

*Corporate Public
Affairs Oration*

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*Business and
Society*

Delivered by

Mr. Leon Davis

Foreword

This is the ninth Corporate Public Affairs Oration. Previous Orations in the series have been:

- 1994 The Hon John Dawkins, former Federal Treasurer, *Business-Government Relations: a decade of economic reform and the role of business*
- 1995 Mr John Prescott, Managing Director and Chief Executive Officer, BHP Company Limited, *Business in its Community: forging a new partnership*
- 1996 Mr John Ralph, AO, Chairman, Forster's Brewing Group Limited, *A corporate social responsibility?*
- 1997 Mr W Frank Blount, CEO Telstra Corporation, *Convergence or Collision? Emerging complexities at the business/community interface*
- 1998 Mr M A (Tim) Besley, AO, *End of Millenium Challenges for Business, Government and Society*
- 1999 The Hon. John Howard, MP, Prime Minister, *Corporate Community Involvement*
- 2000 Mr S D M Wallis, AO, Chairman AMCOR, Coles Myer, and AMP, *Corporate Governance - Conformance or Performance*
- 2001 Mr Richard Humphry, AO, Managing Director & CEO, Australian Stock Exchange, *Globalisation of Capital Markets: Implications for the Australian Community*

The Oration has two objectives:

- to extend knowledge about public affairs management. It seeks to do this by providing a forum for those who have made a distinguished contribution in related areas to reflect on their experience and thus contribute to understanding of the function and the sparse literature in the field; and
- to focus attention on the nature of the social and political environment. The Oration seeks to illustrate why and how successful management includes in its vision and practice constructive engagement with its communities.

Through the wide distribution of the Oration and through the other activities of the Centre for Corporate Public Affairs we seek to further these goals.

The Oration was delivered at a Centre dinner held in Melbourne on 21 August 2002.

Oration

Business and Society

Mr. Leon Davis
Chairman, Westpac
Deputy Chairman, Rio Tinto

INTRODUCTION

Tonight I want to address what I believe is the central challenge facing Australian business: restoring the public's faith in corporate governance and the challenge of embracing social responsibility.

I am not going to pretend to speak to you as a disinterested observer of trends or even as a new convert to a fashionable cause. I am a passionate believer in corporate social responsibility, with a commitment forged over years of direct experience. I've learnt that corporations and markets cannot flourish without a stable civil society, incorporating norms of trust and social decency.

So, I am particularly pleased to have the opportunity to share my views with the corporate public affairs community tonight. Your role has always been important -- it's going to become even more important as Australian companies seek to redefine their role and responsibilities in our contemporary society.

Tonight I want to describe the context in which this issue has become so central. I'll argue that good governance and corporate social responsibility is not a brake on the creation of shareholder value: that it is increasingly central to its sustainable creation. I want to explain the threats that will arise if Australian companies don't embrace their wider responsibilities. And I will set out some of the strategies to

make good governance and corporate social responsibility an organic part of Australian business life.

Social and political context

Let me start with the context. Until as recently as the late 1980s, the biggest player in the national arena was, of course, government. The Federal Government had direct ownership of many companies including a bank, an airline, a phone company, a railroad, a shipping company, a ship-building business...even a blood products company. State Governments owned insurance companies and banks as well. Even more importantly, government took responsibility for many facets of people's lives, making major life choices on behalf of Australians.

Australia was never quite a welfare state, but there was a very high degree of paternalism involved in the relationship between government and community.

Australian companies were heavily fettered and constrained. There was a range of mechanisms to control corporate behaviour. Some of the tools included heavy regulation, official platforms for union power, arbitration commission control over wages, tariff protection and a host of limits to competition, even down to specific measures like pricing and marketing controls. All these combined to limit the scope and range of business activity. Business was always there, and important, but operated a very tightly controlled space in national life.

Australian business campaigned vigorously for greater freedom and given the generally strong case for this, we have seen massive economic and social change occur over the past twenty years. The role of government has progressively receded through deregulation, selling off the government owned enterprises and extensive labour market reform.

Today, power resides much more with business as well as, to a lesser extent, with non-government organisations and with individual citizens. Globally today, 50 of the 100 largest economies are in fact individual corporations. Undoubtedly, the role of business has dramatically expanded, with far greater freedom to operate and influence societal outcomes.

Equally important, however, has been societal change. And this has been massive. We now live in a more pluralist society. Government has in part withdrawn from centre stage, and both sides of politics have asked individual Australians to take on new responsibilities. So if we get benefits from our nation, we are expected to give something back. If we want higher education, we now contribute to its cost. If we want discretionary health treatment, we pay for it. If we want welfare, we may be expected to work for it.

Today, we are all expected to embrace a more mature form of citizenship – one in which reciprocal obligation is a well-entrenched idea.

And here's where I believe the business community has generally erred. Some companies persist in seeing their role through the prism of the old narrow model. They assume that if they act within the limits of the law, then they fulfil all that is required of them in terms of social responsibility.

At the more extreme ideological end, some think that they not only have no moral obligation to play a role in society, but also are obliged actively to remove themselves from the hurly-burly of public engagement. 'Our task is profit, our mission is shareholder value, and our destiny is prosperity', goes the dogma.

But the community thinks differently. And rightly so. It seems to me that any rational business-person must surely understand that national economic and social prosperity are intimately entwined: that it is in the direct interests of business to make its fair contribution to the overall well being of our society.

At the end of the day, in any sustainable civil society, I don't believe there can be rights without responsibilities. Yet you will still find some who quietly believe that economy and community are separate worlds bearing no relationship to each other.

We all know that a business needs a license to operate – tangible evidence of its legitimacy. But equally important is a company's social license to operate – the intangible community support which management thinker Peter Drucker refers to as "social legitimacy". For businesses to retain their social legitimacy, they must be perceived by their communities to be using their increased power responsibly.

After all, at a time when individuals are being asked to embrace a new level of national reciprocal obligation, why should business be exempt? And who said that business could have a citizenship bypass?

Frankly, whatever the private views of some business leaders, business is going to have no choice in this matter. The community can and will punish organisations that fail to meet modern expectations.

Citizens will no longer tolerate businesses behaving like second-rate citizens – or treating them like second class ones.

What's more, the anti-globalisation demonstrations of the past few years are community expressions of the same view; the belief that leaders in business, international institutions and other important bodies have responsibilities which extend to the highest standards of ethics and governance, and well beyond the borders of their organisations. And let's not forget that many of these demonstrators are not fringe dwellers but middle class people – employees, shareholders and customers of your business and mine.

These are the new realities faced by business. If any company thinks they are immune they need to think again.

BENEFITS OF CORPORATE SOCIAL RESPONSIBILITY

Perhaps the best way to illustrate the growing pressure for corporate social responsibility – and to point to the benefits to be achieved by embracing this idea -- is to share with you some examples from my own business history.

I have been in the minerals industry all my professional life. And I have witnessed the futility of an industry attempting to make the public align itself with that industry's values.

You may remember that, in post war Australia, miners who pioneered major projects in the outback and created jobs and export income were highly regarded. The development of the Pilbara iron ore province, for example, aroused much the same patriotic pride as the Snowy River Scheme.

Yet, just when miners were basking in the glory of contributing in an unprecedented way to the national economy, dissenting voices were starting to be heard. These came from the environmental movement and from those prescient Australians who were questioning our industry's treatment of indigenous citizens. By the early eighties these views were entering the mainstream of public affairs.

Miners were reluctant to acknowledge this shift in community attitudes. Justifiably proud of their achievements, they used their business speaking platforms to present their – predominantly economic – case to the Australian public via the media.

The community as a whole viewed the industry campaigns with scepticism. Support for environmentalism and land rights continued to increase and the map of Australia became a chequerboard of no-go areas for mineral explorers as reserves and parks multiplied.

At that time, a lot of people in the mining industry genuinely believed that this level of conflict with the community was acceptable, even inevitable. After all, they thought, the primary role of the company was to create shareholder value, and nothing should be allowed to deter the company from that role.

The problem with this mindset was that it was simply wrong. The mining industry's adversarial operating environment was measurably eroding performance and profitability.

Looking back, I think I and some of my colleagues at the time intuitively understood that a yawning gap had opened up between miners and the general public on the social and environmental impacts of our activities. But sometimes it wasn't so intuitive. The gap was often pointed out by our partners and children – always a good source of knowledge about what is going on out there. Importantly, the politics of confrontation and denial were just not working. It was time to re-examine some of our own assumptions.

In the case of land rights, I had for some time had reservations about the system that denied the facts of Aboriginal dispossession. Having worked overseas and witnessed mining operations around the world, I knew that indigenous people were treated more thoughtfully in some of our overseas sites. I knew that there were alternatives to the legalistic Australian way of handling these issues.

In the mid-nineties, when I returned to Melbourne and CRA, I had an opportunity to test my views. The company, with the active cooperation of some of the people in this room, broke with the industry in that it set out to engage with Aboriginal communities in tacit acknowledgement of their traditional links to the land.

That change of direction has gathered force over the years as Rio Tinto companies forged partnerships, not only with indigenous Australians, but also with champions of environmental causes and of human rights. I won't pretend it happened quickly, or that it was easy, but it did happen.

Our first agreements were remarkable for their time. Today the engagement between Rio Tinto and Aboriginal Australia is deeper, more comprehensive – and continues to break new ground.

The recent High Court decision went some way to clarifying issues around mineral rights and traditional title. Rio Tinto wants to see the remaining issues resolved. However, the lengthy legal process will not stop our search for a more equitable social relationship with Aboriginal people.

And, it was the recognition that a modern bauxite mine, epitomising first world technology and wealth, should provide meaningful participation for the Aboriginal people who have connections to that land that led to Comalco's ground-breaking agreement with the traditional owners of western Cape York. This unique agreement links mine development at Weipa with the economic and social aspirations of the local community.

In turn, the lessons of the western Cape York agreement are influencing the agreement currently being worked out between Kimberley Aboriginals and the Argyle diamond mine.

A few months ago a journalist recalled the moment in 1995 when I publicly urged the mining community to accept the post-Mabo reality. At the time it was whimsically suggested that I had arrived as a "Sensitive New Age Miner". If anything I was being hard headed.

Any objective analysis indicated that the Mabo decision, and the Government's subsequent legislation, signalled that our overall system of governance was in

good health. The rule of law that protects all Australians had finally acknowledged the enduring rights of indigenous Australians.

It was perfectly obvious that the mining industry's overwhelming interests lay, not in challenging the rule of law, but in making it work. This was all part of the new mindset of corporate social responsibility.

Within that mindset was a desire that right is done – not justice but right. And my definition of right is indeed justice, but tempered with a desire to overcome the laws' delay.

The banking community went down a similar path. For a long time following deregulation in the early 1980s it simply ignored community standards. The simmering resentment at bank arrogance and insensitivity flared into outright hostility in some quarters. Eventually rural branch closures became the lightning rod for a whole range of discontents about banking behaviour.

Like the other banks, Westpac was tempted to lecture the community about the improvements in access to banking via new technologies. Once again, it was giving in to the urge to modify community views rather than listen to them. All that has changed.

Over the past few years Westpac has done a lot of soul-searching. Now it fully accepts that the sustainability of its future financial performance depends upon the recognition and embrace of its social responsibilities. This is no mere adjustment to thinking, no tinkering at the edges, and certainly no public relations exercise. This is a serious and profound attitudinal shift.

For Westpac, it starts with business basics and dealing with the substantive issues – simply and transparently setting out our policies and practices so that we can be judged on them, and finding correctives for broad based community concerns.

In 1998 , we finally came to the realisation that where a traditional branch was no longer viable in rural areas, it was no longer acceptable to simply abandon the town. So we went out on our own and called a halt to rural closures, committing to establish lower cost viable community based branches within existing business or government premises wherever our traditional stand-alone branches were not

sustainable. Today, we have in excess of 180 of these community-based in-store branches.

We also took the initiative and introduced fee free banking in 1998 for pensioners, the disabled, and people on welfare. We did so because the financial exclusion experienced by these citizens was not acceptable to the community or us.

And we recently published our first and separate, social impact report, which both highlights – and more importantly, commits us to – genuine accountability for the impact of our activities in the community. We've reported our performance and impact across some 70 social, environmental, and financial dimensions. Importantly, these performance dimensions were not determined by us but through an inclusive multi-stakeholder dialogue process.

For Westpac, these initiatives are just the beginning of a long process to re-earn the community's respect as a trusted business and social partner.

The benefits of this progressive corporate citizenship approach are quite obvious to us at Rio Tinto and at Westpac. Businesses that do recognise their foundation in, and responsibilities to, their communities are seen as modern and responsive.

When they act with conviction and professionalism, costs are reduced, regulatory risks are lowered and brands enhanced.

But the biggest benefit of all lies in their heightened appeal to current and potential employees. They come to work to earn a living – but they also want to feel good about it. A company that co-exists amicably with its community is one that people want to work for.

And there's another point, the central point we can't get away from. In a modern capitalist, democratic society, business has a vital stake in social equity and social cohesion. It's no coincidence that in fractured, divided countries you will also find high levels of inequity, poverty, crime, corruption, and poor businesses that typically wither in a global environment.

If those of us in business want to prosper for our shareholders, and ourselves, then we need to participate actively in upholding the rule of law, promoting genuine

equity and encouraging a sense of inclusion and cohesion.

That's why a mindset of corporate social responsibility is not an extra, an add-on, or a variation to the nuts and bolts of business. It's about business – business that is genuinely responsible, caring and sustainable over the long term.

But there is also another dimension. I believe that corporate social responsibility and corporate governance are joined at the hip. A strong corporate social responsibility ethic will flow on to good corporate governance.

Corporate social responsibility means a culture of openness, transparency, fair dealing and accountability. And isn't that what we are seeking in good corporate governance?

THREAT POSED BY FAILURE

If I am upbeat about the positive benefits of corporate social responsibility, I am equally serious about the negative consequences if we as a business community don't embrace the new realities. I mentioned earlier that companies need more than a legal licence to operate – they require a social licence as well. And I don't mean this in any fancy abstract way. It's instructive in this respect to look at recent developments and in particular at the story of Arthur Andersen, the accounting firm.

The story is brief. As you know, despite the many good people who worked for it, Arthur Andersen has simply disappeared off the face of the earth. Gone from America, gone in Australia as well. Not because it went broke, but simply because the name had become discredited. Clients melted away into the ether. Arthur Andersen, by soiling its reputation through audit associations with too many high profile corporate collapses had lost its social legitimacy. And the consequences of that loss were fatal.

The current debate in the US is focused on the quality of corporate governance in the wake of Enron, Worldcom, and other notable corporate collapses. Here in Australia we have not been immune from the question marks about governance – look at the stories emerging about OneTel, HIH, and others – but at the same time we have not suffered the eye-popping excesses that have occurred in the United States.

As a result, with these breakdowns in the entire oversight system, public confidence in the corporate world has been severely shaken. Decisive action is required and those who have blatantly betrayed their responsibilities need to be dealt with harshly.

I caution against believing the solution lies simply in a stringent new black letter law regulatory regime. You can't regulate morality. So, I want to put in a plea for simplicity in regulation and for a more enlightened approach by corporations to take the initiative and to make the necessary changes to strengthen and entrench good governance.

CHALLENGES OF IMPLEMENTATION

Now it's all very well to assert the imperative of good governance and corporate social responsibility. Quite another thing, however, to develop the right strategy and implement it effectively.

After all, how do firms cope with the ruthlessness of market reaction to short-term profit impacts when they take decisions in the interests of longer-term sustainability and transparency? How do firms develop the skills to re-build bridges to communities? What are the limits of community expectations? These are fair questions and the answers are still developing.

At its base, a mindset of corporate social responsibility is simply having a set of decent values that underpin the company's everyday activities: its corporate governance; its human resources policies; its attitudes to customers; as well as its links into the community. It's not rocket science.

But it absolutely requires leadership from the top. The Chief Executive and top-level management must take direct responsibility for the overall strategy and success of the programs. At Westpac and Rio Tinto this is not handled in an ad hoc fashion. In fact, we have created specific board committees to oversight matters such as audit independence, corporate governance and social responsibility. We demand plans from our operations that turn these aspirations into realities.

We also fully involve our staff and use corporate social partnerships as powerful vehicles for achievement. Strong community or not-for-profit organisations have a

deep understanding of the issues and concerns facing their constituents. They can provide that bridge between a business and a community. In a true partnership, each side gains access to the other's skills and knowledge.

Both Rio Tinto and Westpac have a genuine passion and commitment to provide leadership beyond their corporate walls through their community programs. For example, they are involved in a wide range of community partnerships assisting disadvantaged groups, including direct partnerships with the indigenous communities to help create economic independence. Beyond the social dimension, they are actively involved in partnering with environmental organisations in community-based programs while taking direct accountability for their environmental impacts.

I know from experience in two major industry sectors that corporate partnerships for social responsibility create wins all round. But let me stress that real success comes from rigorous management, just as it does in any other part of the business.

Of course, the hardest part of all is simply getting started. But the examples are now out there for people to follow.

CONCLUSION

Let me conclude. Making the shift to a culture of corporate social responsibility can only happen with leadership from the Chief Executive and by creating champions throughout the organisation.

I suspect many of the strongest potential advocates are sitting in this room tonight, people who are at the front line of relationships between companies and their many stakeholders. Though the challenges are considerable, the rewards will be great for your company, for the broader business community and our society as a whole.

In my view, the great enemy of corporate social responsibility is not opposition by people with a simplistic idea of the bottom line. The great enemy is community cynicism. And in an environment of daily revelations of corporate greed, corruption and incompetence, it is easy to see why the community might take some convincing. More dangerous though, would be the cynicism of those who merely

adopt the language of good governance and corporate social responsibility without genuinely embracing it.

Yet I remain optimistic. I believe the business case for corporate social responsibility is so compelling that it will soon be accepted as a new kind of norm in business life. A company's level of corporate social responsibility is emerging as a significant indicator of its overall health as a business, as well as a major factor considered by potential investors.

The immediate issue before us is who will be the leaders in this new era and who will be left lagging behind. Who will be the model companies for these times?

As a nation we have been innovators of social change in the past – women's suffrage, child endowment and unemployment assistance for example. And we can surely do it again.

It's my earnest hope that Australian business will be again at the forefront of a new era – a better era for business, for economic prosperity and for our world.

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