A nice thing to do but is it critical for business?

Corporate responsibility and Australian business

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Abstract

There is said to be a "new paradigm in business" proposing that business has far broader social and environmental responsibilities than simply making profits for shareholders. This paper examines the concept of corporate responsibility to see how far Australian business has moved towards the new paradigm. Fifty-four different stakeholders from one large business were interviewed about the meaning of corporate responsibility. Most acknowledged that business has a responsibility beyond simply making profits, however, profit remained the primary motivation in moves towards corporate citizenship, community involvement and social responsibility.

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Introduction

On a global level, there is an increased awareness of "a new paradigm in business", recognising that corporate responsibility has moved substantially since Milton Friedman's claims that its sole responsibility was to maximise profits for shareholders (Andriof & McIntosh, 2001; Solomon, 1994). Modern corporate culture is said to include responsibility and respect towards staff and customers, help for the broader community, and a responsible approach to the environment (Andriof & McIntosh, 2001; Birch, 2001; Collins & Poras, 1995; Drumwright, 1996; L'Etang, 1995; Waddock & Smith, 2000). Many corporations are striving to live up to a new set of financial, social and environmental responsibilities. These changes are reinforced by a move towards holistic triple bottom line approaches to measuring business success, and corporate reputation measures which have moved beyond a focus on economic success performance to examine broader measures of social, ethical and environmental performance (Brown & Perry, 1995; Caruna & Chirop, 2000; Fryxell & Wang, 1994).

In Australia, corporate reputation measurement is also adopting a broader approach to understanding what defines corporate success. The Sydney Morning Herald (SMH) recently claimed to undertake the first comprehensive study of corporate reputation in Australia, using a broad measurement tool called The Good Reputation Index (Gettler, 2000). This index aims to measure some of the broader social responsibility issues, such as employee management, environmental performance, social impact, ethics, financial performance and market position (Cronin, Zappala & Clarkson, 2001). These changes are reflective of the position of the current federal government, which emphasises the social role of business in the Australian community. John Howard, the Prime Minister, is committed to the notion of a social coalition or partnership – between individuals, business, government and the community – to deal with Australia's social problems. As Howard said in a speech to business:

"Some argue that the exclusive focus of business should be upon maximising shareholder value... There are many, however, who express corporate social responsibility in broader terms by concentrating on how forging a relationship with the community has a positive effect on shareholder value. They express the role of business in terms of all of its stakeholder relationships, holding that business should be responsive not only to shareholders but to other so called stakeholders such as employees, suppliers, customers and neighbours in the wider community...profit carries with it a sense of obligation to give back to the society which gives them the freedom to pursue their vision... Being a good corporate citizen, building trust, engaging with and supporting communities can add value to the bottom line in a variety of ways" (Howard, 1999, p4-5).

Here the Prime Minister acknowledges the breadth of stakeholders associated with business, and recognises that one of the central issues facing business today is how they define their relationships to their various communities or stakeholders (Waddock & Boyle, 1995). In practice, these relationships vary widely, impacting on the nature and extent of corporate responsibility acknowledged by business. Indeed, in Australia, despite the recognition of the breadth of corporate responsibility both globally and locally, it is interesting to assess how much it is recognised at the corporate level. Birch (2002) undertook a survey of corporate citizenship and found that Australian business,

despite having a reasonable understanding of the concept, appeared to be lagging behind other countries in incorporating corporate citizenship into core business policies and practices. There may be some change in the right direction but on the ground in Australian business, there appears to be some confusion about what constitutes corporate citizenship and corporate responsibility (Birch, 2002; Cronin & Zappala, 2002).

The present study was designed to examine how the various stakeholders of one large Australian business view the concept of corporate responsibility. Using a case study approach, we adopt an inductive, qualitative approach to gaining a more in-depth examination of the realities of corporate responsibility. Against the backdrop of current international trends in business and the Australian federal government's position, the findings are analysed to discuss the relationship between profit making and broader corporate responsibilities.

The present study

The study was conducted in Brisbane, Australia, as part of a case study of the corporate reputation of a large Australian business. This paper reports the first qualitative stage of the study, which consists of in-depth interviews with members of key stakeholder groups. The purpose was to explore the meanings these different individuals ascribed to the concepts associated with corporate reputation.

This paper presents data from 54 personal interviews conducted with individuals from eight different stakeholder groups surrounding the study business. The business is a large corporation with statewide business activities, and is one of the largest businesses in Australia. The eight stakeholder groups comprised two internal groups – managers and Board members; and six external stakeholder groups, comprising unions, community groups, industry leaders, partners and suppliers, large customers, and key government executives. These groups were selected to reflect the diversity of views of corporate responsibility, and to ensure representation from all of Dowling's (1994) categories of stakeholders. In order to protect the identity of the organisation, any identifiable information has been removed from the data presented here. Respondents are identified by stakeholder group and by number.

Individual participants were selected using a purposive sampling frame identified in conjunction with key business executives and community representatives. All respondents were interviewed using a semi-structured interview schedule. These interviews took approximately 1 hour, and consisted of a series of open-ended questions designed to elicit participants' understandings of key concepts around corporate reputation. The data reported here refer to responses to the question "What do you understand by the term corporate responsibility?" All interviews were transcribed and data entered into a data analysis program (QSR – NVIVO). The interviews were ordered into data sets by stakeholder group, and were then assigned to major categories and sub-categories. Analytical conclusions were drawn on the basis of inductive logic, with similarities and differences in the data noted (Rubin & Babbie, 1993). Examples are cited to illustrate emergent themes. In some cases, the numbers who have responded to a particular theme are noted in the text.

Findings

Corporate responsibility – what is it?

Overall, the internal stakeholders demonstrated an understanding of the breadth of corporate responsibility. One manager demonstrated the breadth of activities included under corporate responsibility:

> *"...it's pretty wide ranging, but I imagine there's a responsibility to do things ethically, environmentally, you don't break the rules of environmental requirements. That you are responsible in the use of funds. That things are done economically. The responsibility for your people and anyone that is interacting with your business in terms of safety and all those things that go with workplace health and safety. A responsibility for the welfare of everyone that's involved in the business, including customers. There's a sort of code of conduct, I guess that's what I'm referring to. Generally, a responsibility to be an ethical and reputable player in improving the quality of life and assisting other businesses to develop in Australia"* [manager, no.8]

Other managers articulated a sound understanding of the breadth of stakeholders of the organisation. As one suggested:

> *"Well, we have a responsibility to all the whole range of stakeholders, being the community that we operate in, our owners, our employees, unions, our customers, so yes, there's a whole range of things that you're responsible for"* [manager, no.3]

Generally, the internal respondents demonstrated a broad understanding of a business's responsibility to behave ethically, to involve and develop the community, and respect the environment, as well as financial considerations. The relationship of these issues with profit making is discussed in detail below. Half of the internal respondents talked about responsibility to the community (8 of 17); with over a third discussing the environment (6 of 17); about 16% (3 of 17) specifically discussed ethical responsibilities. Three internal respondents referred specifically to the importance of the "triple bottom line" and acknowledged that financial imperatives are interconnected with community and environmental objectives.

Some of the external stakeholders also demonstrated a broad understanding of corporate responsibility. A third of external stakeholders (13 of 37) discussed responsibility to the community; over a quarter (10 of 37) discussed responsibility to the environment; and about 10% (4 of 37) discussed ethical responsibilities. Some of the broad comments include one respondent who suggested:

> *" there's a number of levels to it. One is there's immediate statutory responsibilities that corporations may have to shareholders. Then there's a responsibility to the community and the environment within which they operate."* [Union official, no. 4]

Other respondents also talked about broad responsibilities:

> *"It's about the entity's sense of its obligations to its various stakeholders, namely employees, customers, others in a geographical sense and particular communities of interest"* [industry leader, no. 3]

This same respondent also noted that *"corporate citizen is a bit of a happening phrase"* [industry leader, no.3]. Overall only seven respondents used the term *"corporate citizen"*, including three of the government respondents.

Ethical responsibilities were raised by four external respondents who explicitly linked ethical responsibilities with corporate responsibility. One government respondent suggested:

> *"I suppose being ethical. Being involved in the community and contributing to the community, being or having high environmental standards, set good public safety standards... unless you apply high business standards and high ethical standards, inevitably I think it affects your business basically"* [government respondent, no.3]

A large customer respondent also stressed the importance of ethical practices:

> *"I put pretty high [value] on ethics...I think ethics basically comes back to good corporate citizenship, transparency, truthfulness and respect"* [customer, no.1].

Although environmental responsibilities were noted by a number of respondents, few detailed these. It may be that as one community respondent suggested:

> *"I would imagine it's basically the law now"* [community representative, no.2].

Not surprisingly, particular interest groups focused on their area of interest. Thus, Union respondents focused on employee issues, suggesting that business has a responsibility to treat workers equitably and well, moving beyond simple legal requirements. Large customers also focused on employees, suggesting, for instance, that business needs to actively promote worker safety and injury free workplaces [LC1, LC3]. The community influencers generally looked at the company's responsibility to the broader community:

> *"beyond focusing on the company and its success.. Its service should include a whole range of community obligations in an sense that we would like to see being met, we'd like to see a whole range of environmental goals and responsibilities being met"* [community representative, no.3].

Overall, the data showed a broad range of factors that are included as being the responsibility of corporations. Nearly 40% of interviews (21 of 54) referred specifically to community issues as being part of corporate responsibility; with about 30% (16 of 54) referring specifically to the environment; and 13% (7 of 54) referring to ethical issues. However, as part of the broad suite of responsibilities proposed by respondents, it was very interesting to see the relationship between these broad issues and the financial responsibilities of business.

Corporate responsibility and profit making

Throughout the interviews, there was a strong understanding that corporate responsibility was linked to profit making. Some expressed this as a responsibility to shareholders, such that five of the eight managers highlighted this. Many, particularly business respondents clearly demonstrated an understanding of how financial success was related to corporate responsibility. As one internal stakeholder suggested:

> *"In the past, stock market values corporations on the basis of their financial performance, the economic leader, investment decisions, cross control, and so forth. Now the community has an expectation of big corporations ought to take responsibility for the impact that they have on the environment and social issues. In a way, by having a focus on safety and environment and so forth it makes a positive contribution to financial funds anyway" [manager, no.2]*

Another business stakeholder also noted the relationship between corporate responsibility and profits:

> *"...big businesses are in for the long haul and being corporately responsible so that you're viewed by the people that work for you, the people that actually pay you revenue and those who actually invest is such that they have a confidence and a knowledge that you're a reputable organisation..." [partner/supplier, no.4].*

As respondents noted, businesses have financial responsibilities to their shareholders, but how much is this the primary motivation over other responsibilities? Many respondents seem to make the link between broad corporate responsibilities and profit making, with most of these responsibilities linked to social and community involvement. For example, one government respondent clearly demonstrated the links between making profits and community involvement:

> *"[in relation] to social performance, there's been a big effort to step out and engage in the local communities...I guess it's good, it's really called advertising or whether ...it's part of being seen as a good corporate citizen, there's really been a genuine effort to get the ...brand out in the community and I think that's a good thing" [government representative, no.9].*

The link between responsibility to the community and making profits was also noted by some of the community respondents. For example:

> *"[corporate responsibility] relates to the wider community and recognition that the organisation is part of the community in which it operates and it makes good commercial sense to be seen as part of the local community" [community representative, no.8].*

These comments all suggest that across the different stakeholder groups, there is an awareness not only that businesses have financial responsibilities, but that community involvement is a clear strategy towards financial success. Clearly financial success frees up funds that can then be used for broad social goals. As one Board member suggested:

"unless there are some profits going back which can be used generally for the benefit of the organisation and the community, then, we're not performing our task properly" [Board member, no.8]

However, a number of respondents expressed concerns that community involvement, although desirable, may not be as important as financial performance. One government respondent suggested:

"You know the good corporate citizen side of it in terms of its contribution to the community, I don't know is as critical. I mean, we talked about the support meetings…and community sponsorships, particularly in regional areas, and I mean, it's a nice thing to do but I don't know that it's critical for business" [government representative, no.3].

Several respondents suggested that it is hard to get the right balance between community involvement and profit-making, as in the following comment:

"We tend to devote a lot of time and effort to supporting communities that [are] probably not our responsibility" [manager, no.5]

It is clear that profit is the primary motivation. One large customer respondent expressed succinctly this broader feeling amongst respondents:

"it's got to be competitive at the end of the day; community involvement won't make a corporation competitive" [customer, no.5]

Many respondents acknowledged that community involvement was a pathway to financial success. For example:

"in my view, [it] means that they have a corporate responsibility that on the one hand is about achieving rates of return on shareholder dollars" [government representative, no.7].

Consumer demands for transparency of business practices ensure that good management practices are also seen as fundamental to corporate responsibility. As one large customer suggested:

"if we are seen to be irresponsible, then there's no possible way of being successful because you're not going to achieve the full potential of the assets that we've got responsibility to manage, and people will be able to see it" [customer, no.3].

However, some respondents went further than simply suggesting that attention to community concerns and being involved in local communities was a way of ensuring a profitable business. They suggested that it was actually essential to avoid a community backlash. As one industry leader suggested:

"… you act like a good corporate citizen so people don't want to, sort of, storm the battlements and burn the castle down" [industry leader, no.3].

As discussed above, many respondents saw community involvement as a primary corporate responsibility, and made the explicit links with profit making. In the contemporary environment, community involvement by large business is expected and is

perhaps essential for business success. Community involvement is a form of promotional work, for advertising purposes, or more simply for a positive corporate reputation in the community. Underpinning some of the comments was a concern that there would be a community backlash for any company seen not to support the community, or who treat customers or employees poorly. Transparency and ethical behaviour are essential prerequisites to financial success.

Most respondents thus linked profits and broader corporate responsibilities. However, in contrast, there were a few respondents who proposed that it was necessary to go beyond profits and consider broader social objectives. As one business respondent suggested:

> *"Corporations should value [things]...that go beyond the dollar and look at total value, and looking at communities for instance, and looking at the environment, looking at safety of people and those sort of things..." [partner/ supplier, no.4]*

Another respondent expressed a similar view that community involvement is as essential as financial imperatives:

> *"if you just focus on making money, you're not often successful...it's not something you can continue day in and day out – dollars alone don't drive people. Profits alone won't drive an organisation into success" [customer, no.7]*

Discussion

The data reported in this paper reflect some interesting and diverse responses to the question, what does corporate responsibility mean to Australian business? Some common themes have been developed which highlight the relationship of profit to broader corporate responsibilities. The breadth and number of respondents indicate that there is some level of generalizability to the findings. However, there are also some important limitations to consider. All respondents are stakeholders of one Australian business and are generally large players – big business customers, the Board and managers, unions and social and environmental group representatives. These are important stakeholders, chosen for their capacity to discuss the issues of corporate reputation. Nevertheless, it is important to recognise that different perspectives may have been obtained by interviewing less prominent stakeholders, such as smaller customers (both individuals and small business customers), workers (not managers), and residents of local communities. In addition, the respondents were all stakeholders of one Australian business. It may be that the study would have generated different data if the question was not asked within the context of one, albeit large, corporation. However, these data represent the views of a broad range of stakeholders and comprise a large number of in-depth interviews. As such, it is an interesting, in-depth case study, with important methodological advantages. The data generated provide an insightful view into the meaning of corporate responsibility and what is seen as critical to Australian business. Future research needs to test the breadth of these findings.

Findings from the present study suggest that most respondents were well aware of the breadth of responsibilities facing business today. These responsibilities extended broadly over community involvement, environmental responsibilities, ethical business practices, including the way business treats its employees, and financial obligations. As discussed, responsibility to the community was the most common theme raised, although the level of involvement and its purpose varied substantially among respondents. Surprisingly, few respondents mentioned the importance of the triple bottom line or corporate citizenship, despite these being key international themes (Marsden & Andriof, 1998). This might suggest that Australian business is struggling with the issue of acting responsibly and actually living "the new paradigm" (Solomon, 1994).

An awareness of these broader corporate responsibilities was clearly linked to external visibility. As one respondent suggested "people will be able to see it" [customer, no.3]. Certainly the paradigm shift in business has been attributed to a new, aware and sophisticated brand of consumerism, resulting in a greater emphasis on non-economic objectives in business (Drumwright, 1996). The shift to a new paradigm in business came about with the advent of a "new consumerism", which alerted consumers to social and environmental issues when purchasing (Abratt & Sacks, 1988). It appears that consumers have become more sophisticated when forming their opinion of companies, and that this behaviour is reinforced by the media (Bromley, 1993). Business is thus being pressured to adopt more responsible corporate practices. However, the question remains, how much are these activities just "a nice thing to do" and how much "are they critical for business"?

Findings from this study suggest that only very few respondents appear to believe that corporate responsibilities beyond profit making are valuable in and of themselves. The majority of responses suggest that shareholders are the primary focus of business, and that the critical function of business is to make a profit. Certainly, most respondents suggest that responsibilities such as ethical business practices, community involvement and good environmental practices are very important, but they are so because they believe that failing to pay attention to these issues will impact on profits. Managers, at the front line of business, are aware of this more than anyone, and clearly understand the breadth of responsibility faced by business.

In the international corporate responsibility literature, it is acknowledged that community involvement is one of the central issues facing business today (Waddock & Boyle, 1995). The nature and extent of this participation can vary widely from simple donations through to community partnerships (CCPA, 2000; Cronin, 2001). In the present study, business involvement in the community could take the form of direct promotion or advertising through local or regional events or sponsorships; or broader involvement by looking at the impact of business at the local and regional levels. However, it is apparent from the data that these are all strategies aimed to raise a business's profile and profit-making ability, and are part of brand management activities. Community involvement is a strategic approach on behalf of business as indicated by comments such as "[it] makes a positive contribution to financial funds" [manager, no.2] and "[it] makes good commercial sense" [community representative, no.8].

Historically, business has had an influential role in the development of society (Commonwealth of Australia, 2003). This role is set to expand with the commitment by the current Prime Minister to the notion of a social coalition, and broader debates about

civil governance (Commonwealth of Australia 2003). Business responsibilities are seen to include social and environmental impacts, as well as those in the economic realm such as job creation and preservation, wealth generation, and product value. Good corporate citizenship is about integrating these aspects - social, ethical, environmental, economic and philanthropic values - into the very core of business activities (Commonwealth of Australia, 2003). Business needs to be driven by these values. However, the data presented in this paper suggest that this does not appear to be the case. Instead, findings indicate that business is motivated primarily by economic considerations, and that other dimensions of corporate citizenship are not core business objectives except insofar as they impact on profits. These data thus provide some evidence to support the notion that Australian business is acting upon society rather than being embedded within the community (Saiia, 2002). Business needs to move beyond legal requirements, understand that it has broader social and community responsibilities, and move towards real partnerships with the community.

The underlying message from the study is that Australian business may recognise the breadth of its corporate responsibilities, but financial considerations override them all. Perhaps we have not moved so far away from Friedman after all.

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