



## **The Values Tsunami**

The Boxing Day tsunami has brought into sharp focus a long-term trend of shifting values in Australian society and the change in expectations we have of corporations today. It would have been inconceivable 10 years ago for the media and the prime minister to call on business, not wealthy individuals, to contribute substantially to the relief effort in cash donations.

The amazing fact is that corporate Australia has actually risen to the occasion and, one might argue illegally under current corporations law, donated millions of dollars. It is through the focal lens of high-profile events such as the tsunami appeal and the recent James Hardie inquiry that we recognise the seismic shift happening in the values of our society.

Although this values shift does not move at the speed of a tsunami, it has a similar force. This shift has been underway for some time now. The global consumer of the 1990s is morphing into the world citizen of the new millennium. We are shifting in increasing numbers from me, more and greed to we, enough and need. Holism, wellbeing and responsibilities are taking over centre stage from materialism, achievement and rights.

Because this process is slow and the previous values remain deeply engrained in large parts of the population, we tend to ignore much evidence of this shift which can be seen in the growing trend in downshifting, corporate social responsibility and the rise of the green vote. It can also be seen in the growing popularity of alternative medicine, yoga and meditation.

The implications for corporations are going to be profound, dwarfing the Sarbanes-Oxley compliance costs that US companies complain so heavily about by orders of magnitude. Ultimately, the current voluntary regime of corporate social responsibility is going to be replaced by binding laws on how corporations will have to act on behalf and to the benefits of all stakeholders.

There are many factors that will contribute in bringing these changes about. Consumers demand that companies act responsibly and have started to make their purchasing decisions accordingly. Employees take their cues from Generation Y and refuse to work a 60+ hour week. Activists continue to draw attention to issues such as environmental pollution and product safety. The overall pace of change will continue to be slow, barring further accelerating events, such as the Enron-Andersen scandal.

Apart from the tsunami appeal, the corporate response to date has been piecemeal and more public relations than substance. Even the largest Australian companies have no more than a handful staff charged with driving corporate social responsibility (CSR). Their budgets remain minute compared to budgets for sponsorship or PR. Only a small percentage of the top 1,000 Australian companies publish a comprehensive social and environmental report.

As long as the institutional framework around the publicly listed corporation with a broad base of shareholders enjoying limited liability remains in place, there is a serious argument on whether CSR or even CSR reporting alone is in the benefit of shareholders. Most analysts and funds managers today discount such reports (only 1% of funds is invested in ethical investments in Australia) and even the most 'enlightened' companies will focus on CSR initiatives that promise a short or medium term competitive advantage. Individual leadership has been the key driving factor in companies that have embraced CSR, often coupled with a 'traumatic experience' (e.g. Westpac with the letters affair, BP with Nigeria).



Further, at present we are experiencing another wave of backlash against CSR. Amongst others, The Economist published a 'sceptical look at CSR' feature article in its January 22 edition which brought the question back to the business case for CSR. This 'holy cow' of CSR has long been fudged to make CSR easier to swallow for a broader audience. But the way it has been put it is a contradiction in terms – if CSR is all about the corporation working for a broad range of stakeholders, how can that be justified with increasing the benefits to just one of them – the shareholders?

The real core of the CSR debate is the issue of the corporation as a purely economic construction (designed only to make profit in the current interpretation) and the deregulated market framework it operates in. Neither is inevitable, as the 300 year history of the corporation shows, but it remains widely unpopular to even table this topic.

But the public pressure will continue to grow. The Grey Eye on Australia survey in 2004 found that 77%+ of respondents consider corporations as selfish, greedy and only concerned with profits. Although business has much more political influence than the public at large, politicians know that ultimately they ignore persistent trends at their own peril. They will be forced to act.

What will such legislative changes look like? Markets function best with clear and common constraints, creating a level playing field. Today, investing excessively in CSR might put a company at potential competitive disadvantage. No matter what the business case for CSR purportedly says, not all CSR investment is going to turn a profit. After all, CSR is the antithesis of externalising operating costs.

An educated guess is that the first step in legislation is likely to be mandatory social and environmental reporting. France and South Africa have taken the lead in this area, social reporting becoming a listing requirement on the stock exchange. It is a small step, but it contributes to reducing information asymmetries between shareholders and other stakeholders.

The benefit of mandatory CSR reporting in itself is highly dubious unless stakeholders feel compelled to read the reports. Today – apart from a handful of employees, ethical funds managers and NGO activists – very few people read CSR reports. Only once these reports can be consolidated into a single score that can be compared across companies – such as the profit result on the financial side – is it likely that a broader cross section of stakeholders would notice. In this respect current CSR ranking efforts will hopefully become a precursor to such a score.

CSR reporting in itself will do little to change the public's cynical attitude towards corporations. Investors will need to act on the reported information. Here again the government could contribute by changing the laws governing the superannuation funds. If super funds were required to adopt a more long-term approach and take into account CSR indicators, the whole dynamic governing analysts and corporate investor relations is likely to change. Undoubtedly, a departure from 'pure' financial indicators would be a seismic shift comparable with the tsunami that swept public conscience and brought our morality back to the fore.