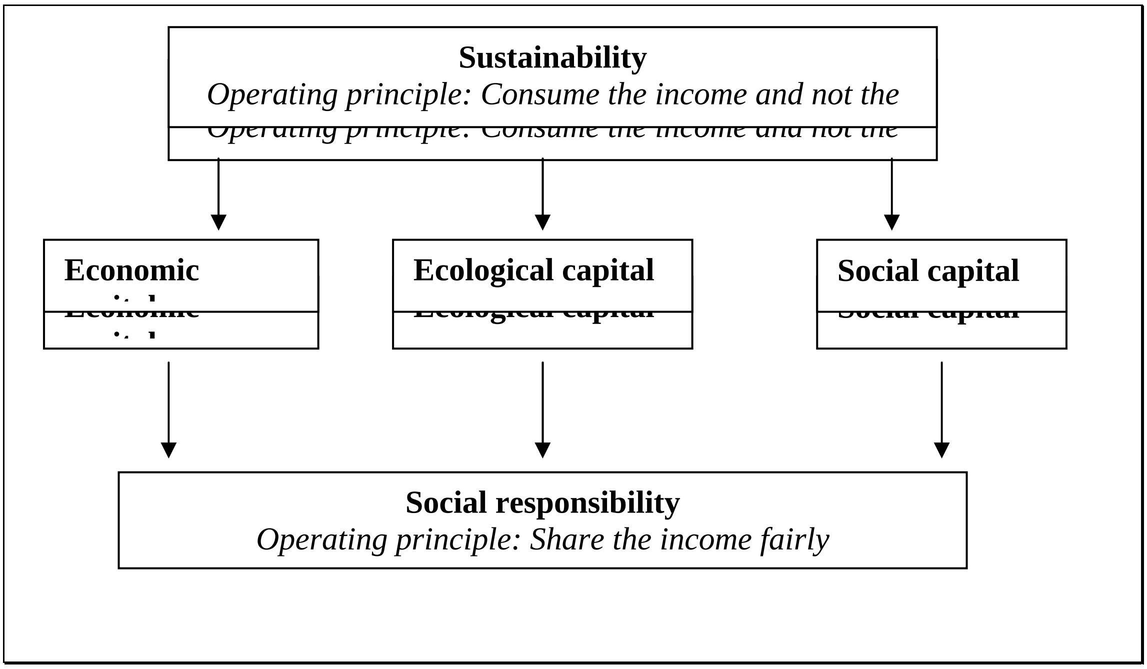

Figure 0-5: The relationship between CSR and sustainability

It will be clear from the foregoing that there are many different perspectives on CSR. It follows that there will similarly be different approaches to socially responsible investment, which are described next.

5.4 Australian perspectives on CSR

This section has described three major perspectives on CSR that are based on a) viewing CSR as a business strategy for aligning a company with its stakeholders' interests, b) viewing CSR as a values or ethics based imperative in which business must simply do the right thing regardless of benefits or costs, and c) viewing CSR as part of the sustainability concept. In Section 2.1.1 we traced the origins of these concepts to national roots in the USA, UK and Europe. We also suggested that in Australia we see evidence of all of these approaches, termed "hybrid" in Figure 1, and gave examples of these approaches.

CSR has been defined in many ways in the academic and business literature and there is no consensus about its exact definition. There is, however, widespread agreement that the lack of agreed definition of CSR can limit its applicability as a business concept but also enables diverse interpretations to suit different business circumstances.

Nevertheless our discussion of the prevailing perspectives of CSR in Australia suggests that there is a convergent view of CSR that combines strategic, values-based and sustainability perspectives. Accordingly, CSR requires a values-based business strategy that contributes to business legitimacy and sustainability by aligning a corporation's long term interests with the interests of its diverse stakeholders. We therefore offer this definition:

> **CSR is acceptance by a corporation of responsibility for the social impact of its activities, including effects on the natural environment.**

6. CSR AND FINANCIAL PERFORMANCE

An over-riding consideration for investors is the relationship between CSR and financial performance. Does it pay to take account of stakeholder interests in business-decision-making? This has been the most-researched aspect of CSR for over 30 years, producing hundreds of research papers with evidence that can only be described as "fractured".[70] The major difficulties faced by this body of work have been a) reaching an agreed definition of CSR and b) selecting an appropriate measurement strategy (see Section 6.1). Even if agreement could be reached on *what* is being measured (i.e., the definition of CSR), and *how* to measure it (i.e., the measurement strategy), there are many factors that can influence the relationship between CSR and financial performance, the most dramatic of which is firm size. Big companies tend to show higher CSR performance, yet this is not necessarily because they are more socially responsible. Investment indices weighted towards

[70] Orlitzky, M., Schmidt, F. L., & Rynes, S. L. 2003. Corporate Social and Financial Performance: A Meta-analysis. ***Organization Studies***, 24(3): p403, 439p.

socially responsible companies may in fact be favouring large companies.[71] Studies examining the relationship between social and financial performance must therefore control for firm size.[72]

Another factor influencing the relationship between social and environmental performance is industry sector. For example, the chemicals and extractive industries have sustained stakeholder pressure for improved social and environmental responsibility for many years. They may therefore have better developed stakeholder management systems than some other industries, even though their environmental and social impact is higher. Difficulties surrounding definition and measurement can then lead to anomalies such as a law firm receiving a lower CSR score for environmental performance than a mining company, despite the higher environmental impact of a mining company.[73]

From the investor's perspective, both size and industry can influence sustainability ratings. Newer sustainability indices such as the AuSSI control for both size and industry sector in the portfolio/index construction and may therefore form a suitable database for future studies on the relationship between social and financial performance.[74]

The most recent large-scale study of the relationship between social and environmental performance was conducted by Orlitzky and colleagues.[75] They found that CSR is positively associated with improved financial performance, but more strongly with accounting measures of financial performance (such as earnings per share) than market based measures (such as price per share or share price appreciation). This study is significant in part because it examined

[71] Cerin, P., & Dobers, P. 2001. What Does the Performance of the Dow Jones Sustainability Group Index Tell Us? ***Eco-Management and Auditing***, 8: 123-133.
[72] Orlitzky, M. 2001. Does Firm Size Confound the Relationship Between Corporate Social Performance and Firm Financial Performance? ***Journal of Business Ethics***, 33(2): 167f.
[73] See Corporate Responsibility Index 2004 results at http://www.corporate-responsibility.com.au/results/2004_results.asp. The score sheet does not provide separate scores for environment; the source is a personal communication.
[74] Personal communication, Francis Grey, Sustainable Asset Management; also see http://www.aussi.net.au/default.html
[75] Orlitzky, M., Schmidt, F. L., & Rynes, S. L. 2003. Corporate Social and Financial Performance: A Meta-analysis. ***Organization Studies***, 24(3): p403, 439p.

the effect of different measurement strategies on the relationship between social and financial performance. The researchers found that many of the negative findings in previous individual studies are caused by problems in measurement.

One of the most important questions in studies of financial and social performance is causality: does good financial performance lead to good social performance because there is more money available for CSR expenditure, or does good social performance lead to good financial performance because being responsible pays off? The Orlitzky study showed a virtuous circle in this regard: it works both ways. However, there is relatively little published empirical data that answers this question.

Given that measurement strategies have a big impact on understanding the benefits or otherwise of CSR, the next section describes the common strategies and their strengths and weaknesses.

6.1 Measurement strategies for CSR

Both tangible and intangible elements of CSR have been measured in previous studies. It is important to note that measuring intangibles is not necessarily “subjective” as perceptions, attitudes, values, capabilities, preferences, etc., can all be measured using objective methods. It is also important to note that each measurement strategy has both strengths and weaknesses. Figure 6 summarises four main measurement strategies: two rely in intangible indicators and two rely on tangible indicators. Most SRI research to date has employed tangible indicators. The Orlitzky study mentioned above analysed over 50 studies using all of these strategies.

Measurement uses tangible indicators	**Measurement uses intangible indicators**
Social audits	**Values in culture**
Objective data such policies and programs, often used in SRI research. Includes DJSI, BITC. *Assumptions* Self-report is reliable *Problems* Non-mandatory reporting may lead to spin, omissions	Psychometric survey data based on group perceptions *Assumptions* CSR is reflected in organisational culture and behaviour *Problems* Measurement error
Disclosures	**Reputation rankings**
Content analysis of publicly available documents found in some academic and SRI research *Assumptions* Activity = impact *Problems* Plethora of indicators not always comparable across industries, companies; does not generally include stakeholder evaluation of impact	Fortune most admired Reputex Reputation Quotient *Assumptions* Reputations reflect underlying CSR behaviours *Problems* Halo effect

Figure 6 CSR measurement strategies

6.1.1 Intangible indicators

Intangible indicators of CSR rely on aggregated perceptions of people about the social performance of a company. Surveys completed by large numbers of individuals are the method used to collect data. Measures of reputation (depicted in the top right quadrant, Figure 6) are commonly used as a proxy for social responsibility because research shows that social responsibility is a key driver of reputation.[76] However, reputation rankings such as the Fortune list rely on assessments of financial analysts, so there is assumed to be a "halo effect" in which the actual reputation measured is the reputation for financial performance.[77]

Perceptual measures may rely on the assessments of outsiders (such as reputation) or insiders. Insiders such as employees and managers could be asked for their perceptions of values in organisational culture (a proxy for CSR) or their perceptions of CSR capabilities or other company behaviours (see bottom right quadrant, Figure 6). Examples of perception based measures in this quadrant are work on social capital[78], corporate environmentalism[79] and social responsiveness capabilities.[80]

Intangible measures provide several benefits over tangible measures, but also suffer from some weaknesses. These are described next.

The advantage of intangible measures of *externally-held perceptions* of CSR is that they can provide an early warning of social risk. Depending on which

[76] Fombrun, C., & Shanley, M. 1990. What's in a Name? Reputation Building and Corporate Strategy. ***Academy of Management Journal***, 33(2): 233-258.
[77] Fryxell, G. E., & Wang, J. 1994. The Fortune Corporate 'Reputation' Index: Reputation for What? ***Journal of Management***, 20(1): 1-14.
[78] Boutilier, R. G. 2005. ***Measuring Social Capital for Social Performance***. Paper presented at the Measuring and Reporting Social, Environmental and Financial Performance. Conference on Social Metrics, Haas Business School.
[79] Banerjee, S. B., Iyer, E. S., & Kashap, R. K. 2003. Corporate Environmentalism: Antecedents and Influence of Industry Type. ***Journal of Marketing***, 67: 106-122.
[80] Black, L. D., & Hartel, C. E. J. 2004. The Five Capabilities of Socially Responsible Companies. ***Journal of Public Affairs***, 4(2): 125-144.

stakeholders are surveyed and the questions that are asked, this approach can help investors to understand the social issues and stakeholders, that if poorly handled by a corporation or industry, could become sources of social risk as described in Section 5.1.1.

The advantage of intangible measures of *internally-held perceptions* of CSR is that employees and managers of a corporation know a lot more about what is really going on inside a company than investment analysts (for example) may ever be permitted. They know how deeply a company is committed to managing social and environmental risks and whether there is a culture and structure that supports responsible decision-making. When provided with the anonymity and confidentiality afforded by participation in large-scale surveys (especially when run by independent researchers) they are generally reliable and truthful witnesses.[81] These measures permit a level of insight that is not generally available through “engagement” methods such as interviews with one or several key individuals in companies. It is particularly valuable for identifying sources of social risk as blind spots and weaknesses in organisational capabilities and culture indicate that a company lacks counter measures and controls that would enable it to manage the issues that are taken up by active stakeholders.

To summarise, the advantage of intangible CSR measurement strategies from an investment risk perspective is that measures of external perceptions can identify the social issues that may be taken up by stakeholders and thereby become a source of social risk, while measures of internal perceptions can identify the robustness of internal controls that enable the effective management of these risks. These are depicted summarised in Figure 7.

Social risk	=	THREAT	X	VULNERABILITY
		↓		↓
Risk sources	=	Stakeholders/issues	X	Management capabilities
Measurement				

[81] Black, L. D. 2004. ***How Companies Manage for Good***. Unpublished Ph.D., Monash University, Melbourne.

Strategy	=	External intangible	Internal intangible

Figure 7 The role of intangible measurement strategies in identifying social risk

However, the advantages of perception-based measures must be judged against their weaknesses, of which there are two. First, they are subject to "social desirability bias". People might answer questions in a manner they think is "politically correct", or give the answers they think will please the researcher, or genuinely believe things are better than they are because of their position or role (e.g. senior managers may think employees are more satisfied than they really are). This bias can also be problematic for engagement methods as noted above which primarily are concerned with corroborating and exploring tangible indicators of social and environmental performance. Second, they are subject to statistical measurement error. Because people often perceive the "truth" differently, developing a reliable measure of an intangible phenomenon such as values or culture is very challenging. Fortunately, statistical methods are available to measure both social desirability bias and measurement error so that researchers can determine and report the extent to which their findings are likely to be "true".

6.1.2 Tangible measurement strategies

Tangible indicators of CSR generally pursue one of two possible measurement strategies, as depicted in Figure 6. The first is "disclosures" and relies on the rigorous analysis of statements found in public documents such as annual reports, social and environmental reports or websites. The second is "audit", usually in the form of a long survey completed by a single respondent per organisation. The survey typically examines tangible indicators of corporate social and environmental performance such as the existence of policies and programs, environmental emissions and impacts, occupational health and safety records, and so on.[82] Both strategies are commonly used by investment analysts and the disclosure approach is

[82] For an example, see the survey used by Dow Jones Sustainability Index at http://www.sustainability-index.com/htmle/assessment/infosources.html

commonly used by both analysts and academic researchers. Each of these strategies is described next, together with its advantages and disadvantages.

The disclosure measurement strategy relies on the method of content analysis, which is the systematic analysis of information provided by corporations about their activities, often through social and environmental reports.

Companies may be guided in their choice of information to disclose by reporting guidelines such as those issued by the Global Reporting Initiative (GRI). GRI reporting guidelines are developed through multi-stakeholder collaboration processes between companies, civil society organisations and others (e.g. unions) so may reflect widely held stakeholder expectations of corporate behaviour.[83] GRI guidelines also represent an attempt at standardisation. Use of GRI guidelines addresses a disadvantage of content analysis as a measurement strategy because it specifies the information that should be disclosed.

However, the GRI has been criticised as providing little useful information for investors. This criticism is being addressed by new collaborative efforts between the GRI and financial institutions such as the recent initiative by GRI and 18 SRI firms representing US$230 billion in assets to encourage more social and environmental reporting.[84]

The advantage of content analysis is that large and detailed studies can be undertaken independently of corporate participation (e.g. the study by Gibson & Guthrie, 1995, that examined disclosures of 75 entities).[85]

The disadvantages of relying on voluntary disclosures is that corporate motivation for reporting may be to improve their reputation or avoid public

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[83] See http://www.globalreporting.org/
[84] See http://www.socialinvest.org/areas/news/100604-CorporateReporting.htm
[85] Gibson, R., & Guthrie, J. P. 1995. Recent Environmental Disclosures in Annual Reports of Australian Public and Private Sector Organisations. ***Accounting Forum***, 19(2/3): 111-127.

demands for greater control on their behaviour.[86,87] In the absence of mandatory reporting, corporations could be selective about the information they report and convey only information that reflects well on them. Studies have shown that corporations benefit from voluntary reporting by reducing risk, attracting inclusion in ethical funds, attracting and retaining employees, and influencing or delaying legislation.[88]

The audit measurement strategy is a catalogue of a corporation's activities which may be weighted by investment analysts according to the perceived contribution of that activity to social or environmental performance. For example, the Dow Jones Sustainability Index gives more weight to stakeholder engagement than any other social impact measure.[89] The presence or otherwise of each activity is treated as an indicator. Examples include whether a corporation includes stakeholders in its balanced scorecard, which international norms have been adopted (such as the OECD Guidelines for MNCs) or whether the company measures the effectiveness of its human resources policies. A recent study of 13 sustainability index providers showed that there is wide consensus on what areas are most crucial.[90] The most common social subject areas related to labour relations, labour rights, suppliers, human rights, stakeholders, risk management, community support, occupational health and safety, and customer satisfaction and safety. The most common environmental subject areas related to certification, environmental policy, environmental manager, goals and report, suppliers and energy consumption.

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[86] Adams, C. A., Hill, W.-Y., & Roberts, C. B. 1998. Corporate Social Reporting Practices in Western Europe: Legitimating Corporate Behaviour? ***British Accounting Review***, 30: 1-21.

[87] Hooghiemstra, R. 2000. Corporate Communication and Impression Management: New Perspectives Why Companies Engage in Corporate Social Reporting. ***Journal of Business Ethics***, 27: 55-68.

[88] Adams, C. A. 2002. Internal Organisational Factors Influencing Corporate Social and Ethical Reporting. ***Accounting, Auditing and Accountability Journal***, 15(2): 223-250.

[89] DJSI. 2003. Dow Jones Sustainability Index.

[90] Sjostrom, E. 2004. Investment Stewardship: Actors and Methods for Socially and Environmentally Responsible Investments. Stockholm: Nordic Partnership in collaboration with the Stockholm School of Economics.

The advantage of the audit method is that it rates a tangible trail of activities that are generally not mandatory performance indicators and thus afford greater insight into the activities of a corporation beyond what is available from the financial reports.

The disadvantages of the audit method are a) they are long and demanding on corporations, which may limit corporate participation, b) the numerous audit approaches in existence lack comparability and transparency[91] and c) differences between companies and industries mean that not all indicators are applicable across all companies, making it difficult to form an evaluation based on the presence or otherwise of a given indicator. For example, although there is widespread agreement that occupational health and safety records are an important social indicator, safety risks in the mining industry are much greater than safety risks in the finance industry.

6.2 Challenges of CSR measurement

For CSR measurement strategies to reap the rewards that have accrued to financial measurement strategies, standardisation and repetition are required. Standardisation would allow companies and stakeholders (such as investors) to compare the performance of a company or industry on universal criteria. Repeating measures over time, for example, annually, would allow investors to evaluate the contribution to long term performance that is the promised return of corporate social and environmental investment.

The greater of these challenges is standardisation. Standardisation of both intangible and tangible indicators is possible. Good measures already exist for both types. Perhaps counter intuitively, standardisation of intangible measures may be easier to achieve because things such as culture, capabilities, social capital and values exist in all companies, regardless of size or sector. In the

[91] Sjostrom, E. 2004. Investment Stewardship: Actors and Methods for Socially and Environmentally Responsible Investments. Stockholm: Nordic Partnership in collaboration with the Stockholm School of Economics.

cases of both types of measures, the interest of active investors in applying standardised approaches could wield significant influence.

7. SOCIALLY RESPONSIBLE INVESTMENT

Socially responsible investment is investment according to CSR criteria. Typically, three approaches prevail; negative screening in which investment is avoided in companies deemed “irresponsible”, positive screening in which investment is directed towards companies deemed responsible and best of sector approaches in which a balanced portfolio is sought by including the most socially responsible companies within each sector. According to the Ethical Investment Association of Australia, investments in socially responsible managed funds totalled $3.3bn in 2004, a 41% rate of growth over the previous year. Total assets covered by SRI criteria were estimated to be $21bn, however this figure includes assets broadly represented through engagement overlays, shareholder resolutions on environmental and social issues, and investments managed for religious organisations and charities.[92]

The concept of SRI began when faith based institutions began to invest employee pension funds according to their faith-based principles. This sector is today represented by the US-based Interfaith Centre on Corporate Responsibility with membership from over 275 faith based institutional investors and a combined portfolio in excess if US$110 billion.[93] In the US, these investors are particularly active in putting shareholder resolutions that have placed pressure on, if not caused actual change, at some of the world’s largest companies.

The concept of investing according to ethical principles received a further impetus during the 1970s from several US-based entrepreneurs who were inspired by small socially responsible companies such as Ben & Jerry’s and The Body Shop. These entrepreneurs were essentially baby boomers infused with the values of their generation such as the civil rights movement and anti-

[92] See 2004 Ethical Investment Association Benchmarking Survey at http://www.eia.org.au/
[93] See http://www.iccr.org/

war ideas. In 1971 the Pax World Fund became the first mutual fund to employee a negative screen against defence stocks. Soon after, the Calvert Group of Mutual Funds and Kinder, Lyndberg, Domini began to provide services for investors who wished to integrate social criteria into investment decision-making.

Today, SRI funds are widespread around the world, but they constitute a small portion of global funds under management. However, significant growth in the application of social and investment criteria to investment decision-making is more likely to emerge from the application of these principles to general portfolios.

8. TOWARD MAINSTREAM APPLICATIONS – INVESTMENT RISK AND OPPORTUNITY

Following the initial surge in interest in the SRI markets, a subset of institutional investors both overseas and in Australia have begun to implement ‘second generation’ investment strategies aimed more squarely at the mainstream. To date this has taken a variety of forms, and the introduction of new products and services will undoubtedly continue as institutional investors develop and implement CSR risk strategies.

Partially as a response to several corporate governance scandals involving ASX companies, the institutional investment sector is taking a more active role in engaging companies on the ASX. Whilst the focus of engagement to date has centred primarily on more conventional definitions of corporate governance, there is an increasing overlap with CSR issues, which has been given particular prominence in relation to the controversy surrounding James Hardie and asbestos compensation. This issue has focused significant attention on the links between responsible behaviour, governance, materiality, and fiduciary responsibility, and highlighted the rationale for greater levels of engagement by institutional investors on CSR risks. To date however, such engagement has tended to be ad hoc and reactionary, occurring after the event or in response to stakeholder pressure rather than an integral component of investment strategy.

More active voting of shares has also been an outcome of the trend toward greater institutional activism, particularly focused on corporate governance. The Voting Alert Service provided by ACSI to institutional investors is indicative, and overlaps with CSR issues to some extent, although the majority of issues arising fall more strictly within conventional corporate governance practices. It is apparent that some institutional investors view the use of such services as a risk management tool with respect to CSR (see Section 5.1.1). This could be considered to be a minimalist response to CSR risk however, given the current scope of items placed on the agendas to be heard at AGM's and EGM's.

A more proactive response to CSR risk in the Australian market has been adopted by a group of institutional investors through application of an ‘engagement overlay’, based on the identification of material social, environmental, and corporate governance risks in ASX companies,[94] and extended dialogue with companies on governance of specific material risks. Importantly, investors applying the engagement overlay approach have made a direct link to fiduciary responsibility, noting that the primary objective of the strategy is to “protect and enhance shareholder value”[95] rather than invest responsibly. The application of risk and materiality principles to social and environmental governance represents a further shift toward the mainstream. Institutional investors applying the engagement overlay approach now represent over $6.5bn in Australian equities.

One institutional investor, VicSuper, has committed 10% of listed Australian and international equities to be invested on sustainability criteria, the only superannuation fund to adopt this approach to date. Additionally, CSR factors are also emerging in products aimed at asset classes other than listed equities, including private equities, fixed interest, and property[96]. To date, these products have generally been targeted toward the SRI markets.

[94] An example is the Governance Advisory Service is provided by the BT Financial Group
[95] http://www.css.gov.au/css/governance/advisory_service.htm
[96] Examples include the CVC Eco Fund targeting private equities; the Glebe Fixed Interest Fund and Australian Ethical Income Fund; and the Glebe Diversified Property Fund.

Infrastructure investments incorporating aspects of CSR, particularly renewable energy, are also beginning to emerge.[97]

9. CSR AND AUSTRALIAN SUPERANNUATION INVESTMENTS - RESEARCH FINDINGS

9.1 Overview of research

Key decision-makers in the superannuation sector were interviewed to provide a snap shot of current thinking and practice with respect to corporate social responsibility. The intention of this research was to better understand how CSR and related non-financial investment considerations are being conceptualised and interpreted with respect to investment practice, particularly among ACSI members, service providers and relevant stakeholders.

9.2 Methodology

The study was exploratory in nature, involved a small sample, and therefore was not intended to be representative of the entire superannuation sector. The list of interviewees was generated with some prior knowledge of their involvement in aspects of CSR practice, having formed a view on CSR and/or through implementation of a product/service. It is important to note that these institutions are generally more active on CSR issues than the broader superannuation industry, particularly relative to the corporate superannuation funds, therefore the findings should be viewed accordingly.

Interviews were conducted with a cross-section of senior managers including investment managers for superannuation trusts, asset managers, and investment advisers/consultants. Industry funds and public funds were over-represented in the study relative to the make-up of the entire superannuation sector however, and therefore the sample is broadly representative of ACSI membership. Two organisations considered to be significant stakeholders were also included having previously expressed views on the linkage between CSR and investment.

[97] An example is Babcock & Brown Environmental Investments Ltd.

A total of 16 interviews were conducted, averaging about 45 minutes each in length. A combination of multiple choice and open-ended questions were used. (A copy of the interview questions can be found in Appendix A). Responses were recorded in writing. Organisations interviewed are listed in Table 2 below:

Superannuation Funds	**Managers/advisors/other stakeholders**
Cbus	Industry Fund Services
Australia Post Super	Principle Advisory Services
UniSuper	Frontier Investment
VicSuper	Mercer Investment
Public Sector and Commonwealth Superannuation Schemes	Macquarie Private Equity
Superannuation Trust of Australia	Russell Investment Group
HESTA	Association of Superannuation Funds of Australia
Emergency Services Super	Australian Conservation Foundation

Table 2: Organisations interviewed

9.3 Results

Interview results were segmented into four sets of questions relating to:

1) Definitions and meanings ascribed to CSR
2) Interpretations of CSR in relation to corporate responsibilities
3) The relevance of CSR to investment value, roles, and fiduciary duty
4) CSR investment trends and challenges

9.3.1 Definitions and meanings ascribed to CSR

There is relative uniformity of views with respect to meanings of corporate social responsibility. Most of the interviewees defined CSR as expanding the scope of corporate responsibility to include external stakeholders beyond immediate shareholders in the company. Stakeholder groups most frequently cited included local communities and employees. Other related interpretations included references to “the recognition that the corporate sector is part of society” and that CSR refers to corporations adopting a “triple bottom line approach”. There were varying views with respect to the inclusion of environmental considerations in definitions of CSR however. In this regard, it appeared that some took a very literal interpretation of “social responsibility” as not to include the environment.

After the stakeholder perspective, a number of interviewees linked CSR to aspects of governance or legal compliance. In general, they thought that CSR implies corporate practices “exceeding legal compliance”. However, this view is tempered when placed in the context of fiduciary responsibility, where some expressed the view that “compliance with the law” is a sufficient measure of CSR. Those expressing this view noted that the subjectivity inherent in defining ‘socially responsible’ practices is problematic.

Three of the interviewees linked CSR with ethical business practices or “operating according to ethical principles”.

9.3.2 Philanthropy

Whilst there may be legitimate bases for corporate philanthropic activity, philanthropy is relevant to CSR only in so far as it does directly address the social and/or environmental impact of that corporation’s activities.

9.3.3 Interpretations of CSR in relation to corporate responsibilities

Two thirds of interviewees believed that ASX companies, in general, did not devote sufficient attention to CSR (Table 3 below). Several of those interviewed who agreed with this statement noted several exceptions, including companies such as IAG, Westpac, and BHP-Billiton as providing good examples of CSR governance. Others noted that most ASX companies ‘got it about right’ given current levels of risk, but there were a number of both ‘good’ and ‘bad’ examples.

Question: In your view, is enough attention being given to CSR by ASX companies in view of your assessment of potential risks?	# of responses	% of responses
Too much attention	0	0%
About the right amount of attention	5	31%
Not enough attention	10	62%
Don’t know	1	6%

Table 3 – Attention to CSR by listed companies

More than half of the respondents (56%) believed that companies should integrate CSR as an element of risk management and/or governance. Twelve percent of respondents went further, expressing the view that CSR should be integrated as a core element of business strategy. These findings suggest increasing expectations of companies with respect to CSR. Twenty-five percent, however, had reduced expectations, noting that compliance with the law was a sufficient indicator of CSR management.

9.3.4 Relevance of CSR to investment value, roles, and fiduciary duty

The results indicate a strong belief that there is a linkage between CSR performance and company value. Seventy-five percent noted that CSR performance “can be a driver of value” or a “significant driver of value”, indicating that potential value impacts are an increasing issue for superannuation trustees (Table 4 below). A subset of the interviewees noted however that the evidence of this linkage is not yet strong enough to influence investment-decision-making, except in extreme cases.

Question: Which of the following statements do you believe most accurately describes your organisation's view on CSR?	# of responses	% of responses
CSR has no effect on value, and is a distraction for companies	0	0%
CSR can detract from value in some cases, and may warrant management attention	4	25%
CSR can be a driver of value, and deserves greater attention form corporate managers	10	62.5%
CSR is a significant driver of value, and should be central to corporate management	2	12.5%

Table 4 – Views on CSR

The extent to which CSR factors into the roles of those interviewed yielded more diverse responses (Table 5 below). Nearly half indicated that CSR is a factor in managing investment risk, indicating that CSR is becoming more of a mainstream concern. Among this group however, the importance attached to CSR as a risk management factor, as suggested by implementation of CSR-type initiatives, varied significantly. On one end of the spectrum, involvement in CSR referred to subscription to a proxy voting service. On the other end of the spectrum, the interviewee noted that "it permeates everything we do".[98]

Approximately one third of the respondents indicated that their involvement in CSR stemmed from either a response to member/client expectations (i.e. provision of an SRI option), or growing market demand for SRI funds. Two interviewees saw their role as identifying investment opportunities, in one case referring to renewable energy investments, the other referring to identification of companies that demonstrate leading performance across a range of indicators.

[98] This institution has embraced 'sustainability' rather than corporate social responsibility as a philosophical concept, however the institution interviewed responded to questions on CSR with reference to sustainability.

Question: How does CSR factor in your role currently	# of responses[a]	% of responses
Not at all	0	0%
Responding to member/client expectations re SRI member choice	3	20%
Responding to growing market for SRI investment products	2	13%
A factor in managing risk in investment portfolios / protecting investment value	7	47%
A factor in identifying investment opportunities	2	13%
Other	1	7%

[a] 15 interviewees responded to this question

Table 5 – CSR and current roles

Most of those interviewed believed that CSR would become an increasingly important factor in their roles over time. An indicative comment in this regard: “It’s on the radar and corporates are more nervous about it”. Advisers to the superannuation industry also commented on the growing importance of CSR, in one case noting that “[capabilities in CSR investment applications] are likely to be a factor for super funds in selecting advisers”.

A significant majority of those interviewed believed that CSR issues can be a factor in executing fiduciary responsibility (Table 6 below). Agreement on this point needs to be qualified to some extent, as several commented that this view is not necessarily reflected in actual practice: “[CSR] doesn’t factor into every decision we make. We are expected to give our focus to returns”, or similarly, “CSR is one of many issues. Too much focus could result in negative benefit. Larger funds can devote more time to CSR”.

Question: To what extent do you view CSR performance as a factor in the execution of trustees' fiduciary duties?	# of responses	% of responses
Not a factor	1	6%
Attention to CSR issues has the potential to distract trustees from their fiduciary duty	1	6%
Some CSR issues may impact fiduciary duty, but only in exceptional cases	3	19%
CSR issues can directly impact risk/return, and are therefore a factor in fiduciary duty	11	69%
Other	0	0%

Table 6 – CSR and fiduciary duty

9.3.5 CSR investment trends and challenges

The majority of interviewees believed that CSR would become 'mainstream' or 'approaching mainstream' in the next 10 years. The reasons cited for this mainstreaming trend were varied, including forces pushing for CSR from the investment community itself, and others noting the emergence of external pressures acting on the corporate sector. Investment sector drivers mentioned included the increasing tendency for institutional investors to take a more activist stance in the wake of several high profile corporate collapses; the increasing linkage between CSR and corporate governance; and the willingness of unions to exert pressure on the corporate sector through the superannuation sector.

External pressures on companies mentioned included regulatory developments and market factors, effecting changes in corporate practices. These external pressures, in turn, would increase risks to investors, and therefore such issues would need to be factored into investment strategies and risk mitigation. Several interviewees highlighted specific issues that were likely to drive this trend, noting in particular, serious ethical breaches and climate change. In terms of the latter, one interviewee commented that "climate change impacts earnings of many companies that can then impact the whole asset class, impacting returns to investors".

A subset of this group argued that CSR had already become mainstream to an extent, noting the increasing take-up of CSR products and services in the institutional investment sector in CSR, but that progress toward full integration of CSR issues in investment-decision making will continue to ‘be patchy’.

Two of those interviewed were not convinced that CSR would become mainstream, expressing the view that the shareholder will remain the dominant stakeholder. One expressed the view that corporations would not change their behaviour voluntarily, and therefore “governments need to regulate to create a level playing field”.

Key challenges highlighted by interviewees related to aspects of fiduciary responsibilities with respect to CSR including 1) access to information and tools to measure material CSR risks 2) reconciling the long term nature of CSR risks with ‘short-termism’; and 3) costs associated with investment on CSR principles.

Several commented that the CSR concept itself was problematic in the context of the sole purpose test, as investing on ‘social responsibility’ criteria could be seen as a breach of fiduciary duty in the absence of information linking specific CSR issues to investment risk/returns. A telling comment in this regard was: “CSR can’t possibly be top priority as maximising returns for members is the sole purpose. If they don’t get this then people like him could go to jail”. Following on this point, others noted that identification of material CSR risks is a key challenge, if investment on CSR principles is to be reconciled with fiduciary duty. Several commented that such information was not readily available, hindering action.

A number of interviewees also mentioned the tension between the preoccupation with short-term performance and the long-term nature of CSR risks. A key challenge then “is striking the balance between short term and long term objectives”. Others noted the additional costs to invest in CSR research in the context of increasing pressure on fees, therefore “adoption and maintenance of a cost effective CSR strategy is a key challenge”.

9.4 Discussion

The research results clearly indicate an increasing awareness of CSR as an issue for investment decision-making in the organisations involved in this study. One of the strongest findings was the general agreement that CSR can affect risks and returns, and are therefore a factor in investment decision-making. Whilst the recent corporate collapses of significant Australia-based corporations (e.g. HIH and One.Tel) related to corporate governance failings were important factors in forming these views, it was apparent that the James Hardie asbestos compensation issue has tended to reinforce and crystallise perceptions of the potential linkage between CSR and investment risk.

Acting on this awareness presents various problems for investment decision-makers however. A key barrier appears to be interpretation of the sole purpose test with respect to CSR, as many of those interviewed felt that evidence of a material financial risk would be required to provide protection to fiduciaries if an investment decision is taken on CSR performance. Terminology appears to be problematic, as the ‘social responsibility’ label itself is perceived by some to be in direct conflict with the sole purpose test. Where such issues are indeed material, then the application of risk principles becomes an important factor in preserving fiduciary responsibility. Indeed, where CSR issues can be demonstrated as material investment risks, it can be argued that failure to identify and manage such risks would be a breach of fiduciary duty.

It is also apparent that the CSR concept presents definitional problems for investment decision-makers, as several of those interviewed pointed out that issues vary considerably across companies and over time. It is therefore difficult to identify normative CSR standards, and more importantly, to make definitive linkages to investment value when ‘CSR’ is used to denote performance across a diverse range of individual CSR issues (e.g. environmental management, workplace management, community relations), only a portion of which may be material. In this context, some interviewees noted that investors would need to “identify which specific issues to focus on”, or “separate out” from CSR.   Several of the interviewees made frequent reference to climate change response and management of business ethics (e.g. James Hardie) as material issues for investment decision-making.

A central issue for superannuation trustees is access to information to identify material issues and to incorporate such information into investment decision-making. Most of those interviewed held the view that information on material risks is unavailable or difficult to obtain. These comments implied that the SRI-type of information currently available is not suitable for mainstream investment management purposes, suggesting a ‘gap’ in the investment research industry or lack of awareness of more mainstream research on social and environmental risks. The availability of robust information on material CSR risks is clearly a critical requirement to provide investment decision-makers with the confidence to integrate such information into investment strategies and the assurance that fiduciary responsibilities can be maintained.

Overcoming institutional inertia relating to the roles of different actors in the investment decision-making process is clearly another barrier. Several challenges are apparent. First, the interactions between superannuation investment institutions and their investment and legal advisors have tended to perpetuate the status quo with respect to CSR investment, creating a ‘chicken and egg’ dilemma. Advisors have tended to take a conservative view of investment styles that include or emphasise non-financial factors, partially in response to the limited range of products and services in the market perceived to be suitable or the limited track record of such products. At the same time, comments provided by investment advisors suggested that they are seeing emerging opportunities to provide services on CSR investment given sufficient demand from the superannuation sector.

Second, the relatively low take-up of member-choice SRI options appears to have generated caution with respect to investment on CSR principles, with some questioning the cost and effort of SRI strategies. An indicative comment in this regard: “member choice for ethical funds is not being supported. Members say they want the choice but don’t put their money into CSR funds.” Another superannuation manager noted that they had sought advice from an actuary on SRI investment, but the conclusion was not to pursue SRI at this stage, as any “material [CSR] issues would be priced by the market anyway”.

Third, some of those interviewed commented on the challenges in implementing a CSR-type policy across multiple investment/fund managers, and monitoring adherence to these policies. One superannuation investor commented that a challenge “for trustees is to ensure that out-sourced investment managers carry out governance commitments in relation to CSR”. The resources required to implement and monitor these policies across multiple managers is clearly of concern to superannuation trustees.

9.5 CSR and superannuation trustees: where to from here

The incorporation of CSR into investment decision-making appears to be at a critical juncture in Australia. Awareness of the potential impact of CSR issues on investment is at high levels, particularly from a risk perspective, but this awareness is not matched in actions, for the reasons described above.

The emergence of the SRI sector over the last five years appears to have had countervailing effects on institutional investors; on the one hand serving to open the door for investment styles based on the application of CSR-type principles, while at the same time, exposing the limitations of the SRI approach itself for mainstream investment applications. These limitations are two fold: the low take-up of member choice SRI options to date has raised some concerns about the long term prospects of the SRI market, whilst the ‘subjective’ underpinnings of SRI and CSR investment has highlighted the challenges for fiduciaries in taking the next step toward integration with mainstream investment.

To resolve the apparent paradox between the increasing materiality of CSR issues on investment, and the inherent limitations of ‘socially responsible’ investing, it is incumbent upon participants in the investment industry to provide risk-based analytics and tools to demonstrate more robust linkages between specific CSR issues and investment risk/return. Language will be critical in this regard: it is more consistent with current understandings of fiduciary duty, for example, to identify where a ‘corporate social responsibility’ issue crosses a material threshold and becomes an operational or reputational risk that has the potential to impact a company’s market or business model and hence returns. Discipline is required on the part of research providers and analysts to define these thresholds and better evidence materiality.

The emergence of at least one such service to institutional investors in the Australian market[99, 100] indicates that the industry is beginning to respond to the needs of mainstream investors. However, wide scale take-up of CSR risk investment applications will require acquisition of new skill sets and the active participation of fund managers and portfolio managers across the institutional investment sector. Levels of activity appear to be very low in these groups at present. Of equal concern, efforts to address these competency gaps are not apparent, despite the failure of mainstream markets to identify the governance failings leading to a number of corporate scandals on the ASX, with subsequent loss of shareholder value. There appears to be an assumption that the market will price in any material social, environmental or ethical issues, however on-going protection of shareholder value will require that mainstream analysts integrate material CSR risks into company assessment and valuation.

Clearly, CSR risks are only one of a number of considerations superannuation trustees need to take into consideration in discharging fiduciary duty. Whilst the linkage between specific CSR risks and superannuation trustees

[99] The BT Governance Advisory Service provides risk-based assessment of material social and environmental issues for institutional investors.
[100] Note that Monash Sustainability Enterprises is a client of BT. BT had no role or influence in the preparation of this report.

investment risk is increasingly accepted, a prudent approach would be to extend risk assessment and valuation methods in mainstream analysis to include key social, ethical, and environmental exposures. All other capabilities being equal, an superannuation trustee with enhanced CSR risk assessment capabilities would be expected to provide more complete coverage of potentially material issues and investment opportunities. In this regard, the superannuation sector is in a key position to stimulate enhanced analysis by including CSR risk assessment capabilities within the criteria used to select fund managers.

Whilst corporate disclosure practices among ASX companies have been improving over the last 5 years, the capacity of superannuation trustees to undertake enhanced analytics is constrained by the lack of information on material CSR risks. The causes appear to be systemic: companies will generally respond to requests for information given sufficient demand from key stakeholders (i.e. mainstream analysts representing institutional investors); however demand for such information is perceived to be low. In the absence of strong signals from mainstream investors, ASX companies have tended to target CSR reporting toward the community or ethical investment sector. Such reporting is largely ignored by mainstream investment managers.

Again, the superannuation sector is in an influential position to advocate for better disclosure by ASX companies to facilitate identification of material social and environmental risks, particularly through collective advocacy directed at 1) ASX companies and appropriate industry associations, and 2) government policy and disclosure regulation.

10. DEFINING CSR FOR SUPER INVESTORS

One unifying principle is found across the definitions of CSR, even though some still argue over detailed definitions.

> **CSR is acceptance by a corporation of responsibility for the social impact of its activities, including effects on the natural environment.**

“Responsibility” in this context must reflect the values of the corporation’s stakeholders and, in so far as relevant, the society or societies within which it is embedded. Needless to say, these values are those which are broadly accepted and do not accommodate those practised by despotic or corrupt individuals, governments or boards. Note that philanthropy does not satisfy the discharge of a corporation’s CSR except in so far as it does address the social or environmental impact of its activities.

These social impacts of a corporation include:

- conditions of employment,
- work environment of employees and contractors,
- intervention in democratic or to other political processes,
- effects on the physical environment external to the corporation’s premises (including incremental effects on health, biodiversity & climate),
- effects on the social and economic conditions of the local, national or international communities in which it operates,
- effects on suppliers and customers, including indirectly on the social impacts of activities affected by their relationships with the corporation.

By understanding CSR in this way, reputation management, risk management, innovation and governance are each seen as factors affecting the management of a corporation’s CSR rather than being components of CSR. In other words they affect how a corporation handles its social responsibilities rather than themselves being part of CSR in their own right.

Acceptance of responsibility requires that the corporation be accountable for its actions. Accountability can be discharged in a number of ways, varying according to the nature and severity of the impact. If the impact is an apparent breach of legal provisions, then the corporation or the directors or other officers are accountable to the system of justice and may be prosecuted and, if convicted, penalised according to law.

Breaches of the law are the most severe offence against CSR. Lesser breaches may have adverse social or environmental effects which fall short of infringing the law.

Investors are themselves directly bound to exercise CSR in their own investment behaviour.

By placing an investment in a particular corporation, the investor is making a deliberate decision to endorse the aggregate performance of that corporation through the purchase of its shares or other equity. That aggregate performance includes the corporation's discharge of CSR. If, for example, the corporation has relied on unconscionable treatment of its workforce in achieving financial performance, the investor implicitly endorses that behaviour by placing investment in it. The investor has then failed to exercise CSR. The superannuation trustee also owes a fiduciary duty to the fund members.

> It is not sound fiduciary practice for the institutional investor to remain passive when a company is likely to suffer financially because of consumer backlash, regulatory or legal costs or compensation payments brought on by its social/environmental practices all of which can affect the company's share price performance.[101]

Accordingly, the investor should place funds in corporations in which:

- provide conditions of employment which include just remuneration and non-wage/salary entitlements and are fair & equitable according to local norms AND international minimum standards,
- provide safe and healthy work environments for both direct employees and indirect employment such as contractors,

[101] Spathis, P., & Thurstans, A. 2001. Corporate Governance and Superannuation Trustees, ***"Corporate Citizenship"A Newsletter Of The Australian Council Of Superannuation Investors. No. 5***, Vol. 2005: A revised version of a paper presented to the Centre for Working Capital International Roundtable Conference in San Francisco. Melbourne: Australian Council Of Superannuation Investors.

- observe the highest standards of integrity in dealings with politicians, political parties, election candidates and public servants, including deliberate avoidance of campaign donations, gifts or other favours which may be perceived as inducements to influence decisions affecting the corporation or its industry,
- actively seek and/or develop and apply measures to prevent avoidable adverse impacts of the corporation's activities on the physical environment, including incremental effects on health, biodiversity & climate,
- orientate their activities to produce only beneficial impacts upon on the social and economic conditions of each local, national or international community in which they operate and act to redress any adverse impacts,
- have regard to the employment effects of changes to technology used in the production of goods and services, and
- monitor the effects of their operations on suppliers and customers (including the social impacts of their activities e.g. the employment conditions under which supplies are provided) and interact to redress any adverse impacts.

If it becomes apparent that concerns over the discharge of CSR have developed, the investor must make an assessment of whether the corporation is amenable to addressing those concerns through engagement or in response to voting on particular issues. If, after engagement, the corporation is assessed as unlikely to respond in a socially responsible manner, the investor should review the investment on the same basis as if considering initiating investment in the corporation.

11. CONCLUSION

The rise of the twin engines of superannuation growth and globalising of business, including money markets, has transformed the CSR landscape. Shareholders are no longer a privileged elite. Since compulsory superannuation saving was introduced to Australia in 1992, all workers have been encouraged to make provision for their own future through superannuation. Australia, with $550 billion under management, is the world's fourth biggest fund management market and the largest in the Asia Pacific, with about $30 billion of new funds flowing in every year.[102] Superannuation trustees acting on behalf of superannuation funds thus have increasing power to set new standards for accountability and re-define the boundaries of corporate responsibility. Moreover, superannuation trustees and other investors are themselves expected to exercise CSR in their investment decisions.

This Submission outlines the principles involved and provides information and advice to assist organisational decision-makers to have regard for the interests of stakeholders other than shareholders, and the broader community.

[102] Mallet, V. 2004. Vanguard Reflects Growth of Australian Funds Sector, ***Financial Times***: 4. London.

12. APPENDICES

Appendix A – Overview of CSR norms, guidelines and tools available to companies

Instrument		Name	Description	Ownership	Method	Published studies	Further information
Standards	Inter-national	OECD Guidelines for MNCs	A set of principles and standards for responsible business conduct endorsed by Australian government.	Public	Multi-stakeholder development process	N/a	http://www.ausncp.gov.au/
		Global Compact	A set of 10 principles to guide business conduct created by five UN agencies: UNHCHR, ILO, UNEP, UNDP and UNIDO. 16 Australian company signatories.	Public	Multi-stakeholder development process	N/a	http://www.unglobalcompact.org
		UN Human Rights Norms for TNCs	Norms currently in draft stage aim to increase corporate accountability for human rights by introducing mandatory standards on CSR endorsed by governments.	Public	Multi-stakeholder development process	N/a	http://www1.umn.edu/humanrts/links/norms-Aug2003.html
	National	Australian CSR Standard AS 8003	Voluntary standard on CSR that provides basic guidance about integrating CSR into operations, part of a 5-part suite of corporate governance standards.	Public	Multi-stakeholder development process	N/a	http://www.standards.com.au/catalogue/script/Details.asp?DocN=AS871065609029

Instrument		Name	Description	Ownership	Method	Published studies	Further information
	Sector specific (e.g.)	UNEP-FI	A partnership between United Nations Environment Program and the finance sector to understand the impacts of environmental and social considerations on financial performance. Over 200 finance sector participants. Signatories commit to principles related to sustainable development. Nine signatories in Australia. Partners with EPA (Vic).	Public	Multi-stakeholder development process	N/a	http://www.unepfi.org
Reporting Guidelines	Inter-national	GRI	Develops and disseminates reporting guidelines for non-financial reports. Includes sector-based supplements. 38 Australian companies currently using GRI, more likely to follow.	Public	Multi-stakeholder development process	Yes, see website	http://www.globalreporting.org/

Instrument		Name	Description	Ownership	Method	Published studies	Further information
		WBCSD	Membership organisation of 175 international companies dedicated to sustainable development. Five Australian members. Offers several guides to reporting and measuring performance, eg measuring eco-efficiency, greenhouse emissions and general 'how to report' guidance.	Public	N/a	N/a	http://www.wbcsd.org
	Sector Specific	SPI Finance	Social performance indicators for financial institutions, collaborates with GRI.	Public	Multi-stakeholder development process	N/a	http://www.spifinance.com/
		EPI Finance	Environmental performance indicators for financial institutions, collaborates with GRI.	Public	Multi-stakeholder development process	N/a	http://www.epifinance.com/
Reporting Assurance Standards		AA1000	An assurance standard for non-financial reports based on principles of materiality, completeness and responsiveness (to stakeholders). Developed by AccountAbility. Objective is to provide assurance to stakeholders.	Standard publicly available, accredit-ation by paid coursework	Multi-stakeholder development process	N/a	http://www.accountability.org.uk/

Instrument	Name	Description	Ownership	Method	Published studies	Further information
	ISAE3000	An assurance standard for non-financial reports developed by the International Assurance and Auditing Standards Board defines principles and procedures. Objective of assurance is agreed between assurer and client.	Standard publicly available	Multi-stakeholder development process	N/a	http://www.ifac.org/IAASB/
Reporting Data Aggregation Tools	OneReport	Distributes social and environmental data from participating firms for use by research and ratings organisations. Data users include SRI researchers	Private	Web-based software	No	http://www.one-report.com/
	CRedit	Gathers and collates CSR data and enables on-line reporting; incorporates GRI and BITC indicators.	Private	Web-based software	No	http://www.credit360.com
	Stakeholder-Engage	Data consolidation software pre-loaded with GRI indicators enables data export in various formats.	Private	Web-based software	No	http://www.stakeholderengage.com/
	Corporate Responsibility Exchange	Gives investors a single site to locate company social and environmental data.	Private, London Stock Exchange	Web-based software	No	http://www.londonstockexchange.com/en-gb/products/irs/cre/

Instrument	Name	Description	Ownership	Method	Published studies	Further information
CSR Rankings and Ratings	Corporate Responsibility Index	Established in 2002 by Business in the Community (UK), and operates in Australia through St James Ethics Centre. Self-report tool assesses four areas of CSR management. 27 Australian companies participated in 2004.	Member-ship based organisation	Survey	No	http://www.corporate-responsibility.com.au/
	Reputex	Rates Top 100 companies across four areas	Private	Analysis of publicly available information and site visits	No	http://www.reputex.com.au/
Management Frameworks	Sigma	Guidelines for companies on implementing sustainable development supported by a Management Framework that integrates sustainability issues into core processes and mainstream decision-making.	A partnership between British Standards Institution, Account-Ability and Forum for the Future	Multi-stakeholder development process	Cases available on website	http://www.projectsigma.com/

Instrument	Name	Description	Ownership	Method	Published studies	Further information
	Caux Principles	Principles for business conduct based on human dignity and include a SAIP tool (self assessment and improvement process).	Member-ship based business network	Multi-stakeholder development process	No	http://www.cauxroundtable.org/
Diagnostic Tools	Stakeholder 360	Measures quality of stakeholder relationships based on dimensions of social capital, predictor of social performance.	Private, Robert Boutilier & Associates	Survey	Yes, available on request	mailto:robert@rboutilier.com
	SPIRIT	Analyses stakeholders' perceptions of their experiences of a business and identifies their emotions and intended future behaviour towards the business, to create a unique and statistically validated Relationship Improvement Tool.	Private, Henley Manage-ment College	Surveys and focus groups	Yes, see website	http://www.henleymc.ac.uk/henleyres03.nsf/pages/jmcr_spirit
	CSR Management Capacity[103]	Framework and tool for assessing organisation-wide CSR capabilities of stakeholder engagement,	Private, Australian Centre for Corporate	Interviews and/or survey	Yes, see website	www.accsr.com.au

[103] Declaration of interest: Australian Centre for Corporate Social Responsibility compiled this table.

Instrument	Name	Description	Ownership	Method	Published studies	Further information
		dialogue, communications, ethics and accountability.	Social Responsi-bility			
	CSR Business Evaluator	Assesses the impact of triple bottom line issues on a company.	Private	Web-based software	Yes, see website	http://www.csrevaluator.com
	Stakeware	Tracks, manages and reports stakeholder engagement activity.	Private	Web-based software	No	http://www.stakeware.com/templates/home.asp
	CRAT	Internal assessment tool to evaluate aspects of CSR performance.	Private, Conference Board of Canada	Online tool	No	http://www.conferenceboard.ca/GCSR/CR_AT/
	The Trucost System	Expresses a company's environmental impact in financial terms.	Private	Various software-based tools combine input/output analysis with environmental profiles for over 130 different business activities to assess environmental impact in financial terms.	Yes, see website	www.trucost.com

Instrument	Name	Description	Ownership	Method	Published studies	Further information
	Global Citizenship 360	Benchmarks against 21 international standards.	Private, Future500	Online tool	No	http://future500.org/audit/

Appendix B – Interview questions

1. Could you briefly explain your role?
2. *Open –ended:* What is your current understanding of the term 'Corporate Social Responsibility' (CSR)?
   If known, to what extent is your understanding/definition of CSR representative of others in your organisation?
3. Does your organization have a CSR policy/CSR manager or person responsible for CSR issues? (please describe)
4. Which of the following statements do you believe most accurately describes your organization's view on CSR:
   a. CSR has no effect on value, and is a distraction for companies
   b. CSR can detract from value in some cases, and may warrant management attention
   c. CSR can be a driver of value, and deserves greater attention from corporate managers
   d. CSR is a significant driver of value, and should be central to corporate management
   e. Other (please describe)
5. How does CSR factor in your role currently?
   a. Not at all
   b. Responding to member/client expectations re option for Socially Responsible Investment member choice
   c. Responding to growing market demand for Socially Responsible Investment products
   d. A factor in managing risk in investment portfolios / protecting the value of member/client investments
   e. A factor in identifying investment opportunities for members/clients
   f. Other (please describe)

   If it does feature now, do you see the role of CSR increasing over time?

   If not now, do you anticipate that CSR will feature more prominently in the execution of your role in future?

6. Which of the following best describes your organizations' minimal expectations of companies with respect to management of CSR issues?
   a. No expectations with respect to CSR
   b. Legal compliance only
   c. CSR integrated as an element of risk management/governance
   d. CSR integrated as a core element of business strategy
   e. Other
7. In your view, is enough attention being given to CSR by ASX companies in view of your assessment of potential risks?
   a. Too much attention
   b. About the right amount of attention
   c. Not enough attention
   d. Other

8. To what extent do you view CSR performance as a factor in the execution of trustees' fiduciary duties?
    a. Not a factor
    b. Attention to CSR issues has the potential to distract trustees from their fiduciary duty
    c. Some CSR issues may impact fiduciary duty, but only in exceptional cases
    d. CSR issues can directly impact risk/return, and are therefore a factor in fiduciary duty
    e. Other (please describe)
9. *Open-ended*: To what extent do you consider that CSR issues will become main-stream in investment decision-making in the next 10 years?
10. *Open-ended:* What do you consider to be the key challenges for investment decision-makers in relation to CSR?
11. Do you have any other comments you would like to add?

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These complex inter-relationships are created, developed and changed through shared geographic territory, culture, laws and chains of production and consumption of goods and services; and the respective role played by each of the governance spheres in shaping and interacting with each other in a constantly changing national and international environment. No society's governance can be fully understood without studying these relationships.

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ACCSR is a leader in CSR research, learning and strategy. Its mission is to help corporations become more socially responsible by increasing their management capabilities for corporate social responsibility. Its programs and advice are based on the best international and national empirical research and operate from a strategic management and organisational development perspective.

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MSE is the consulting, advocacy, and training arm of MCEM. MSE is involved in a number of research initiatives and commercial ventures to promote more sustainable practices in the investment and finance sectors. Through its partnership with the BT Financial Group, MSE has pioneered the practical application of environmental and social rating and analysis for financial institutions in Australian financial markets.

MSE seeks to engage industry to communicate the business case for sustainable development, develop robust methodologies to identify linkages between sustainability and financial drivers, and develop advanced metrics to gauge progress toward sustainability targets.

MSE provides a commercial focus for Monash's business and sustainability programs, building and extending on engagement with Australian industry through the activities of MCEM.