

International Perspectives in Governance and CSR : An Exploratory Study of Australia, UK and India

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Literature and context

- Agency theory – Reliance on governance structural controls.
- “Recent corporate scandals signal where unregulated economic CSR & instrumental citizenship can lead – to violation of even fiduciary much less customary business ethics”
(Windsor 2006:100)
- Stakeholder perspective included in Governance codes
- Crux & Wakolbinger (2008:64) “as CSR increased, risk decreased...”

CSR and Governance

- Govts accept that firms will not always act altruistically – legislation passed to ensure act in long-term interests of all. Legislation defines responsibilities & to whom.
- Business case linked to reputation & access to product, labour & capital markets.
- Resource dependency & stakeholder theory – if ignore stakeholder reactions leads to decreased shareholder value. Francis & Armstrong (2003) result of poor risk management.

CSR from a moral case

- Stewardship theory – “doing the right thing”
- Law – minimal standards whereas ethical self-regulation is an aspirational standard, recognising voluntary self-restraint, altruism & universal human rights (Francis & Armstrong 2003; Windsor 2006)

Convergence between systems

- Governance usually spoken of as moving towards anglo systems to attract foreign capital & credit ratings (Aras & Crowther 2008; Jackling & Johl 2009) – but GFC shown that anglo system problematic.
- Institutional theory - Relationships act as control mechanism – family, banks, employees, & business groups (North 1990; Khanna & Palepu 2000).

Background

- Research conducted in Australia, UK and India in 16 companies (24 interviews) in 2007/08.
- Manufacturing, service & retail sectors and institutional investors
- Research centred on Corporate Governance, its drivers and effects.
- Exploring links between Governance and CSR, including historical antecedents and drivers, rationale for inception in organisation and link to business strategy and risk frameworks

Australia - Risk minimisation

- Compliance: ASX principles & responsibility of directors
- ASX Principle: board establish policies on risk oversight & management of material business risks & disclose a summary of policies, incl. risk management committee.
- Consider risks such as operational, environmental, sustainability, compliance, strategic, external, ethics conduct, reputation or brand, technological, product or service quality and human capital.
- Risk: Mining companies understood importance of CSR on risk & reputation
- Expectation: Social licence to operate
 - “the issue isn’t driven by any moral or ethical type guidelines but it is because the landscape has actually changed in that cos can no longer simply act for their s/hs with complete disregard for other s/ts because of the social licence to operate ... if endanger that licence then creates real risk to business” (Superfund)

Australia - Reputation

- Reputation important to Mining Co: responsible for putting rhetoric into action and improving performance and has become a driver of Improved reporting
- Outcomes of 'employer of choice' & recognised as leader in sector
- “it will give us access to land ... to people who may want to work for us who understand environmental degradation & want to do something about it, how to mitigate against climate change & understand water usage..... Young people want to work for cos who are actually doing what they say & contributing to societal transformation...”
- “If we are recognised as a responsible water manager ... there is benefit to the environment but the actual real purpose is to access water...”
- Accounting rules & stds: “Unless you can put a \$ value on reputation in long-term it is a major barrier to good environmental and social management”.

Australia - Investors

- Investor pressure: “higher standards individually and institutionally” (Accounting firm).
- But large disconnect between statements & behaviours of small investors and a reasonable dose of fashion on CSR side (Brewery).
- Lack of consensus on what is socially desirable between co & retail investor – all about assessing risk rather than what is ‘right or wrong’.
- Recognition that CSR is a ‘political agenda’ and therefore give a ‘political response’ (Brewery co) –
Depressing, cynical process and aim to not improve outcomes but to protect the company.

UK – Good Governance

- Governance raised its profile due to financial situation.
- But differences in perception amongst investors & business about what is ‘good governance’? Altho all spoke of UK structures in Combined Code as ‘best practice’.
- Governance structures important in showing that cos operating correctly, that fraud will be detected, that decision-making is transparent, that decisions made with best intentions... demonstrate integrity” (Trade body of Pension Schemes).
- Concentrated shareholder base around large insurance cos and pension funds:
 - “We are slightly complacent about these things, we think we do pretty well, very well” (Trade body of Pension Schemes) “I think the general assumption in the UK is that we lead the way & there is just a tad of smugness about us, which must get really irritating” (Trade body of Financial Services Insurance sector)

Changes called for - emanating from financial crisis

- Better dialogue with stakeholders especially in explaining deviations to governance principles
- Changes needed to Executive remuneration
 - total exec pay should decline as profits as a % of GDP declines
 - pay should align with costs of capital and risk
- Short-termism in decision-making led to decline in corporate value
- “Need pension funds & other underlying beneficial owners to change their actions & demand a longer-term focus from their agents the fund manager” (Super fund)
- Banks making a lot of money but decision of poor quality and profits not sustainable “We are interested in sustainability, not from a moralistic viewpoint but from a sustainable view” (Trade body of Finance Sector)

UK Governance - Risk

- Traditionally has been a focus on SRI and negative filtering approach to investment rather than an evaluation of ESG Risk
- “I wouldn’t all it CSR, I would call it Environmental and Social Governance . CSR is in disrepute because it is not that companies should do something because its good as it puts a moral value... Do it because it is right for the business... The right thing to do has good outcomes but the right thing is not a moral judgement” (Trade body of Pension funds)
- However “risk management is rarely done well at board level, remuneration is left in hands of independent remuneration consultants, lawyers have ownership of risk reporting and reads like a prospectus rather than strategic evaluation of risk”.

India – Stakeholder approach

- CSR was integral and spontaneous response based on the principle of ‘giving back to the society’.
- *“Right from the beginning when the public sector started, Nehru had a fundamental belief about being very, very transparent because, he said, it was public money that was getting invested for the public sector, and the management of the public sector is actually the custodian of the public money and is answerable to the Parliament of India which it represented. So, over a period of time, rules and regulations had evolved in such a way that transparency was in-built.”*

India (cont)

- *“Even in the private sector, there were companies like the Tata’s, the Godrej, a number of those old Parsi companies ... they always had a very transparent way of doing business from the start. The Tata’s have always had a reputation for honesty, straightforwardness ... and even the current Chairman, Ratan Tata, makes it very clear that they are not here to make a huge profit. But, at the same time they do make profits.”*

India – Rule enforcement

- Enhanced formalization has had a positive benefit for the firms exhibiting good governance.
- However, enforcement of the Anglo-Saxon oriented rules and regulations is weak
- “Courts are under-financed, unmotivated, unclear as to how the law applies, unfamiliar with economic issues, or even corrupt. Moreover, securities regulators have little direct power to enforce penalties. Enforcement of prevailing rules and regulations is mostly the responsibility of the courts. This leads to poor enforcement of the rules and regulations underlying corporate governance”

India – Moral case

“When I talk about corporate governance in any gathering, I say that we say that we cannot escape from the society in which we live. Because what is an organisation? It is a microcosm of the society that we live in. So whatever ills in society are there, some form or the other will happen there. Now, we cannot eliminate that. But, what I always feel is that, we can mitigate it by putting in various interventions.”

Conclusion

- Minimal pressure to standardise CSR approach to meet common standards of reporting, disclosure or measurement
- Australia - Risk minimisation rather than opportunity maximising approach.
 - Mining cos further down road than other sectors.
 - Changes needed to Accounting Stds and better measurement.
- UK- Complacency evident. “US” problem.
 - Tradition of negative ‘filtering’ approach to SRI.
 - Use power of Institutional investors to bring about change. Calls from their trade bodies within to use this power to instil long-term & better decision-making.
 - Use flexibility inherent in Governance system to bring increase accountability & transparency.
 - Pressure from European community and ‘relationship’ approaches to governnace.
- India – CSR and Community part of business
 - Partnering with ngo’s and community
 - Weak enforcement of rules
- CSR part of good governance
- Opportunity to better align business rationale for CSR with stakeholder expectations

<p>Strategic</p>	<p>Narrow stakeholder focus. Risk management approach. Access to labour, product and markets. Reputational benefits. Profit maximisation through product & processes differentiation.</p>	<p>Broad stakeholder focus. Consultative processes. Value approach. Philanthropy. Influence public policy. Universal human rights focus.</p>
<p>Tactical</p>	<p>Reaction to legislation, to organisational crisis, to political process.</p>	<p>Inclusive and consultative. Reaction to public opinion, to community crisis.</p>
<p>Business</p>		<p>Moral</p>

Thank You

