An Australian Government Initiative

The Prime Minister's Community Business Partnership

# CORPORATE COMMUNITY INVESTMENT IN AUSTRALIA

thecentre
FOR CORPORATE PUBLIC AFFAIRS

Business Council of Australia

# Corporate Community Investment in Australia

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# Project partners

The **Prime Minister's Community Business Partnership** (the Partnership) is a group of prominent Australians from the community and business sectors, appointed by the Prime Minister to advise and assist the Government on issues concerning community business collaboration.

The Partnership's goals include identifying and addressing incentives and impediments to corporate social responsibility and encouraging a culture of giving in Australia.

The Partnership's role is advocacy, facilitation and recognition of corporate social responsibility and partnerships between business and community organisations in Australia.

The **Business Council of Australia** (BCA) is an association of the CEOs of around 100 of Australia's leading corporations with a combined workforce of one million people. It was established in 1983 as a forum for Australia's business leaders to contribute to public policy debates in order to build Australia as the best place in which to live, to learn, to work and do business.

Australia's future depends on achieving world class performance and competitiveness. On the basis of sound research and analysis, the BCA seeks to play a key role with Government, interest groups and the broader community to achieve world class performance and competitiveness.

The **Centre for Corporate Public Affairs** brings together the public affairs departments (or equivalent) of more than 100 of Australia's largest companies and government business enterprises. It connects professionals working in the corporate public affairs function in Australia, Asia, New Zealand and across the world.

Its research, professional development programs, events and international thought leadership seeks to extend best practice and opens doors to help organisations and practitioners build and effectively apply corporate public affairs as a core management tool and function.

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# Executive summary

A variety of views exist about the role of companies in the community. These range from the view that the sole purpose of business is to make profit for shareholders to the view that the interest of shareholders should rank alongside other 'stakeholders' without necessary precedence.

The majority view in corporate Australia is, however, that responding to community needs and social pressures is not inconsistent with, and when performed appropriately is conducive to, long-term returns to shareholders.

The concept of Corporate Social Responsibility (CSR) has moved to centre stage in recent years, generating much public discussion and academic debate. Despite this increasing focus, there is a lack of clarity in the language around CSR which can further heighten disagreement between various perspectives and lead to a mismatch of expectations.

This report explores one aspect of CSR in contemporary Australia: namely current thinking and practice concerning community investment in the large corporate sector.

In 2000, the Centre for Corporate and Public Affairs, in conjunction with the Business Council of Australia, was commissioned by the Prime Minister's Community Business Partnership to undertake a study to investigate trends within corporate community investment and provide an overall assessment of how business conceptualised, managed and implemented corporate community investment.

This significant work, which assessed the views and practices of more than 100 Australian leading companies, found a significant shift from *ad hoc* grant making and philanthropy disconnected from corporate interests and capacities. It found corporate community investment was increasingly embedded into business policies and strategies, supported by pre-established criteria and proactive decision making.

The Community Business Partnership commissioned this study in 2006 to update the 2000 report and to provide greater understanding and clarity about community investment at a time when different practices and competing theories continue to emerge and the role of business in society continues to be debated.

This report, again based on a study of more than 100 large Australian companies, demonstrates that business commitment, scope, focus and diversity of corporate community investment activities in large Australian companies continues to increase and deepen. The trends identified in the 2000 report are accelerating and corporate community investment continues to progress from an activity on the periphery of business to a core business activity.

We have deliberately described this form of business engagement with the community as 'corporate community investment' (CCI), reflecting the move toward core business activity, and the fact that it is accorded the strategic importance and is shaped by the same business disciplines as other core business practices, such as risk management and corporate governance.

The major findings of the report are as follows:

**Reasons for engaging in corporate community investment**

The business case is now the predominant driver for companies to engage in corporate community investment. Most companies now see it as ‘an integral component to strategy and the corporate business model’.

Only 7% of the major companies surveyed for this report said they required no business case in determining whether to invest in the community. Of the 93% of companies that believed some sort of business case was needed, 24% required a focussed business case with some specific return on investment justification.

While CEOs and senior executives cited generalised reasons for corporate community investment including ‘building a better society’ and ‘promoting public benefit’, significantly this is not seen by companies as inconsistent with contributing positively to corporate sustainability and long-run financial return.

Other motives included winning and maintaining community trust and consequent ‘licence to operate’ and building and maintaining positive reputations, particularly through using corporate community investment as a demonstration of corporate values. Research noted in this study suggests customers can be influenced to support companies with a strong record of CSR, including community investment.

At a time when individual businesses are positioning themselves as employers of choice, expectations of staff, especially young people, now form a major and growing driver of corporate community investment activity. One trend reflecting this is the increasing prevalence of volunteering and matched giving.

Most companies felt that broadening the understanding and the perspectives of managers and staff was also a factor influencing companies to engage in these activities. This led many senior executives to participate in governance and offer technical assistance in organisations they supported.

An increasing number of companies also use community investment initiatives to build relationships with key stakeholders, including corporate critics.

**Nature of corporate community investment activities and engagement**

A major characteristic of current corporate community investment is the more rigorous identification and selection of activities or not-for-profit partners connected to particular attributes or needs of an industry or business. This assists companies to pursue greater mutuality of interest, address specific concerns and better utilise the available company skill sets and technologies. Only 9% of companies now report that their corporate community investment activities are not aligned at all with specific business or industry interests.

The study found some companies are actively pursuing community investment activities as a competitive reputational differentiator. At the same time companies will work collaboratively or in a consortium with other companies to deliver corporate community investment programs more efficiently, or to build scale in their activities.

In line with this more strategic approach, companies are becoming less reactive in their corporate community investment activities. Less resources are now being allocated to *ad hoc* or unsolicited requests for cash or in-kind donations. Nearly 60% of companies surveyed allocate 20% or less to requests for cash or in-kind donations, while only 3% allocate upwards of 80% of their community contribution to such requests.

Local community programs attract more resources than any other corporate community investment activity, and are particularly prevalent in heavy industries, and around remote facilities. More than a third of companies spend between 20% and 39% of their corporate community investment resources on local community programs.

Companies are also increasingly engaging NGOs and 'influencers' in part to breakdown negative stereotypes and win influential support as well as to gain a better understanding of community values.

Volunteering is growing rapidly, reflecting both the increased desire for companies to engage with their staff and to attract talented employees. More than 60% of companies now provide between one and three days a year paid work time for volunteering. Nearly a third of companies now have a full-time member of staff to manage employee volunteering.

Considerable resources are now spent on sponsorships that have the dual purpose of building corporate or product brands and investing in community welfare. Related to this is a shift to cause-related marketing, particularly for fast moving consumer product companies, who align good causes with revenue generation.

Research partnerships, such as those with universities, and in areas such as areas of health, environment and education, are also common. While 55% of companies surveyed support research partnerships, most do so with a small percentage of their community investment resources.

While there is a long history of company foundations in Australia including a significant number created since the turn of the century, only around a third of the major companies responding to the survey currently have a foundation.

## Management issues

### (a) Decision making

Consistent with the overall finding that corporate community investment is increasingly becoming a strategic business activity, the report found around 60% of CEOs or boards in the large company sector are now involved in determining broad strategy in this area, though they are less likely to be involved in its development, or in determining specific initiatives. Management and deployment of corporate community investment programs are now the domain of an increasingly specialised cohort of corporate community investment and public affairs practitioners.

While strategy and implementation is determined at a senior level, more than 50% of companies consult their staff on specific corporate community investment activities. Staff are most frequently involved in selecting the destination of matched giving and in volunteering where their own resources are most directly deployed.

External consultants or selected stakeholders are sometimes employed to assist in developing corporate community investment policy and implementation (formally or informally). Some companies have established a formal advisory body with external members to help determine priorities and shape their practice. While a variety of approaches are taken by companies to centralise control and delegation, there has been a tendency to seek cohesion across companies within a given overall corporate framework.

**(b) Budget and measurement**

Almost half of companies, through their boards, CEO or executive Committee, now set a fixed amount of resources for community investment in the annual budget cycle. Only 5% of companies resort to *ad hoc* spending. A small but increasing number of companies are establishing a fixed percentage of some metric, most commonly pre-tax profit.

To ensure their investment is deployed effectively, an increasing number of companies are establishing performance indicators in arrangements with community investment partners and are seeking increased transparency and accountability in the use of resources.

At the same time, measurement of performance for both business and social impact has been judged difficult. Only 9% of companies said they were very accomplished in measuring business benefits. A further 55% said they were moderately accomplished in this area.

A major long-term trend has been to develop fewer and deeper partnerships with not-for-profit organisations, and to a lesser extent with government agencies. Increasingly, these partnerships are being established with clear agreements or contracts that ensure mutual benefits, clarity in roles and relationships, and specify exit arrangements.

## Future trends

The report finds that current trends will continue that in the future. Specifically:

- an increasing number of companies will catch up with current leading practice and those exhibiting current leadership will seek more creative ways to meet corporate objectives by community engagement;
- large companies are likely to expand resources devoted to community investment, and continue to build it into corporate strategy;
- companies will continue to build closer relations with not-for-profit partners. Innovative developments in building the capacity and financial base of selected partners are likely to be more common;

- staff engagement, including volunteering, will continue to be an area of major growth; and
- companies will increasingly address the issue of accountability and stewardship of applied resources and seek better ways to measure returns for business and for the community.

## Conclusions

With corporate community investment becoming an increasingly strategic and core business activity, this study encourages all large companies to develop cohesive rationales for corporate community investment activities, based on clear business drivers.

The study also concludes that business and government can and should assist in the development of strategic corporate community investment within the small business sector.

Finally, the study highlights the need for more intellectual and policy infrastructure aimed at promoting best practice, skill transfer and information sharing in what is an increasingly important area of business activity. With this mind, the study recommends that business schools and other management courses place greater focus on corporate community investment education, and that business and government explore the possibility of developing innovative, business based means to stimulate and facilitate corporate community investment learning and dialogue.

# Chapter 1

## *Introduction*

The past decade has seen rapid changes in the scope and nature of corporate community investment in Australia. These reflect in part changes taking place in other countries, but also thoughtful discussion and innovation in Australia's business, government and non-profit sectors. Reasons for this are explored in more detail in subsequent chapters, but include:

- rising community expectations that companies will make a wider contribution to community wellbeing (especially in younger generations and including employees);
- the corporate response to a poor image or lack of trust in the community, which can affect its legitimacy and overall capacity to perform;
- growth in sophistication and a shift in attitude in much of the not-for-profit sector to support deeper partnerships for mutual benefit;
- increased interdependence between business and communities requiring closer relationships in the mutual interest; and
- a more sophisticated approach by many companies to bring these issues into core business.

Prime Minister Howard's initiative to establishing the Prime Minister's Community Business Partnership has built attention to the issues. The Partnership has supported research, promoted best practice and recommended government policies to facilitate community support for the not-for-profit sector.

The changes have contributed to, and drawn upon, the professionalism of a new breed of specialist executives within public affairs departments of companies. Their collaborative pursuit of international best practice in this area, including through programs of the Centre for Corporate Public Affairs, is also supporting the shift of corporate community involvement into the mainstream of company management.

While management education has given inadequate attention to corporate community investment, a start has been made to give visibility to these issues and transfer knowledge in academic institutions including Deakin University's Corporate Citizenship Research and Monash University's Australian Centre for Corporate Social Responsibility.

This study is intended, *inter alia*, to update a major report undertaken in 1999–2000 by the Centre for Corporate Public Affairs in conjunction with the Business Council of Australia, for the Prime Minister's Community Business Partnership. That report *Corporate Community Involvement; Establishing a*

*Business Case* (www.accpa.com.au) was influential in the business, government and not-for-profit sectors. It explained the rationale for business involvement, illustrated innovative thinking and showcased new approaches to business–community partnerships and other relationships. The report noted that a journey had begun from traditional notions of corporate philanthropy towards a more strategic approach within a long-run business case requirement, and with new approaches to community engagement. This current report demonstrates that while companies are at many different stages, the 1999–2000 trends have continued and are deepening. Companies are increasingly moving community investment from the periphery to become an integrated, core activity.

This study should be valuable to business, the community and government. During the research a number of companies acknowledged they were lagging in their approach to community investment and looked forward to seeing the approach more advanced companies were taking to assist them in their planning.

A better understanding of how companies make decisions about community investment will enable the community sector to acquire and leverage corporate resources more effectively and sustainably. And an improved understanding of the dynamics of business–community relations on the part of all parties should help governments build social capital and contribute to their community development agendas.

As with the previous study, a reference group was nominated by the three parties, to provide input and a sounding board to the research.

The reference group held discussions on issues in the study, reviewed and commented on drafting, and assisted with recommendations. The reference group is:

- Mr Fergus Ryan, Company Director (Convenor);
- Mr Rob Hunt, Managing Director, Bendigo Bank;
- Dr David Morgan, Chief Executive Officer, Westpac Banking Corporation;
- Ms Elaine Henry OAM, Chief Executive Officer, The Smith Family;
- Professor John Seybolt, Dean, Melbourne Business School;
- Mr Greig Gailey, Chief Executive Officer, Zinifex Limited;
- Mr Tony D’Aloisio, former Managing Director and CEO, Australian Stock Exchange; and
- Ms Jane Hemstritch, Managing Director — Asia Pacific, Accenture.

Four reference group members were from the Community Business Partnership’s CSR subcommittee; five were members of the Business Council of Australia (at the time of appointment); Professor Seybolt is a leading academic with an interest in this area; and Tony D’Aloisio is a former managing partner of a senior law firm, former company CEO, and now a senior business regulator.

Geoff Allen and Anne Irvine led the research with support from Wayne Burns and Coral Kee from the Centre for Corporate Public Affairs. Mark Triffitt, Director, Strategic Communications, Business Council of Australia provided valuable ideas and support.

The study was conducted in the second half of 2006. Following literature research and building on the extensive consulting and other experience of the research team, a survey was developed to seek information from the corporate sector in Australia.

Brent Taylor at Values Bank Research provided professional support for the online survey. The target field was the top 150 Australian publicly listed companies, overseas listed companies with equivalent scale of operations in Australia, and a small number of government business enterprises. Eighty-two surveys were returned representing a 35% response rate.[1]

Half-day workshops were held in Sydney, Melbourne and Perth, involving fifty-seven public affairs or community relations executives from fifty-one companies, to explore issues and corporate experience. In addition, around thirty interviews were conducted with CEOs (and in some cases company chairmen), mainly from Business Council of Australia companies. These interviews assessed top management philosophy, perspectives, and their understanding of the broad societal issues. In all, 110 companies contributed to the study. Reports and case studies of company initiatives and activities were sought throughout this process to illustrate current approaches.

The Centre for Corporate Public Affairs and the Business Council of Australia are grateful to the staff and members of the Prime Minister's Community Business Partnership for their enthusiastic support, and for the opportunity to undertake this important study.

1 **Detailed Survey Information**
In a report of this nature it has not been possible to present all the potential findings embedded in the survey responses such as data cut by industry sector or scale of business. This may be of interest, for example, to academics working in the field. Confidentiality commitments to respondents has prevented the presentation of raw data in the report on our website, and will impose some constraints, but more detailed information can be made available on application to the Centre for Corporate Public Affairs.

# Chapter 2

## *Definition and language*

**SNAPSHOT**

Debate around corporate social responsibility (CSR) is complicated by a lack of clarity of definitions and meanings. The literature and public discussion proceeds on scores of definitions, which continue to proliferate and are confused with the language of 'sustainability' and the triple bottom line. The consequent lack of clarity enables a mismatch of expectations and obstacles to communication across sectors.

Expectations of CSR are being set through a proliferation of codes of conduct, guidelines and criteria for social investment proposed in the broader community, and industry codes and company process developed within the business sector.

Companies are also challenged by a wide range of approaches and formats for the reporting of corporate social performance.

'The term 'corporate community investment' has been selected for this report to reflect activities that have historically been seen as corporate philanthropy. This language underpins the business case thinking and practice, which entails mutual benefit and is increasingly a core business activity.

While it is a sometimes referred to as CSR, corporate community investment is only a subset of that broader concept, and has a small weighting in the codes, guidelines and reporting frameworks based on CSR.

A threshold issue concerning a number of those consulted in the study, and the reference group, was a lack of clarity around the language of 'Corporate Social Responsibility' (CSR). This is the term most widely used, but it has different meanings, and for some it expresses only the most general collection of attributes.

The term is used by some to describe companies acting responsibly in their core business. For others it simply refers to corporate giving. The issue is further complicated by emerging concepts and language that overlay the term 'CSR' with definitions that are contested or are continuing to evolve. These include sustainability, triple bottom line, corporate social responsiveness, corporate social or community investment, corporate community involvement and commitment to industry specific or general codes of conduct.

In academic literature, there are many different corporate social responsibility definitions and theories. American researcher, Votaw drew attention to the diversity of perceptions of CSR as early as 1972. He said:

*Corporate social responsibility means something, but not always the same thing to everybody. To some it conveys the idea of legal responsibility or liability; to others, it means socially responsible behavior in the ethical sense; to still others, the meaning transmitted is that of 'responsible for' in a causal mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for legitimacy in the context of belonging or being proper or valid; a few see a sort of fiduciary duty imposing higher standards of behavior on businessmen than on citizens at large.*[2]

Archie Carroll from the University of Georgia has researched more than twenty-five different CSR definitions in academic literature since the 1950s, and these have proliferated greatly since his writing in 1999.[3] Margolis and Walsh have researched ninety or so studies that look at the link between CSR, according to a variety of definitions, and corporate financial performance, up to 2001.[4]

The variety and fragmentation of views on CSR is a concern as it creates a mismatch of expectations, clouds dialogue between sectors, and fails to provide clarity for business planners and decision makers.

We define CSR broadly, with a principle focus on companies behaving ethically and responsibly in their core business. This would include ethical and responsible treatment of all stakeholders, including staff, customers, investors, and local communities. It would include occupational health and safety, managing the environmental footprint, transparency with regulators, investors and customers, safe products, ensuring responsible practice through the supply chain, as well as contributing more generally, beyond what might be considered core business, to community wellbeing.

There are many and varied attempts to define CSR. We are comfortable with that put forward by a recent report to government:

*In essence, the focus of the issue of corporate social responsibility is on the way in which the affairs of companies are conducted and the ends to which their activities are directed, with particular reference to the environmental and social impact of their conduct. A responsible company, like a responsible individual, is one that acknowledges and takes responsibility for its actions.*[5]

The Business Council of Australia in its submission to the Parliamentary Joint Committee on Corporations and Financial Services described the workings of CSR in successful companies:

2 Votaw, D, 1972, 'Genius Became Rare: A Comment on the Doctrine of Social Responsibility Pt 1', *California Management Review* 15(2), 25.

3 Carroll, A.B. 1999, 'Corporate social responsibility: evolution of a definitional construct', Business and Society, 38(3), pp.268–295

4 Margolis, J.D. and Walsh, J.P. 2001, People and profits: the search for a link between a company's social and financial performance, Lawrence Erlbaum Associates, New Jersey.

5 Corporate and Markets Advisory Committee, 'The Social Responsibility of Corporations', Sydney, December 2006

*Corporations operate within the community. For corporations to be sustainable and successful in the long term, they need to engage with the community and take account of community attitudes. Successful companies therefore factor into their forward strategies activities that manage the challenges and risks to the community and capture the opportunities that community engagement can bring. To be valid, these activities must deliver benefits both to the community and the shareholders of the corporation.*

Some companies prefer the language of 'sustainability'. This term became popular following the Bruntland Commission inquiry, which led to widespread attention to ecological sustainability.[6] The term has been extended to also cover 'economic sustainability' and 'social sustainability'. In interviews, a number of CEOs referred to sustainability of firms depending on social and ecological sustainability, particularly in response to the perceived challenge of pernicious 'short-termism' with its emphasis on immediate financial performance *vis-à-vis* longer-term corporate performance impacting corporate life.

The 'triple bottom line' is used principally to refer to the broadening of corporate reporting to include environmental and social impact as well as economic and financial performance.

Following a number of global and Australian company failures due to inappropriate or criminal executive behaviour, some have added the fourth leg 'governance' to the stool of the triple bottom line. From a reporting perspective, however, legislators (such as Sarbanes-Oxley) and regulators or quasi-regulators (for example, ASX Corporate Governance Council) have moved quickly to mandate strict and, some say, excessive reporting standards and requirements in the area of governance.

Achieving sustainable communities within sustainability charters, and assessing social impact within the triple bottom line reporting framework, includes some degree of corporate community investment.

## Codes, guidelines and indices

Corporate 'codes of conduct' feature heavily in discussion about corporate social responsibility. These have been developed by government agencies as standards for corporate practice for many years. The most notable early example was the Code of Conduct on Transnational Organisations, an initiative of the UN Centre on Transnational Corporations (UNCTC). Others include the US based Global Sullivan Principles of Social Responsibility, based on the initial Sullivan Principles that became a standard for companies investing in South Africa in the 1970s. The principles have been expanded and 150 or so international companies have endorsed them.

6 UN, World Commission on Environment and Development, 1987

The most recent code is the UN Global Compact, signed by approximately 2500 companies and small–medium enterprises (SMEs) world wide including Australia (see Box 2.1). These companies are pledged to:

- support international human rights;
- avoid complicity in human rights abuses;
- support freedom of association and collective bargaining;
- support elimination of forced and compulsory labour;
- support abolition of child labour;
- eliminate discrimination in employment and occupation;
- adopt a precautionary approach to environmental challenges;
- promote greater environmental responsibilities; and
- encourage environmentally friendly technologies.

**Box 2.1: UN global compact**

> *Through the power of collective action, the Global Compact seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation.*
>
> United Nations Global Compact

The Global Compact was launched in 2000, following UN Secretary-General Kofi Annan's challenge to business leaders to join an international voluntary initiative to support universal environmental and social principles. Today, more than 2500 businesses participate in the initiative, pledging to support principles on human rights, labour, environment and anticorruption.

**Human Rights**

Businesses should:

- support and respect the protection of internationally proclaimed human rights; and
- make sure that they are not complicit in human rights abuses.

**Labour Standards**

Businesses should:

- uphold freedom of association and recognise the right to collective bargaining;
- support the elimination of all forms of forced and compulsory labour;
- support the effective abolition of child labour; and
- support the elimination of discrimination in respect of employment and occupation.

**Environment**

Businesses should:

- support a precautionary approach to environmental challenges;
- undertake initiatives to promote greater environmental responsibility; and
- encourage the development and diffusion of environmentally friendly technologies.

**Anti-corruption**

Businesses should:

- work against all forms of corruption, including extortion and bribery.

The Global Compact offers various facilitation and engagement mechanisms including policy dialogues, learning, projects and country/regional networks. Australian corporate participants include Adecco, Allens Arthur Robinson, BHP Billiton, Foster's Group, SGSDA, VicUrban, Westpac Banking Corporation (along with ten SMEs).

Within Australia, the Global Compact Network is being developed by the Committee for Melbourne, City of Melbourne, Monash University and the Permanent Mission of Australia to the UN. Its steering committee comprises more than 100 individuals representing universities, companies, governments and non-government organisations that either participate directly or follow Global Compact activities.

Source: UN Global Compact (www.unglobalcompact.org)

Another code is the OECD Guidelines for Multinational Enterprises, which offers recommendations to guide business conduct in areas such as labour, environment, consumer protection and corruption. Others include the UN Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (developed in 1977 and revised in 2000) and a range of other UN agreements and protocols concerning labour practices, financing and responsible investment and human rights.

While some of these codes have attracted opposition in business for a variety of reasons (one being the 'Eurocentric' nature of some, and perceived bias in values or cultural understanding), a number of mainly multinational companies have publicly embraced them for reasons ranging from deep commitment to stakeholder pressure.

Complementing the array of codes and behavioural checklists are industries' own codes such as the first mover Responsible Care code developed by the chemical industry in 1988; the Equator Principles (2002) in financial services which imposed environmental and social screening on lending; Mining, Minerals and Sustainable Development (2000) and the local industry initiative Australian Minerals Industry Framework for Sustainable Development 'Enduring Value' (2005); and the pharmaceutical industry's Code of Pharmaceutical Marketing Practices (adopted in 1981 and revised in 1994).

These codes and standards fall under the rubric of corporate social responsibility. While many talk of engaging communities, and specific sub-objectives can imply corporate community or social investment, many of these codes do not address corporate community investment per se.

Another major development in CSR has been the development of management and reporting standards such as those produced by the International Organization for Standardization.

Reporting on corporate social performance has been growing rapidly since the mid 1990s. Most major corporations now report in some form, many with a separate sustainability or triple bottom line publication (see Box 2.2). An increasing number of these are being audited and verified by accounting or other specialist firms, or with the invited involvement of non-government organisations.

**Box 2.2: The rise in corporate non-financial reporting**

UK organisation Corporate Register.com has been tracking the increase in global non-financial reporting. Between 1992 and October 2006, 3355 companies from 87 countries have produced 12,209 corporate non-financial reports.

Companies from the UK, US, Japan and Germany are the highest producers of non-financial reports. As well as tracking increases, CorporateRegister.com also reports on the change in nature of reporting. It says that in 1992 the majority of reports were focused on environmental issues. By 2005, reports covered a much greater range of areas including social/community, environment and social, sustainability, corporate social responsibility and citizenship, environment, philanthropic and health and safety. Around a third of reports produced today are prepared according to guidelines such as the GRI (for more information, see Box 2.3).[7]

The US-based Conference Board study on reporting[8] shows that about 70% of companies report publicly on citizenship and sustainability performance, with around half doing so in a stand-along annual report. There is a similar trend in non-financial reporting in Australia.

According to the Centre for Corporate Public Affairs' survey of Australian companies[9], 72% of respondents publish information in relation to their sustainability practices. Over three-quarters of these companies produce an annual, combined community/occupational health and safety/environment report.

7 The Conference Board. 2006, 'Reward trumps risk: how business perspectives on corporate citizenship and sustainability are changing'.

8 Ibid

9 The Centre for Corporate Public Affairs. 2006, State of Australian Public Affairs.

The KPMG International Survey of Corporate Responsibility Reporting[10] compares results from the top 100 companies in each country. It found that 23% of Australia's top 100 companies produced a corporate responsibility report, up from 14% in 2002. Australia ranks 11th of those surveyed behind countries such as Japan (with 80% of the top 100 producing a report), UK (71%), Canada (41%), France (40%), Germany (36%) and US (32%). There has also been an increase in assurance of reports, with 10% of companies in Australia submitting non-financial reports to assurance scrutiny, up from 6% in 2002.

Source: The Conference Board; The Centre for Corporate Public Affairs; KPMG.

Data collection and verification is a significant cost for companies. Many companies reported that after initial resistance, internal operations managers eventually supported the process and it has delivered cost savings and other benefits.

The growth of various sustainability or reputation indexes as well as socially responsible or ethical investment funds has also captured corporate attention. Most noticeable are the Dow Jones Sustainability Index and FTSE4Good Index, but there has been strong growth (albeit from a small base) in Australian social investment funds. A variety of concerns have been expressed about the underlying, subjective, value assumptions and methodologies of some of these indices, as well as ranking and screening mechanisms for ethical investment.

Accordingly, since our predecessor report in 2000, there has been a blistering and fragmented array of indices, benchmarks and standards that are still evolving and demanding attention from companies to conform to and report against.

As they were progressively introduced and proliferated in the first half of this decade, some in particular imposed new resource intensive burdens on companies. This was particularly because of lack of uniformity in the nature of the data sought and some naivety in the assumptions of reviewers about internal reporting systems and processes within companies and between various industry sectors.

The pursuit of a single or at least consistent platform for reporting has led to growing but not uniform support for the Global Reporting Initiative (GRI) for CSR and sustainability reporting. At time of writing, the GRI is still evolving, and developing more specific frameworks of relevance to particular industries (see Box 2.3). Its Society Performance Indicators focus on the impact that organisations have on the communities in which they operate and the disclosure of risks associated with corruption, undue influence in public policy making and monopoly practices. One of the core society performance indicators is 'Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting'. But as with the majority of codes and indices, the GRI has paid scant attention to corporate community investment as an element of CSR. We understand the issue is being addressed following strong feedback from a number of major companies, including prominent Australian firms.

10 KPMG. 2005, International Survey of Corporate Responsibility Reporting 2005.

**Box 2.3: Global reporting initiative**

The Global Reporting Initiative (GRI) aims to make reporting on economic, environmental and social performance as routine and comparable as financial reporting in all organisations. The idea for developing a framework for sustainability reporting was conceived in 1997, with the draft GRI Sustainability Reporting Guidelines released in 1999. Initially twenty organisations based their sustainability reports on the guidelines. In 2006, more than 850 organisations worldwide released sustainability reports based on the GRI Sustainability Reporting Framework and Guidelines.

The framework has been continually revised over the years (updated guidelines known as G3 were released in 2006), and now include sector supplements covering financial services, logistics and transport, mining and metals, public agency, tour operators, telecommunications and automotive. Further supplements in development will cover apparel and footwear, energy utilities and financial services.

Source: Global Reporting Initiative (www.globalreporting.org)

It is apparent then, that what used to be thought of as 'corporate philanthropy' is now more strategic social or community investment. This is the subject of this study. It needs to be distinguished from the much broader concepts of sustainability or CSR.

The predecessor report in 2000 used the phrase 'corporate community involvement'. The word 'involvement' can include community consultation and inclusion of community stakeholders in sharing information or participation in corporate decision making. (It should be noted that a close working relationship involving consultation will often be a precursor to effective community investment, helping to engage delivery and responding to community articulated needs.)

Some companies use the term 'social investment' but again this could be interpreted narrowly to connote community welfare rather than a broader sweep of activities. At the outset we used the term 'corporate community involvement' for the study, for instance in the survey. Because of this we will continue to use the term only when reporting on the results of the survey (although our meaning will have been clear to respondents). As we proceeded, however, we felt the words 'corporate community investment' best suited the objectives of the report. The notion of investment with implied expectation of some form of outcome or return, and the breadth of the concept of community to involve a range of activities and levels, better reflects the spread of activities, and the business case framework to which companies' activities are strongly evolving.

# Chapter 3

## *Philosophy of corporations, and the role of corporate community investment*

**SNAPSHOT**

Australian concepts of the role of corporations are drawn from Europe and the USA. Historically, in Europe, companies were licensed by the Crown and have traditionally worked with State and other social institutions. The USA has an historical focus on property rights and limited government, but strong obligations of citizenship. Each tradition includes inherent social obligations, which have been reflected in corporate behaviour.

In the USA concern developed about the economic power of managers as distinct from owners, including the way that power was used in communities. Milton Friedman (and some current commentators) claimed that the use of corporate resources for social purposes rather than maximising returns to 'owners' was inappropriate. At the other extreme some writers have suggested shareholders should rank only alongside, and not in precedence to other stakeholders.

Mainstream corporate thinking and practice reconciles these notions with the view that responding to the needs and interests of stakeholders, including through community investment, can be a means to optimising stakeholder returns in the longer term.

Recent public inquiries have explored public policy frameworks for CSR and corporate community investment. They have concluded that it would be inappropriate for governments to mandate CSR activity, and that companies and securities regulation do not inhibit corporate engagement in these activities. Current thinking supports the current bipartisan view that the government's role should be limited to enabling, facilitating and in some cases partnering.

Over time there has been a trend leading companies away from the concept of philanthropy with arms length, *ad hoc* relationships to beneficiaries, and responding to external requests. Leading Australian companies are pursuing a much more strategic approach to corporate community investment, with business as well as social goals. This approach is the subject of the remainder of this report.

Debate on corporate community investment can trigger a deep reflection on the role of the corporation in society. The Western liberal concept of the corporation is a relatively modern construct. The legal framework of the corporation goes some way to determining its personality, form, privilege and obligations. However, in reality the concept of the firm is manifest in the context of broader philosophical debates, evolving and contested views, changes in relevant environmental factors including globalisation of firms and their ownership, and the dynamics of capital markets.

## Business in society

Leaders in Australian business, government and the community have inherited a variety of perspectives about the appropriate role of companies in society.

While the effect can be exaggerated, Australia's British and European heritage (and current thinking from that quarter) tends to focus on social licence with an expectation of deep government involvement. This stems from the origins of commercial activity within a feudal ordering of society, and then licensing of commercial entities by the Crown — with privileges, including limited liability bestowed upon companies by society. This goes together with the concept of 'societal obligation' which has been one driver of the early forms of stakeholder theory, the obligation of firms to consider and to respond to, the needs of employees, customers, suppliers, neighbours, as well as shareholders; privileges are bestowed by the community with a reciprocal responsibility to the community as a whole.

Business philosophy across the Atlantic, however, developed with a subtly different emphasis. Traditional American ideology was essentially individualist, with a premium on property rights, individual endeavour, reward for individual effort and a strong distrust of the state and social control.

Social wellbeing was based on the individual's strong obligation of citizenship. Those who succeeded in free markets had an obligation as citizens to give back to the community through individual philanthropy and, as the corporate world evolved, corporate philanthropy.

The distinctions between the British and US business ideologies are symbolised by language in statements of philosophy and other ways by corporations. For example, US companies commonly use the language of 'corporate citizenship' in documents or commentary in reports, while Europeans are more likely to use the language of sustainability or 'stakeholder'.

In reporting on a CSR survey of CEOs in 2006, the US-based Conference Board said:

> *...sustainability is widely used and accepted in Europe, especially by large industrial companies. In the United States the citizenship term has a long pedigree of use for corporate philanthropic and community activity...*[11]

The classical theory of the firm captures the American concepts of risk capital, limited role of government and the primacy of shareholders in free and open markets. Corporate community investment in the US, for example, was symbolised by the individualist philanthropy of the Carnegie, Mellon and Rockefeller families as citizens in an environment in which the government is kept at bay.

11 The Conference Board, *Executive Action Series*, No 216, November 2006.

The classical model of the firm was challenged in the USA. Small owner controlled enterprises were agglomerated into major public companies (for example Chevrolet, Oldsmobile, Packard and Buick, were incorporated as General Motors). Owners became increasingly less engaged in daily decisions and were perceived to become more like passive investors.

The view developed that professional managers, as distinct from the owners (with their capital at risk), had accumulated excessive economic power, and were exercising this power to indulge their own personal interests and values in the community and elsewhere. This included managerial patronage, with shareholders' funds, of favourite causes. Pet projects, for example, in the arts or sports were indulged, without the constraints of profit maximisation or the preferences of the disempowered 'owners' of the capital.

This led to an early American version of stakeholder theory regarding companies responding to societal claims according to management's judgements. Professional managers were seen to be effectively trading off the interests of various stakeholders according to their judgements or the strength of pressures.

It was in the midst of this discussion that Nobel Laureate Milton Friedman reasserted the classical model with his well known statement:

> *In a free enterprise, private property system, a corporate executive is an employee of the owners of the business. He has a direct responsibility to his employers [ie. owners]. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possibly while conforming to the basic rules of society... Insofar as his actions in accord with his 'social responsibility' reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customer's money. Insofar as his actions lower the wages of some employees, he is spending their money.*[12]

The implication was that if executives used their time at work, and other company resources (as distinct from their own time and resources) for social purposes, they were in effect imposing a tax on those with interests in the enterprise and took it upon themselves to decide how this tax would be spent.

There was also a reaction against corporate social involvement following the Great Society program in the 1960s when US President Lyndon Johnson turned to the corporate sector to lead in such sensitive areas as urban renewal, high school adoption programs and community programs.

Results of this 1960s surge of business community activism in social planning can provide lessons for today:

- business lacked the experience to take the lead on social issues; managerial solutions failed because they did not take into account real community needs, or were resented as misconceived or paternalistic by those they were trying to help;

12 Milton Friedman, *Capitalism and Freedom*, University of Chicago Press, 1962..

- anti-business forces resented corporate sector involvement and distrusted their motives;
- there was concern that business was assuming a quasi-political role in deciding social priorities, and was without social or political accountability;
- some in business felt this was a distraction from their proper function of generating community prosperity through more traditional business activity.

Most major Australian companies would respond to Friedman that he is inappropriately perceiving resources spent on social amelioration as a zero sum game. Community investment can generate returns to all stakeholders and when properly conceived is not inconsistent with optimising long-term financial returns. The complaints against the Great Society initiatives are these days negated by companies working in partnerships with non-profit organisations close to the social market place.

## Misguided virtue?

Contemporary critics of corporate social investment do need to be heard. Perhaps the boldest and most articulate is Professor David Henderson, CMG, former chief economist of the OECD, Reith Lecturer, and academic-at-large. His paper 'Misguided Virtue: False Notions of Corporate Social Responsibility' (see extracts from executive summary at Box 3.1) is a version of the Friedman position that responds to contemporary circumstances. His view is basically that modern corporate approaches to CSR are revolutionary; are a response to anti-capitalist forces; show a lack of understanding of the underlying social role of profits and the market system; and reflect appeasement or at least collaboration with the opponents of our private enterprise system. In particular he is hostile to 'new tripartism' involving NGOs (who, he says, lack legitimacy) in governance. The executive summary concludes with an attack on companies that are at the forefront of the CSR and community investment movement.

> *Taking the path of CSR is often presented as a way of disarming opposition to globalisation and capitalism, by giving them a 'human face'. Its supporters show little awareness that the case for private business derives from its links with competition and economic freedom. Instead, they mistakenly identify defence of the market economy with making business more popular and more respected though meeting 'societies' expectations'…*
>
> *CSR does not stand alone: it forms one element of a new millennium collectivism. Its adoption would reduce competition and market freedom, and undermine the market economy. The commitment to it marks an aberration on the part of the business concerned, and its growing hold on opinion generally is a matter for concern.*[13]

13 David Henderson CMG, "Misguided Virtue: False Notions of Corporate Social Responsibility", Institute of Economic Affairs, London 2002.

**Box 3.1: 'Misguided virtue: False notions of corporate social responsibility'**

(Extracts from Executive Summary)

- While issues concerning the social responsibilities of businesses have long been the subject of debate, today's conception of Corporate Social Responsibility (CSR) marks a new departure.
- CSR is a radical doctrine. It embodies a new and wider conception of the role of private business and the way in which it should be conducted.
- CSR is in large part a response to recent outside pressures on businesses, and especially on large multinational enterprises (MNEs). The pressures have come from public opinion generally, and in particular from 'public interest' non-governmental organisations (NGOs) which are typically hostile to capitalism and the market economy.
- CSR holds that businesses should assume a leading role in making the world a better place: they should demonstrate corporate citizenship. This is taken to mean endorsing and pursuing the objective of sustainable development. Sustainable development is seen as having three distinct dimensions — economic, environmental and social. Hence businesses should set goals, measure their performance, and have that performance independently audited, in relation to all three. CSR supporters presume, mistakenly, that the notion of sustainable development is well defined and universally agreed.
- CSR involves the voluntary adoption by businesses of broader objectives, more complex procedures, and more exacting standards. To this extent it would tend to impair enterprise performance, with effects on both costs and revenues, short-run and long-run. These effects are played down by its supporters.
- CSR is portrayed as a means to maintaining and increasing enterprise profits, on the grounds that failure to adopt it will bring loss of reputation in society as a whole, and among customers and employees in particular. Profitability is said to depend on meeting what are represented as 'society's expectations'. These expectations are treated as given and legitimate, even when they reflect anti-business attitudes and convictions...
- [Companies] are apt to practice diplomatic silence and to make unwarranted admissions. The emphasis is on appeasement of critics and compliance with 'society's expectations'. Whether this is responsible conduct is open to doubt.
- Many advocates of CSR, including spokesmen for large MNEs, show a lack of understanding of the rationale of a market economy and the role of profits within it. Like many of their critics, they want to see capitalism made anew. They therefore welcome outside pressures for the adoption of CSR. They are collaborators as well as appeasers...

- Some pro-CSR business leaders, business organisations and commentators have endorsed the naive idea that a 'new tripartism' has arisen on the world scene: businesses, governments and selected NGOs now supposedly share responsibility for strengthening 'global governance'. This reflects the salvationist illusion that globalisation has transferred power from governments to business. It also confers on businesses and NGOs alike a status which they have no rightful claim to, since they are neither elected nor politically accountable...
- When as is probable the adoption of CSR impairs enterprise performance, the businesses that have taken this course have a strong interest in having their rivals follow suit. They can try to mobilise public opinion in this cause, or lobby for government regulations to be imposed on all: both courses are open. In either case, the effect is to limit competition and hence to weaken the performance of the economy as a whole. The system effects of CSR, as well as the enterprise effects, will tend to make people in general worse off...
- Taking the path of CSR is often presented as a way of disarming opposition to globalisation and capitalism, by giving them a 'human face'. Its supporters show little awareness that the case for private business derives from its links with competition and economic freedom. Instead, they mistakenly identify defence of the market economy with making businesses more popular and more respected, through meeting 'society's expectations' by endorsing and giving effect to current radical proposals for change.
- CSR does not stand alone: it forms one element of new millennium collectivism. Its adoption would reduce competition and economic freedom, and undermine the market economy. The commitment to it marks an aberration on the part of the businesses concerned, and its growing hold on opinion generally is a matter for concern.

From David Henderson CMG, 'Misguided Virtue: False Notions of Corporate Responsibility', Institute of Economic Affairs, London, 2002.

As with Friedman's ideas, there are 'strawman' elements to the argument that social responsibility or community investments are negative to corporate and subsequent community interests, and take place in a zero sum game.

Most corporate proponents of CSR, including community investment, still hold strongly to the primacy of shareholder and believe that when managed appropriately, CSR does not compete with long-term financial returns. This was characterised by the term used in our 2000 report and still current: 'enlightened self-interest'. Even the most passionate supporters of community investment interviewed for this report remain firmly of the view that the most useful business contribution to the community is to produce goods and services in a free market environment generating best possible returns to shareholders. This community contribution is easily demonstrated in the generation of employment, payment of taxes, production of the goods and services the community needs, return on savings for superannuants, investment and economic advancement in developing countries and general community prosperity.

There is an overwhelming view, with varying levels of sophistication, that a business case exists for not only acting responsibly with an eye to community expectations, but that significant investment in the social wellbeing of communities is aligned with, and increasingly integral to, corporate economic success.

While there continues to be a broad spectrum of opinion in the corporate community from Friedmanite to 'the corporation as a social activist', most senior executives of public companies would endorse the words of Chip Goodyear, CEO of BHP Billiton:

> *The debate around the role of corporations in the community versus their role in maximising shareholder profits seems to fire up again and again. What surprises me is that a debate exists at all. The business case for corporate social responsibility is clear. For BHP Billiton, corporate social responsibility isn't a case of a stockholder versus stakeholder argument, but is a critical part of maximising shareholder returns. Simply, corporate social responsibility is in the best interests of our shareholders and is fundamental to profit creation and sustainability.*[14]

## The stakeholder corporation

Subtle distinctions between US and European notions of the role of corporations in society were noted above. European based multinationals, including those with subsidiaries in Australia, are more likely than US companies to work with governments, align with government based agencies such as those in the UN, develop global partnerships with NGOs, or work in collaboration with other corporations in collective efforts.

Most Australian companies still relate more closely to the American paradigm, though companies in the finance and resource sectors — highly sensitive to global reputations, global endorsement, and prone to international NGO interest and regulation — are more inclined to join in UN and other international collaborations and structured, formulaic, CSR commitments.

Some recent academic thinking in the USA has challenged 'shareholder primacy' with 'stakeholder' theory of the firm.

Post, Preston and Sachs recently developed a most articulate presentation of the stakeholder theory was developed by in *Redefining the Corporation: Stakeholder Management and Organizational Wealth*. This book observes the global practice of three major companies, Shell, Motorola and Cummins Diesel:

14 CW Goodyear, "Social Responsibility has a Dollar Value", *The Age*, 27 July 2006.

*[The book] presents a view of the corporation quite different from its medieval origins — in which its social purpose was its dominant consideration — and also different from both the model of comprehensive social control by government and the currently prominent 'ownership' model that places primary emphasis on the private interests of investors. Our analysis is based on the empirical proposition that 'corporations ARE what they DO'. The modern corporation is the centre of a network of interdependent interests and constituents, each contributing (voluntarily or involuntarily) to its performance….. as a result of the corporation's activities. Our proposed redefinition of the corporation…is based on this observation.'* [15]

Post et al go on to say:

*…share owners hold securities, but they do not own the corporation in any meaningful sense, nor are they the only constituents vital to its existence and success. [shareholder dominance]…is inconsistent with the observed behaviour of successful firms. This leads the authors to place shareholders in line with other 'stakeholders'…*

*The corporation is an organization engaged in mobilising resources for productive uses in order to create wealth and other benefits…for its multiple constituents, are shareholders.* [16]

Corporate leaders interviewed in the study would not go as far as Post et al. They saw long-term returns as the primary mission of the enterprise while acknowledging legitimate claims on the entity of those who are affected by it, such as employees (including themselves, neighbours, customers and so on). Some acknowledged the reality that a required 'trade-off' of various interests against others in the stakeholder community would be arbitrary at times but generally, they claimed, these trade-offs would be made in the long-term interests of shareholders within a complex framework of values, stakeholder pressures and enterprise needs.

## Recent inquiries

The mid 2000s saw a significant debate in Australia around the legal and regulatory issues concerning CSR and corporate community investment. Throughout the debate the CSR and community investment issues were frequently, and sometimes confusingly, bundled. Much of the focus was on the role of corporate giving and other support for community wellbeing.

A major report was from the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Corporate Responsibility and Triple-bottom-line

15 James E Post, Lee F Preston, Sybille Sachs, 2002, 'Redefining the Corporation: Stakeholder Management and Organizational Wealth', Stanford Business Books, p.8.

16 Op cit, p.11.

Reporting. The inquiry received submissions from corporations, associations, academic bodies and individuals reflecting a range of views on issues such as directors' duties; whether corporate responsibility reporting should be mandatory; and whether regulation was required to increase responsible corporate behaviour. The committee heard evidence that major companies, and the Business Council of Australia believed mandatory reporting would lead to a 'tick-the-box' culture of compliance. Submissions also posited that directors' duties already accommodate 'enlightened self-interest' (where directors consider key stakeholder interests, other than shareholder's, that are relevant to the company). The committee's recommendations included that mandatory approaches to regulating directors' duties and sustainability reporting were not appropriate. The committee also recommended that more options be considered to encourage uptake and reporting of corporate social responsibility in Australia and suggested several ways in which the government could facilitate corporate community investment initiatives. Key recommendations are covered in further detail in Box 3.2.

**Box 3.2: Key recommendations of the Parliamentary Joint Committee on corporations and financial services inquiry into corporate responsibility, 2005–2006**

From 2005 to 2006, the Parliamentary inquiry received more than 140 submissions from corporations, associations, academic bodies and individuals — the highest number of submissions to an inquiry of the committee over the past decade. The committee's report, delivered in June 2006, contained twenty-nine recommendations, including the following:

- that the Corporations Act 2001 permits directors to have regard for the interests of stakeholders other than shareholders, and recommends that amendment to the directors' duties provisions within the Corporations Act is not required;
- that sustainability reporting in Australia should remain voluntary;
- that each company auditor on an annual basis: review the extent to which companies are making non-financial disclosures in their Operating and Financial Reviews; and make recommendations to the company board regarding the adequacy of the disclosures to meet the evolving needs of shareholders, and the wider capital market in order to assess and value material non-financial performance, risk profile and risk management strategies;
- that it is premature to adopt the Global Reporting Initiative Framework as the voluntary Australian sustainability reporting framework; and that the Australian Government continue to monitor the acceptance and uptake of the Global Reporting Initiative Framework, both nationally and internationally, with a view to its suitability for a voluntary Australian sustainability reporting framework;

- that the Australian Stock Exchange Corporate Governance Council provide further guidance to principle 7 of the ASX Council's Principles of Good Corporate Governance and Best Practice Recommendations to the effect that companies should inform investors of the material non-financial aspects of a company's risk profile by disclosing their top five sustainability risks; and provide information on the strategies to manage such risks;
- that the Australian Government provide seed funding to establish an organisation, the Australian Corporate Responsibility Network, to be modelled on the United Kingdom initiative Business in the Community;
- that investors, stakeholders and relevant business associations should encourage companies to include long-term (beyond a three to five year timeframe) corporate responsibility performance measures as part of the remuneration packages of company directors, executive officers and managers;
- that where appropriate, the Australian Government facilitate and coordinate the participation of Australian corporations in international corporate responsibility initiatives.
- that as a way of facilitating greater uptake of sustainability reporting, the Australian Government should examine the feasibility of introducing inflated write-off arrangements for the year-one costs of initiating sustainability reports, to assist companies that commence sustainability reporting for the first time; and
- that the Australian Government consider options for providing regulatory relief to corporations that voluntarily undertake specified corporate responsibility activities.

Source: Parliamentary Joint Committee on Corporations and Financial Services, 'Corporate responsibility: Managing risk and creating value', June 2006, available for download at http://www.aph.gov.au/senate/committee/corporations_ctte/corporate_responsibility/

The Corporations and Markets Advisory Committee (CAMAC) also conducted an inquiry into the social responsibility of companies. It looked into legal issues around duties of directors and corporate disclosure to examine any inhibitors to CSR and community investment activities. The sixty-one submissions received by the committee covered a range of views. Most agreed that current legislation provides company directors with flexibility to take into account the interests of stakeholders and the broader community. On the issue of corporate disclosure, some submissions supported the view that the existing mix of voluntary and mandatory non-financial reporting was sufficient. Other submissions considered the current level of disclosure inadequate and that mandatory reporting of environmental and social considerations should be introduced. Further information on the background and key conclusions is contained in Box 3.3.

**Box 3.3: Corporations and market advisory committee inquiry, 2005–2006**

In May 2005, the Parliamentary Secretary to the Treasurer referred the issue of directors' duties with regards to corporate social responsibility to the Corporations and Market Advisory Committee. The advisory committee had been established in 1989 to provide independent advice to the Treasurer on corporate or financial markets law reform or proposals to increase financial market efficiency. The committee was asked to consider the following issues:

- Should the *Corporations Act* be revised to clarify the extent to which directors may take into account the interests of specific classes of stakeholders or the broader community when making corporate decisions?
- Should the *Corporations Act* be revised to require directors to take into account the interests of specific classes of stakeholders or the broader community when making corporate decisions?
- Should the *Corporations Act* require certain types of companies to report on the social and environmental impact of their activities?
- Should Australian companies be encouraged to adopt socially and environmentally responsible business practices and if so, how?

**Directors' duties:** In response to the first two questions, the committee did not support any revision to the Corporations Law. It felt that the current laws provide flexibility to directors to take interests of stakeholders and the broader community into consideration. If there were concerns about the environmental or social impact of business behaviour, the Committee considers that specific legislation would be more appropriate as it would ensure consistency and be applicable to all enterprises (public and private, including companies, partnerships, trusts, unincorporated entities, sole traders and other individuals). Corporations law does not have this wide coverage.

**Corporate disclosure:** The committee recognised the importance of disclosure as a means to encourage responsible practice, however felt that s299A of the *Corporations Act* already provided for disclosure of relevant non-financial information. It considered that reporting obligations under the Act should be extended to all listed entities, and that there was no need for the current Act to further require reporting on social and environmental aspects of a company's operations.

**Encouraging responsible business practice:** The committee considered the principal role of government as 'providing the public policy settings within which companies operate'. It did however refer to 'light touch' or areas where the government can encourage socially and environmentally responsible business practices including:

  - policy coherence and integration, including a whole-of-government approach;
  - leadership by example through public sector governance and disclosure;
  - promotion and dissemination of information or commission of research; and
  - encouraging participation in international codes or guidelines and other non-government initiatives.

Source: Corporations and Markets Advisory Committee, 'The Social Responsibility of Corporations', December 2006, available for download at http://www.camac.gov.au

It is not the purpose of this study to respond to these recommendations although they do raise some issues appropriate for this study to address.

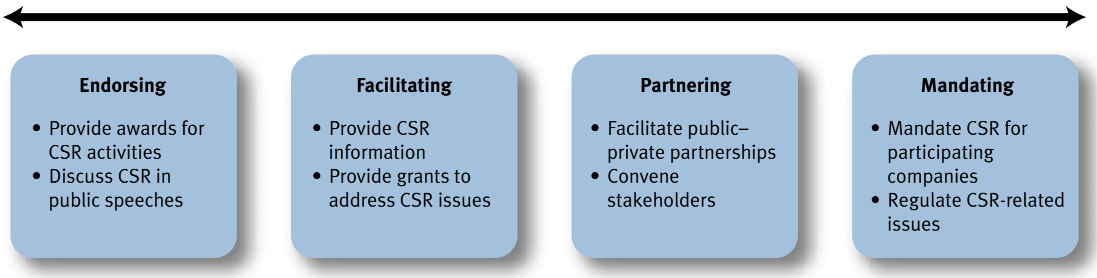
## Role of government

A number of activists and commentators have called for greater government intervention, for example in mandating CSR reporting and using government purchasing to influence corporate behaviour.

In a report to Congress, the US Government Accountability Office reviewed government activities related to CSR activities in the US.[17]

It draws on a model of engagement options developed by the World Bank [18], which listed enabling, facilitating, partnering and mandating.

**Figure 3.1 : Range of US government activities related to global CSR**




Source: GAO illustration based on World Bank report

Generally, government in western democracies have been wary of mandating CSR. In relation to corporate community investment Australian governments have been active in endorsing, facilitating and partnering. The most focused overall initiatives, covering all these aspects, have been developed through the Prime Minister's Community Business Partnership.

Prime Minister Howard's strong promotion of enhanced business sector activity in community and non-profit organisation support caused concern for some within both the community and business sectors. They were suspicious that this was an attempt to shift burden from the government — a view the Prime Minister quickly sought to refute.

There is now a general acceptance that the approach of the Commonwealth Government is based on at least two propositions. The first is that modern society has created pressures that threaten social cohesion and a sense of mutually dependent communities, and that this trend needs to be countervailed.

17 US Government Accountability Office, Report to Congressional Requesters, "Globalisation: Numerous Federal Activities Complement US Business's Global Corporate Social Responsibility Efforts", Washington, August 2005.

18 World Bank, "Public Sector Roles in Strengthening Corporate Social Responsibility; A baseline study", October 2002.

The second is that the government will be less able to solve community problems in the future for a range of reasons, including globalisation, the pace and complexities of life as well as a limited mandate in our democracy for governments to intervene.

Indeed there is a very strong trend in government itself, endorsed by public policy theorists and leading practice, to engage business and communities more deeply in the core business of government.

> *[We] expect greater collaboration on social issues between business, government and community and industry groups.*
>
> Public affairs practitioner

This trend is characterised by governments developing flexible community based solutions through community partnerships and supporting them with funds and capacity building initiatives. In these partnerships, expectations of business, governments and community leaders are heightened.

Attempts [by governments] to deliver efficiently in a more complex world have led to the progressive engagement of business and communities and a blurring of the lines between the sectors. In some areas of policy, government's role moved to 'steering not rowing', and now beyond that to facilitation or brokering. Occupational health and safety, community development, neighbourhood security and environmental protection are early examples of the shift from traditional roles to facilitation and brokering roles. This has led governments to relinquish some authority to empowered networks of players in which they may not predominate.

One analyst is not alone in suggesting:

> *…we are on an irreversible path away from traditional notions of government to a more complex notion of governance, one of whose defining characteristics is a reliance on networks and alliances, not top down directive control from the centre…the business of public policy will increasingly be carried forward through self-organising networks of relatively autonomous players.*[19]

The interaction between government policy and expectations on business continues to attract comment:

> *There are increasing expectations that corporates will fill some of the space vacated by governments.*
>
> *Government will continue to increase pressure on corporate community to support social programs.*
>
> Public affairs practitioners

19 The Allen Consulting Group, *Stakeholder Engagement and Consultative Arrangements in Government: A Collaborative Study* [proprietary study for 18 Commonwealth and State Government agencies] 2006. Embedded quote from M Stewart-Weekes, 'Trick or treat? Social Capital Leadership and the new public policy', in Ian Winder (ed) in Social Capital and Public Policy in Australia, Australian Institute of Family Studies, Melbourne 2000, p.278.

However, given the emerging model of collaboration between the sectors to solve complex problems, major government initiatives in this area should not be seen *prima facie* as burden shifting. The objective is to grow the community wellbeing pie, not cut it in a different way. However, there may be temptation to pursue burden shifting in some areas. One company interviewed in the study reported that an arts company it supported was advised by a state authority that funding would be cut because more support should be sought from companies 'benefiting from the resource boom'.

## The journey from traditional approaches

Great variations exist between companies in their approach to giving and community involvement. Leadership styles and values in individual firms influence different approaches. There are also significant differences between sectors. Change and innovation have been particularly strong in sectors such as resources and banking that are vulnerable to social and political pressures and have faced serious reputation challenges.

As a generalisation, there are considerable differences in the corporate community investment approach of large companies, especially multinationals, and small and medium sized enterprises.

The model that existed widely in corporate Australia only fifteen to twenty years ago was the establishment of a pool of funds (or some *ad hoc* access to funds) for grants to community supplicants at the discretion of the company chairman, CEO, or donations committee of the board. In high profile companies with many thousands of requests, support staff would help by sifting through applications and identify the most worthy causes.

In this environment, directors would sometimes find themselves in a round-robin of obligations, each seeking support for their favourite cause and expecting to contribute to the causes of those other companies who supported their causes in the first instance.

There are strong elements of 'managerialism' (the inappropriate exercise of management economic or social power) in this approach. While these practices have retreated considerably it would be false to claim these elements do not still exist to some extent in our companies. In any event, often the outcomes were still positive, and much community benefit has been derived on this basis. Behaviour that is now considered inappropriate, however, includes what is pejoratively called 'the chairman's wife syndrome' with corporate support determined by senior executives indulging their personal interests rather than broader considerations. (Some companies still report receiving thousands of requests for support each year, processing them and responding positively. This approach is suspended in most companies, except for significant causes such as natural disasters.)

Given the extent of requests for dollars and a lack of focus or rationale for deciding on requests, companies have moved to narrow their fields of support, specifying for example that they would support a balanced or narrow portfolio or to include specified areas such as only education, arts and science and poverty relief. Potential supplicants were told not to bother applying for support outside specific criteria.

Companies still used the term ‘philanthropy’ and the practice was characterised largely by the ‘cheque over the fence’ approach with loose relationships between donor and recipient.

Relationships between supplicant and donor tended to be *ad hoc*, at arm’s length, and with little reference to a strategic business purpose. A typical example of this approach from one of Australia’s largest resource companies in the early 1990s is described in Box 3.4.

**Box 3.4: Excerpts from Donations Policy [major resource company] 1992**

[The company] has an obligation to maintain a community affairs program, which enhances its image as a responsible and responsive corporate citizen. This program includes providing assistance in the form of donations to various community based organizations. ...on the basis of requests seen by the donations committee as meritorious, and given without conditions...

Broadly, donations should be seen as having merit in the areas of charitable welfare, sport, education, the arts and environmental protection. Donations that could aid the advancement of the industry may also be considered...

Guidelines for the distribution of budgeted funds:

The arts...20%

The environment...20%

Sport...20%

Community/charitable organisations...20%

Science/technology/education...20%

...where possible requests from charitable organisations must be directed to United Way which redistributes the company’s contribution to such organisations at its discretion.

Source: Selections from statement of company policy document

However, as firms thought harder about what criteria to impose, they applied the logic of relevance to their own sectors and enterprise needs, and moved towards a phase — borrowed from and still heavily employed in the USA — ‘strategic philanthropy’.

As approaches to donations and support became more strategic and processes more disciplined, directors and CEOs found it convenient to distance themselves from decisions, to inoculate themselves against unwanted requests from business peers and other pressures. They could then point to a set of criteria applied to grants that were managed outside their control by strict corporate policy or by the then fledgling public affairs or community relations function. Responding to requests however still characterises the approach of some large firms in whole or in part and the realpolitik of organisations, connections, relationships and the personal preferences of senior managers can still have some influence over the direction of corporate support.

While not all major Australian companies are as advanced on this journey, the modern sophisticated Australian corporation has gone significantly beyond the traditional philanthropic model, a trend that was noted by the study in 2000 and that has strengthened through the first decade of the new century.

This emerging — in some cases fully matured — model is the focus of most of the rest of this report. It is symbolised in the shift in language from 'philanthropy' and 'grant-making' to 'community' or 'social investment'. As illustrated in the numerous case studies cited below, much of the decision making is proactive and strategic, much is delivered in long-term partnerships with increasingly sophisticated recipients or non-profit organisations in fields relevant to the enterprise. And the approach and investment not only has a business case with reciprocal benefits, but is increasingly embedded in the business model of firms.

At one end of the continuum is the 1992 donations policy of a major resource company described in Box 3.4, at the other is the highly business focused set of principles adopted by another resource company twelve years later **in 2004** (see Box 3.5).

**Box 3.5: Excerpts from Principles To Guide Corporate Contributions [resource company] May 2005**

**Strategic**

The program is clearly aligned with business objectives not solely our vision statement or broad enterprise mission...

**Issues oriented**

The program will be relevant to the company's long-term issues agenda, finding alignment with community partners who are interested in these issues, and where some common ground might be established.

**Collaborative**

Long partnerships will be established with mutual benefits clearly established and spelt out in contractual relationships.

**Company wide**

Understanding and ownership of the program goes beyond public affairs and senior management. Line management and employees comprehend the rationale of the program and ownership is built by their engagement in relevant decisions where possible.

**Results oriented**

Specific targets are set and hard results are nominated, clearly understood by giver and receiver and results are reported.

**Social window**

The program is an opportunity to understand and anticipate social values, attitudinal change and other external perspectives, and build that knowledge into the company's management and strategic planning.

**Proactive**

The company identifies the key areas of interest and issues relevant to the enterprise, and then seeks the appropriate partners through which to best make the social investment.

Source: Selections from corporate policy document.

# Chapter 4

## *Reasons for acting: the business case*

**SNAPSHOT**

In a comprehensive survey undertaken for this study only a small minority of responding companies believed corporate community investment to be peripheral to business and most sought to make investments with a business case in mind. It was seen by most to be 'an integral component to strategy and the corporate business model'.

Rationales cited for corporate community investment included building a better society and promoting public benefit. This is consistent with the view that corporate community investment can enhance financial returns over the long term and facilitate the long-run sustainability of firms. Other motives included winning and maintaining community trust and consequent 'licence to operate', and building and maintaining a positive reputation with a range of associated benefits.

Companies also have been strongly motivated by the demands of staff, particularly younger staff, to be involved in these activities.

Survey respondents agreed with a number of studies that suggest customers can be influenced to support companies with a strong record of CSR, including community investment.

Most respondents said companies were influenced to engage in community investment partly in order to broaden manager's and employee's perspectives and understanding of the community. Community investment initiatives were also a means to build relationships with key stakeholders including corporate critics.

Interviews with CEOs and other research demonstrated the role of corporate values and the way they were articulated and practically expressed in supporting CSR and positive activities in communities.

The US based Conference Board undertook a study into corporate social responsibility performance in late 2003. It cited two contemporary surveys on the significance of CSR to business decision makers:

> *In a recent survey of corporate executives and institutional investors conducted by the Economist Intelligence Unit, 85 percent said that corporate responsibility is a "central" or "important" consideration in their business decisions, compared to 44 percent who said it was "central" or "important" five years ago (*Importance of Corporate Responsibility, *p.2). Another study of multinational executives found that 46 percent believe CSR factors are "more influential" in business*

> *decision-making than they were five years ago, and an additional 42 percent said CSR factors are "much more influential". (*Race to the Top: Attracting and Enabling Global Sustainable Business, *The World Bank, 2003, p.3).*[20]

The Conference Board points out that the NGO community has been pushing the business case for CSR over the last decade. But sceptics remain, including one observer in the newsletter *Ethical Corporation*:

> *Corporate responsibility remains short on credibility. In most companies the official line is that "corporate responsibility provides tangible commercial benefits".*
>
> *However, scratch the surface and one finds a high degree of cynicism about corporate responsibility, and a widespread belief that it is a costly, public relations-focused activity that adds little to the business.*[21]

The Conference Board notes the view that the business case for good corporate citizenship is valid, but only if it helps achieve company goals.

> *In this view, a corporate citizenship program is most effective when it is aligned with the firm's basic business objectives and can therefore be justified on business grounds.*[22]

It quotes an earlier Conference Board report in support of this proposition:

> *Although the question "Does corporate citizenship pay?" is technically right, it is misleading in practice. Rephrasing the core question as "In what ways does corporate citizenship contribute to achieving the core business strategy?" is far preferable. This approach makes the strategy the starting point and corporate citizenship the contributor, rather than seeking to present it as a distinct profit center that subsequently seems isolated from the main thrust of the business.*[23]

## Peripheral or integral to strategy?

This project shows that most large Australian companies embrace corporate community investment as an integral part of business life.

This is indicated by responses to a number of questions in the survey (see Box 4.1).

20 The Conference Board, *The Measure of Success; Evaluating Corporate Citizenship Performance*, NY, 2003.

21 Peter Davis, "Comment: The Last Word", in *Ethical Corporation*, 9 February 2005.

22 The Conference Board, op cit, p.11.

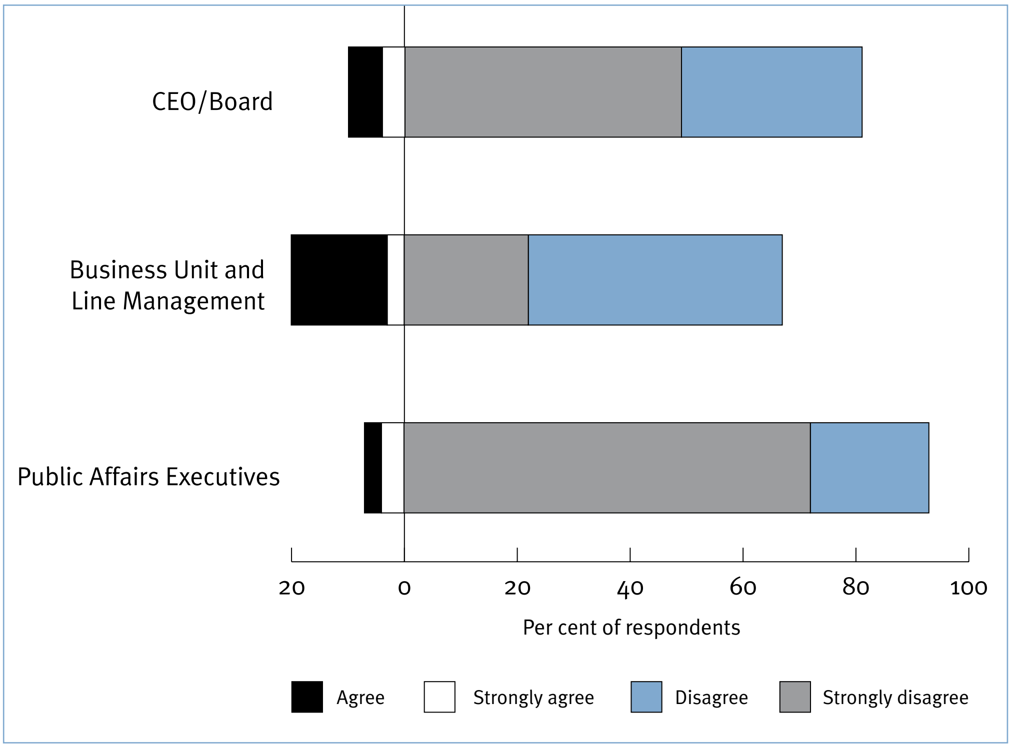
23 Simon Zadek, *Doing Good and Doing Well: Making the Business Case for Corporate Citizenship*, Research Report 1282, The Conference Board, 2000, p.22.

**Box 4.1: The survey**

As part of the project reported here a survey was administered in the second half of 2006 to the top 150 listed Australian companies, the Australian operations of overseas companies of similar scale, and some large government business enterprises. Eighty-two responses were received, representing a 35% response rate. The survey responses were from the senior public affairs/corporate affairs executives or equivalent. Where the attitudes of CEOs/boards, and business unit/line managers are reported, responses were based on the perceptions of these specialist executives.

Companies were asked whether corporate community involvement was 'peripheral to business'. Of respondent companies only 10% of CEOs and 7% of public affairs practitioners 'agreed' or 'strongly agreed' it was peripheral, while CEOs (49%) and practitioners (72%) were seen to 'strongly disagree' (see Figure 4.1).

**Figure 4.1: Corporate community involvement is perpheral to business**

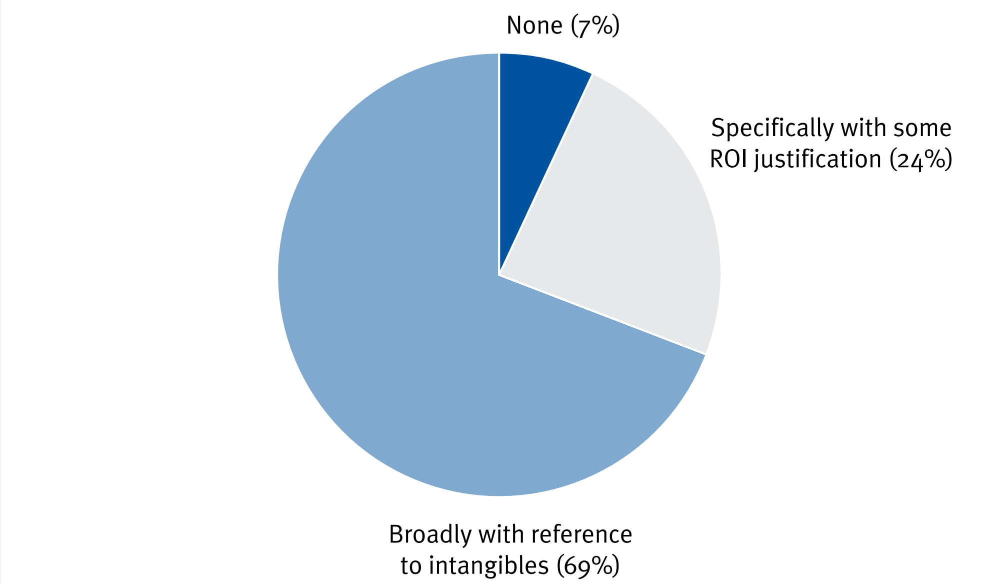



Source: Centre for Corporate Public Affairs, Corporate Community Involvement Survey, September 2006

There was some variance in the responses of business unit and line managers. Twenty per cent 'agreed' or 'strongly agreed' that corporate community involvement was peripheral to business, and only 22% 'strongly disagreed'. These differences are of interest and the issue of line management engagement and perceptions is dealt with later in this report.

Respondents were also asked whether their company required some sort of business case for corporate community investment decisions. An overwhelming 93% said they did, which included 24% who required a specific business case with some return on investment justification; 69% said they required a broad business case with reference to intangibles, while only 7% said they required no business case (see Figure 4.2).

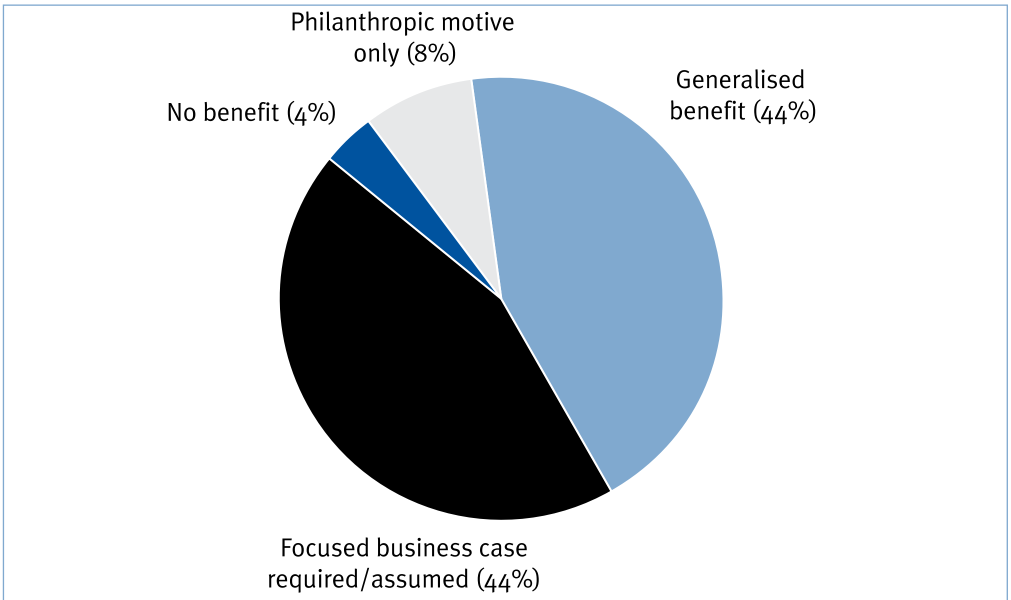
**Figure 4.2: Business case for corporate community involvement decisions**




Source: Centre for Corporate Public Affairs, Corporate Community Involvement Survey, September 2006

This general position is confirmed by responses to a similar question about the use of resources. Companies were asked whether, in expending resources on community involvement activities, a focused (articulated) business case was required or at least assumed, or if the company sought a generalised benefit, no benefit or had a philanthropic motive only. As illustrated in Figure 4.3, 88% of companies claimed to seek a generalised benefit (44%) or required or assumed a focused business case (also 44%).

**Figure 4.3: In expending resources on community involvement, does your company seek:**




Source: Centre for Corporate Public Affairs, Corporate Community Involvement survey, September 2006

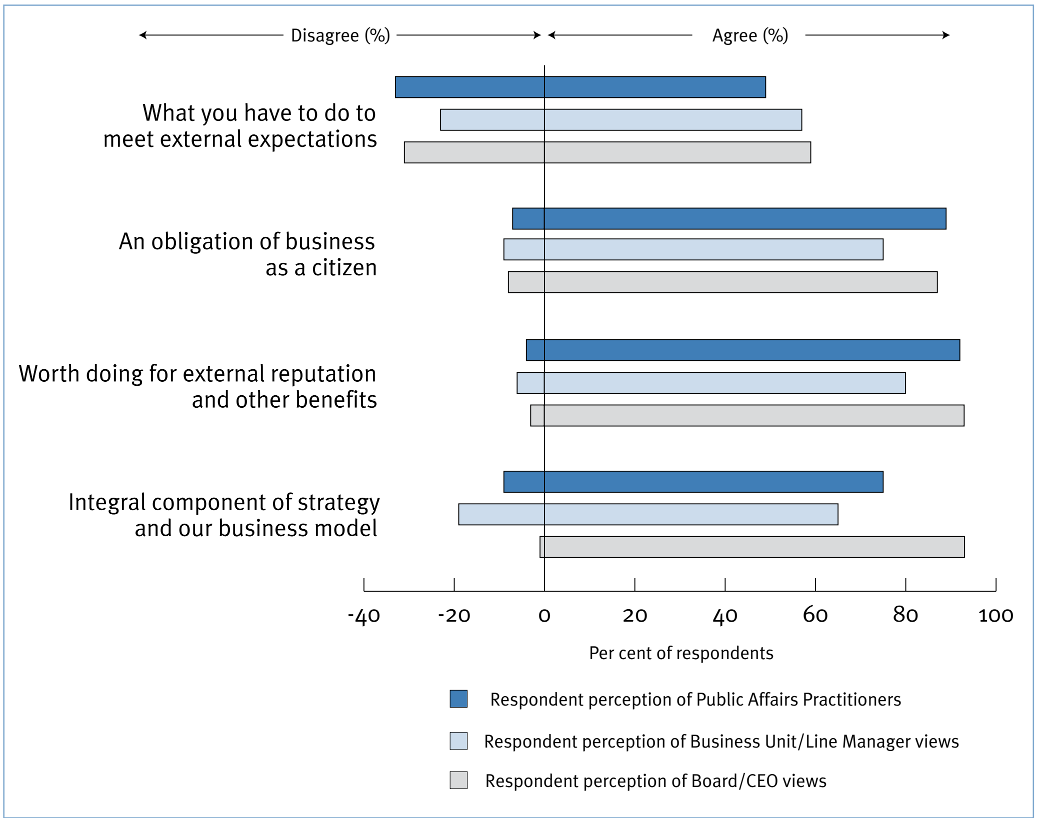
Companies were asked a series of questions about the relevance of community involvement to the company and particular motives companies had for these activities.

The reasons given for the relevance of corporate community involvement to the organisation were not mutually exclusive. Those postulated are often that corporate community involvement is:

- what you have to do to meet external expectations;
- an obligation of business as a citizen;
- worth doing for external reputation and other benefits; and
- an integral component of strategy and our business model.

The level of support for these propositions from various categories of management is reported in Figure 4.4.

**Figure 4.4: Corporate community involvement is considered to be:**




Note: 'strongly agree' and 'agree' responses have been combined, as have 'strongly disagree' and 'disagree'.

Source: Centre for Corporate Public Affairs, Corporate Community Involvement Survey, September 2006

Respondents reported high levels of agreement for all of these reasons for corporate community involvement.

Winning and maintaining a 'licence to operate' is commonly cited as a major rationale for corporate community investment. Respondents were asked what the three executive categories in their organisation thought of the proposition that corporate community involvement is 'what you have to do to meet external expectations'. Only 49% of CEOs or boards 'agreed' or 'strongly agreed', as did 57% of line managers, and 59% of public affairs practitioners.

Companies in industries vulnerable to social and political pressures such as resources, banking and pharmaceuticals were more likely to agree with this proposition.

The study found an overwhelming response to the proposition that corporate community involvement was worth doing for 'external reputation and other benefits' (presumably grouped around the reputation and relationship issues). Ninety-three per cent of CEOs and boards, 81% of line managers and 93% of public affairs practitioners held that view.

The traditional view of corporate community involvement as 'an obligation of business as a citizen' is widely held. Ninety per cent of CEOs/boards, 75% of business unit/line managers and 87% of public affairs practitioners agreed with this view.

## How embedded

A major issue for investigation is whether, and in what way, corporate community investment is 'embedded' in the business model of corporations. This can be explored in two dimensions. The first is the real nature of the business case – how and why companies invest in community. The second, examined in greater detail in chapter 6, is the locale and nature of relevant decision making.

The degree to which community investment is embedded in strategic planning and operations is important for a number of reasons. One is that by its consequent presence in the minds of managers, community investment is likely to affect more potential beneficiaries, and be more consistent with other aspects of management and CSR. Most importantly, it is more sustainable than a peripheral or 'bolt on' approach during times when profits are under pressure.

> *Our community involvement strategy is directly aligned to our business imperative.*
>
> *As a recycling company, we run a major program to collect waste via community groups and deliver linked and readily measurable financial support back into those communities.*
>
> *[Our organisation] expects closer alignment to corporate values and goals — more synergy between sponsor and product.*
>
> *We are trending towards a more direct relationship between community involvement and the aims of the business. This will ensure good take up from business when there is a win win for the organisation and the community.*
>
> Public affairs practitioners

Survey respondents were asked if their CEO or board considered corporate community involvement to be 'an integral component of strategy and the corporate business model': 75% agreed and 8% disagreed (only 1% strongly). Public affairs practitioners were even more inclined to believe this statement (92% agreeing and only 1% disagreeing). Again, business unit and other line managers were less inclined to agree. Nevertheless, 65% did support the proposition, and 19% disagreed.[24]

While not extreme, the differences between line managers and CEOs and public affairs practitioners is significant. It can be explained in part because CEOs and public affairs practitioners are often closer to social and political stakeholders and have well defined accountabilities in that area. It may also be partly explained by the corporate pressures and incentive systems imposed on operations management, despite statements of corporate philosophy and the longer-run interests of companies. Some companies are now addressing this by ensuring relationships with communities and other stakeholders feature in key executive performance indicators and form part of remuneration at risk.

Since our last report, Harvard Professor Michael Porter joined a number of US academics in focusing on CSR as a key driver of business activity. He has attempted to fit this into his well known strategy model. In his most recent article he drew attention to the limitations of some of the classic rationales for CSR, namely moral obligation, sustainability, licence to operate and reputation (see Box 4.2).

There are strong elements of 'straw man' arguments in his negative response to the drivers of CSR he has identified, and (at least in relation to the large corporate sector in Australia) in the characterisation of prevailing approaches, which justify the need for a 'new way'.

This 'new way' is the strategic integration of business needs and society's needs on the basis of shared values and embedded business practice. It represents the approach of a number of best practice companies in Australia in recent years.

One classic example is the Insurance Australia Group whose community investment programs are aimed at benefiting the community but address areas of highest claims cost, such as road safety, neighbourhood crime and workplace safety. As IAG stated in its submission to the Parliamentary Joint Committee Inquiry:

> *One of the greatest benefits IAG can provide to our customers and the broader community is to identify the very risks being insured and help to reduce them...*
>
> *...success in owning and driving a corporate responsibility agenda lies in the effort that the company makes in exploring, debating and deciding how best it can integrate these considerations into its purpose and operations.*

24 It is also relevant to note that there may be some 'halo effect' in responses to these questions. The respondents are public affairs practitioners responsible for administering, and in many cases initiating, their company's community involvement activities. As a generalisation they (with many CEOs) will be more in tune with the costs and benefit associated with relative performance than other executives. In addition, in relation to whether or not the activities are peripheral or embedded in the business model, they see their own function as strategic and aspire to it being recognised as an important factor in business success.

Another example of the new approach comes from health insurance company MBF which integrates the objective of containing cost pressures on the industry while working in the community on health issues such as childhood obesity and chronic disease management.

**Box 4.2: Michael Porter on CSR**

In the *Harvard Business Review* (December 2006), Michael Porter and Mark Kramer place CSR in the framework of competitive advantage. Porter presented these conclusions to a large business audience at a conference cosponsored by AIM and the Community Business Partnership in Sydney that month. At the outset he alleged prevailing approaches were fragmented and disconnected from business and strategy, but asserted CSR 'can be a source of opportunity, innovation and competitive advantage'. He proposed 'a new way to look at the relationship between business and society that does not treat corporate success and social welfare as a zero sum game'.

Porter suggests that four classical arguments are being made to support CSR:

- Moral obligation. He claims it is in the nature of moral obligations to be absolute mandates, while most corporate choices involve balancing competing values, interests and costs. "The moral calculus needed to weigh one social benefit against another, or against its financial costs, has yet to be developed."
- Sustainability, which appeals to enlightened self-interest but which, he asserts, does not provide a viable framework for balancing long-term objectives against the short-term costs they increase.
- Licence to operate. By seeking to satisfy stakeholders, Porter claims companies cede primary control of their CSR agendas to outsiders. "A firm that views CSR as a way to placate pressure groups often finds that its approach devolves into a series of short-term defensive actions. This is a never-ending public relations palliative with minimal value to society and no strategic benefit for the business."
- Reputation. Porter suggests that the business benefit of reputation is hard to determine. 'Studies of the effect of a company's social reputation on consumer purchasing preferences or on stockmarket performance have been inconclusive at best. As for the concept of CSR as insurance, the connection between the good deeds and consumer attitudes is so indirect as to be impossible to measure.'

Source: Porter M. and Kramer, M., 2006, 'The link between competitive advantage and corporate social responsibility', *Harvard Business Review*, December 2006, pp.78–92.

## Rationales for community investment

As noted, above many managers only seek or assume generalised benefits or a broad business case based on intangibles. Others have clear and well articulated purposes.

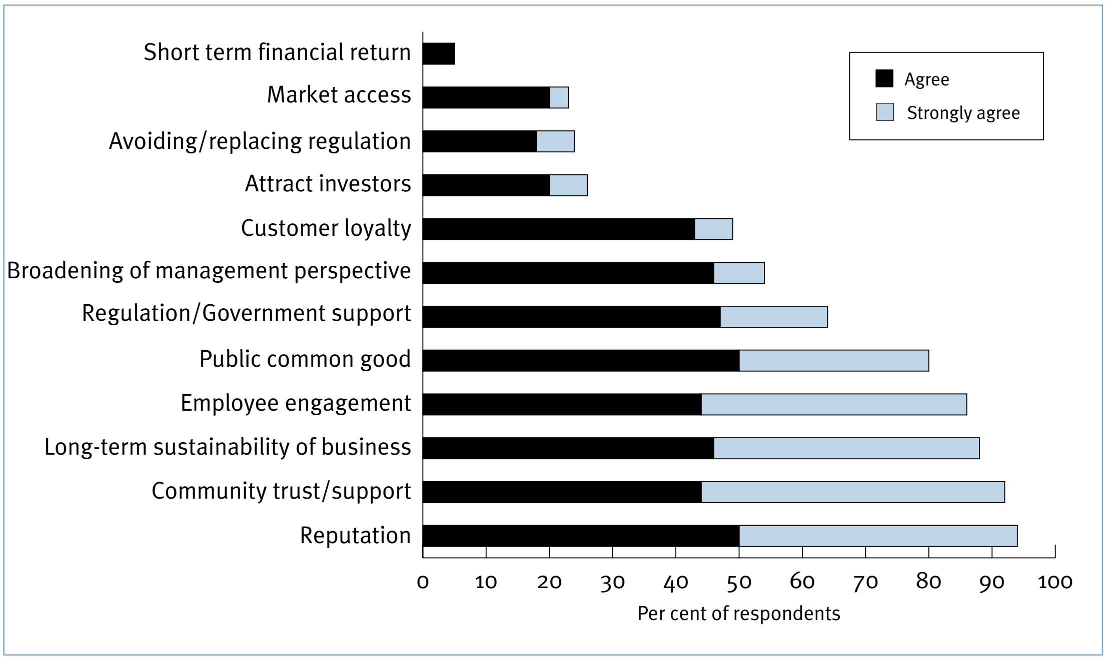
The following discussion deals with clusters of these motives derived from the survey as well as from interviews with public affairs practitioners, CEOs, and from the extensive consulting and other research experience of the Centre for Corporate Public Affairs.

We now examine in more detail the reasons Australian companies give to explain their engagement in corporate community investment. Respondents were asked about a number of possible motives for engagement in community involvement programs or activities.

For most there are a combination of perceived benefits including a number of those identified for response in the survey.

Figure 4.5 documents levels of agreement or strong agreement with these propositions, which are not, of course, mutually exclusive. Improving reputation, community trust and support, long-term sustainability of business, and employee engagement are the top four reasons for engaging in community involvement programs.

**Figure 4.5: Percentage of companies' overall corporate community involvement programs/activities**

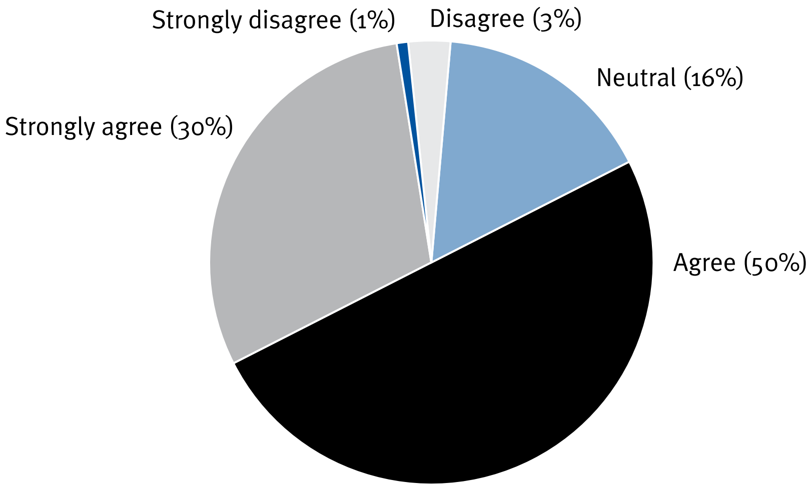



Source: Centre for Corporate Public Affairs, Corporate Community Involvement Survey, September 2006

## Building a better society

Broadly consistent with the view identified in Figure 4.2 in which 90% of CEOs said community involvement was 'an obligation of business as citizen', 80% of companies surveyed said their programs and activities were motivated (at least in part) by the achievement of public common good (see Figure 4.6).

**Figure 4.6: Programs are designed to promote public common good**




Source: Centre for Corporate Public Affairs, Corporate Community Involvement survey, September 2006

The majority of CEOs interviewed were also quick to identify the public good as one motive for action, but couched it as 'the right thing to do', or 'giving back to the community' in return for community support. Others used the metaphor of citizenship which, as noted, is a common rationale in the United States. The citizenship metaphor captures the notion of having a stake in society with obligations or duties as well as privileges, and can be aligned with ethics and behaviours expected more generally of people living in a community.

Some companies refer to the obligations to contribute to, or the benefits that can be derived from, enhanced social capital. This concept, advanced initially by Robert Putnam[25], relates to 'the collective value of all "social networks" and the inclinations that arise from these networks to do things for each other' (see Box 4.3). In its social reports, one of Westpac's performance indicators is 'building social capital'.

> *We recognise our obligation to conduct our business in a way that contributes to building social capital.*
>
> *For us, building social capital starts with business basics and dealing with the substantive issues, finding correctives for broad based community concerns and being deeply involved in the community. It's not only good for the overall community, it enhances community trust in us and it's good for our business.*
>
> 2002 Westpac Social Impact Report

25 In 1995, Putnam discussed social capital in his article 'Bowling Alone: America's Declining Social Capital' (Journal of Democracy) which was later expanded and published as a book (*Bowling Alone: The Collapse and Revival of American Community*, 2000, Simon & Schuster, New York).

*My belief is that profits and social responsibilities need not be in conflict. In fact there is no denying that companies with strong positive reputations are typically financially successful ones. And the more bridges corporations build back into the community by taking responsibility for building social capital, the stronger the nation will become.*

David Morgan, CEO, quoted in Westpac's Social Impact Report, July 2002

**Box 4.3: Social capital**

**Social Capital:** the stock of shared meaning and trust in a given community. Social capital is a prerequisite to cooperation and organised human behaviour, including business. Social capital can be transformed, consumed or replenished, just as financial capital.

Source: Commission of the European Communities: Green Paper: Promoting a European Framework for Corporate Social Responsibility, Brussels, 2001.

Rio Tinto Coal refers to its strategic community partnerships that help 'to build social capital in the communities in which Rio Tinto Coal Australia operates'.[26]

Moral obligation permeates stakeholder theory as managers are asked to pursue multiple interests including the interest of the community as a whole. There is also a strong component of moral obligation in the statements of values, and in the stated aspiration of so-called 'values driven enterprises' discussed below.

## Financial return and sustainability

A US Government report dated August 2005 stated:

*Despite over thirty years of research, no consensus has been reached on the relationship between business social and financial performance. Numerous empirical research studies have attempted to determine whether those firms that engage in socially responsible practices also do well in terms of financial performance.*[27]

It notes with approval the findings of a 2002 paper by the UK Association of Chartered Certified Accountants:

*It has not yet been possible to make a strong causal, quantitative link between CSR actions and financial indicators such as share price, stock-market value, return on assets and economic value added.*[28]

Notwithstanding this, companies are acting as if there are positive returns when it comes to corporate community investment.

26 Rio Tinto sustainability, http://www.riotintocoalaustralia.com.au/sustainable/social-community.asp, accessed 4 January 2007

27 US Government Accountability Office, Report to Congressional Requesters, "Globalisation: Numerous Federal Activities Complement US Business's Global Corporate Social Responsibility Efforts", Washington, August 2005.

28 Association of Chartered Certified Accountants, "Corporate Social Responsibility: Making a Business Case", London 2002.

When a business rationale is invoked, it is common to see reference to the idea that healthy or prosperous businesses thrive only in healthy or prosperous communities. Accordingly, enriching the community is a form of collective enlightened self interest. Several CEOs repeated in interviews the common view that business prospered in a successful social environment. (To quote *The Economist*'s well known dictum, 'a healthy high street depends on healthy backstreets'.[29]) This is a rationale, however, where the relationship between cause and effect is intangible at best. But it is adhered to strongly in some quarters:

> *To implement Bendigo Bank's chosen strategy, and to ensure that CSR outcomes are a natural outcome of successfully implementing the strategy, we have had to develop some different business models and approaches to this subject. We feel the [community] investments made are enabling us to produce much improved outcomes for all stakeholders, while still providing an excellent platform for continuing the creation of shareholder value on a more sustainable basis.*
>
> *Because of the strong commercial base to the model, we are confident it not only generates a sustainable solution but also provides a strong source of local revenue — revenue that then can be leveraged, match funded, or directed to substantial community projects, with the resultant multiplier benefit to the local economies.*
>
> Rob Hunt, Managing Director, Bendigo Bank, 2006

A number of companies interviewed were able to illustrate in practical terms how lateral approaches with the community paid off. One CEO from the electricity retail sector said:

> *Our first approach to bad debts was to disconnect. However we developed an emergency assistance program whereby in case of particular need we would send people in to educate about consumption, restructure payments, even help them with equipment purchases. We found the program was not only good for our relationships but easily paid for itself.*

## CEO interview

> *Bridging the digital divide is strongly in the long-term interests of our business as the majority of our products are internet and technology based. The more people using technology, the bigger our consumer base in the long term.*
>
> Public affairs practitioner

Not surprisingly, only 5% of survey respondents cited short-term financial return as a motive for community involvement (cause-related marketing may have been a factor in even reaching 5%). However, 86% said 'the long-term sustainability of the business' (implying long-term financial returns) was a motive for community

29 *The Economist*, 20 February 1982

activities. Long-term sustainability sat just after ‘reputation’ and ‘community trust and support’ as the highest scoring motives for community investment and just ahead of employee engagement. The survey results and issues raised in CEO interviews show that interest in broad sustainability, is at the forefront of thinking and that corporate community investment is a key element in this.

A number of CEOs interviewed felt that ‘short-termism’ in the current corporate financial environment, and driven particularly by institutional investors, mitigated against not only constructive community engagement, but also the long-term sustainability of the enterprise. Some, however, felt that the rise of socially responsible investment funds would have an impact and were relevant to their capacity to access investment capital. These funds have a greater share of total investment capital in the USA than in Australia, although they are growing in scale and complexity. Companies that seek overseas investment capital are more sensitive to these funds and an increasing number of Australian companies are now actively seeking endorsement from indexes like the FTSE4Good and the Dow Sustainability Index. As noted earlier, direct corporate community investment is however, only a minor consideration when companies are judged within social responsibility investment frameworks.

A narrow focus on financial return in the short-term is seen by many to mitigate community investment. This was a major consideration in an interview with one of Australia’s most successful CEOs, and is a central feature of his public statements on the issue.

> *There are traders who buy and sell our stock on short-term returns and stock price; but I don’t see them as real shareholders. The interests of long-term shareholders is sustainable high performance over time and a focus on short-term performance can damage that. Building superior long-term value requires advancing the interests of all our stakeholders including the community... Building trust is necessary for successful longevity... Winning companies focus not only on what they can gain from success, but on how they can contribute.*
>
> John McFarlane, Chief Executive Officer, ANZ Bank

## Licence to operate

The issue of trust is embedded in several of the reasons given for corporate community investment including the much-touted ‘licence to operate’. This is a construct in which the community permits or enables an enterprise activity, or withdraws its permission.

The broader issues of corporate social responsibility, including the environmental footprint and the way a company does business, have the greatest focus examining licence to operate, but corporate community investment is frequently a key component, particularly when identifiable local communities are linked to and affected by a company.

*All giving and engagement programs are designed to engage specific groups which the business need to have on side [such as] employees, investors, community and key influencers.*

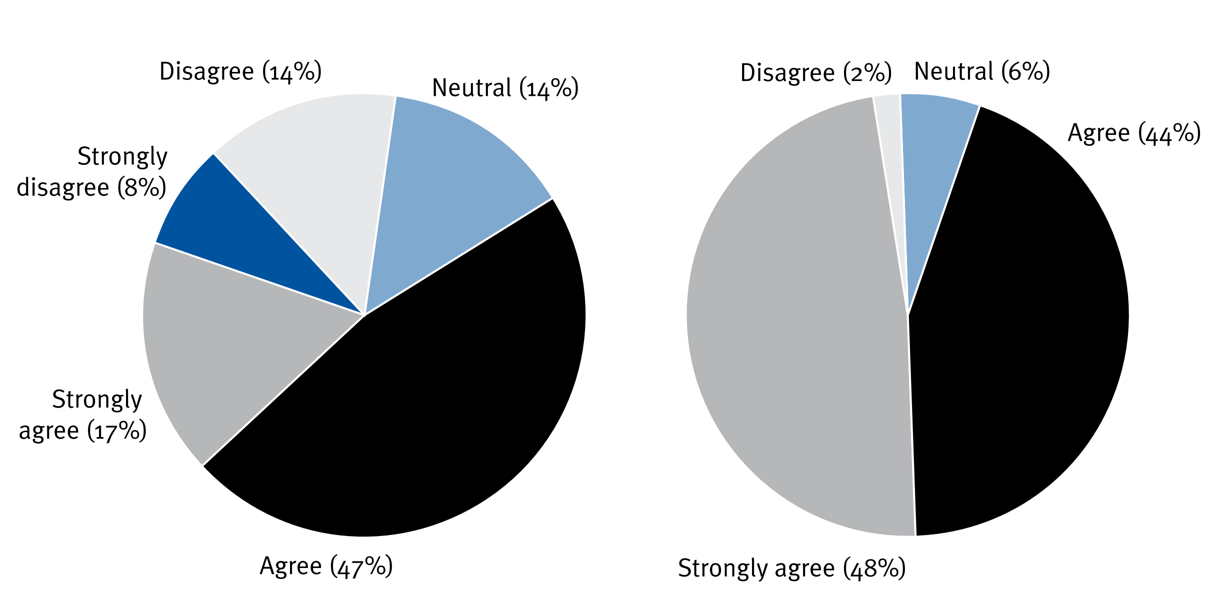
*[We focus on] environmental support to demonstrate company caring for its community and its environment.*

*A variety of our community activities [are] linked to protection and enhancement of reputation, and permission to operate etc. Plus [we look at] specific audience segmentation relevant to [our] customer base.*

Public affairs practitioners

Figure 4.7 shows survey responses to questions most directly relevant to 'licence to operate'. Winning community trust and support was perceived to be a very important motivator for community involvement (for 92% of companies), as was winning that support from government and gaining regulatory approvals or similar regulatory benefits (according to 64% of companies).

**Figure 4.7: Motives for conducting corporate community involvement/programs**




Source: Centre for Corporate Public Affairs, Corporate Community Involvement survey, September 2006

It is interesting to note that in a major study of corporate community investment in Asia, corporate contributions to community activity and support was seen as a key issue in market access.[30] Government attitudes and preferences are much more critical to success in market entry in most Asian countries than in the West and multinational companies are seeking to align host government interests with corporate interests through community investment. The direction of corporate activity was overwhelmingly focused on areas of host government priority.

30 Proprietary study by the Allen Consulting Group of the role of corporate community investment in market entry strategies in Asia for seven major multinational companies, 2003.

Many partnerships are with government agencies, or non-profit organisations close to government, such as communist community organisations in China and Vietnam.

It is common in management circles to see corporate social investment as building credits in some favour bank. The proposition is that, if adequate, credits can be drawn down to balance any negative behaviour or poorly managed problem.

It is true that a positive reputation can give a company the benefit of the doubt and greater acceptance in ambiguous circumstances than less well regarded companies. But companies, including a number of the CEOs interviewed, realised that alleged credits in some favour bank may not always be useful when companies were in trouble.

As the CEO of Shell Australia, Russell Caplan said:

> *Doing good works doesn't provide you with insurance; it doesn't give you a single degree of protection from a Brent Spar.*
>
> CEO interview

> *Licence to operate requires companies to maintain legitimacy with key publics and respond to community's expectations. Issue management theorists point out that these expectations may be unrealistic or, at least from a company perspective, poorly conceived. In these situations an appropriate course of action for a company or industry is dialogue and persuasion to attempt to modify those expectations. But the issue is more complex. As commentators Henderson and Porter point out (and as noted earlier in this report) many demands are motivated by single issue causes, or anti-business agendas, and in any event are frequently mutually exclusive. Prominent academic David Baron argues that CSR must be more than 'a label for some practice and interest group seeks or researcher desires… Often, however, interests conflict with some seeking redistribution at the expense of others. Thus rather than speak of society's expectations it is better to speak of the interests of individuals and groups.'*[31]

## Reputation

Closely related to the issue of trust and licence to operate is the amorphous concept of corporate reputation. Corporate reputation is multi-faceted and has become an increasingly important pursuit for managers.

Dr Charles Fombrun, founder of the US based Reputation Institute provides the framework for analysis which is most widely used in current discussion. It includes a number of dimensions of reputation including financial performance

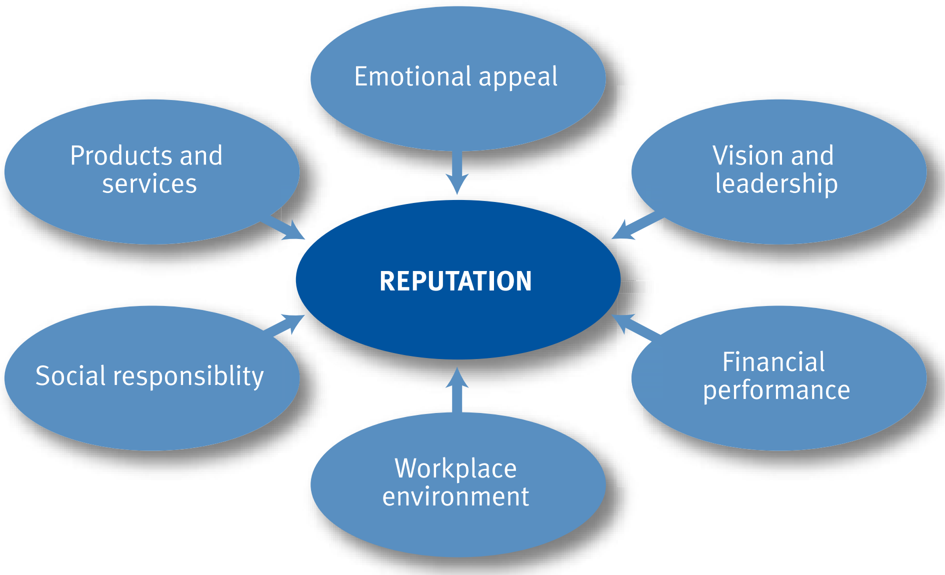
31 Baron, David P, "Private Politics, Corporate Social Responsibility and Integrated Strategy", *Research Paper No. 1656, Research Paper Series,* Graduate School of Business, Stanford University.

and the quality of products. Those dimensions of most direct relevance to corporate community involvement include workplace environment, (a good place to work), emotional appeal (trust, respect) and social responsibility (supports good causes and environmental and community responsibility).

There is also the potential for enhanced perceptions of vision and leadership for companies that are creative in community investment.

Academics and others are pushing hard to find ways of measuring the value of reputation (as others attempt to measure the value of brands). There is a growing awareness of the alignment between reputation and overall corporate performance. High reputation companies appear to command a significant premium in the price of goods and services, and equity.

**Figure 4.8: Key dimensions of reputation**




Source: Dr Charles Fombrun, The Reputation Institute

The current preoccupation of many companies with the notion of reputation, or reputation rankings and awards, is a testimony to the perceived value of reputation. While corporate social responsibility plays a major role in assessments of reputation, corporate community investment can also be an important factor. Accordingly, it features strongly when companies seek to enhance their reputations.

Companies compete to be the:

- employer of choice, to attract the best talent;
- supplier of choice, whose products and services are sought above others;
- investment of choice, including for socially responsible investment;
- business partner of choice, where there is trust and reflected reputational benefits;
- neighbour of choice, trusted and valued in the community; and

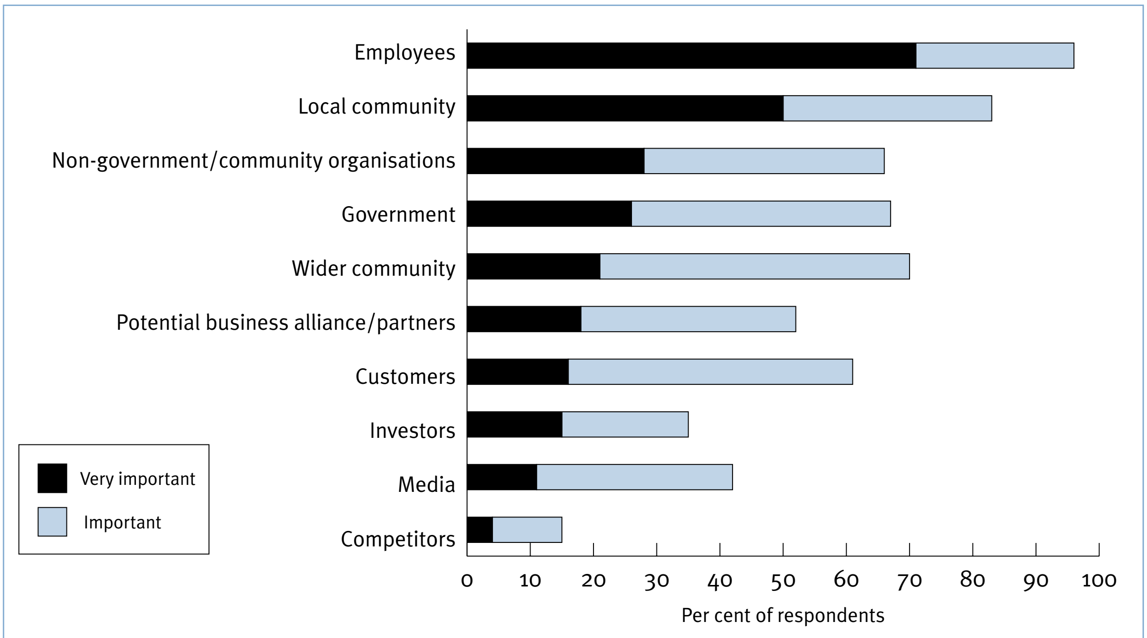
- favoured by regulators.

The behaviour of companies supports the proposition that reputation, including community investment, is a competitive weapon, particularly in some sectors. The banking and insurance industries provide a good example: to overcome a past negative image companies are competing to demonstrate good citizenship, even by taking comparison advertising.

Given the perceived significance of reputation, the survey of companies for this project sought to assess the significance of different stakeholder groups as a target for recognition of community investment.

Figure 4.9 measures how important companies felt it was to have their initiatives recognised by stakeholder groups. Employees top this list, with 71% of survey respondents claiming it was 'very important' and 25% indicating that it was 'important' to have this group of stakeholders recognise their initiatives.

**Figure 4.9: How important is it for the following stakeholders to recognise your corporate community involvement initiatives?**




Note — other responses included 'Not important', 'Slightly important' and 'Somewhat important'

Source: Centre for Corporate Public Affairs, Corporate Community Involvement survey, September 2006

Earlier in this report, Figure 4.5 clearly demonstrated reputation as a driver of community investment. Reputation was listed by an overwhelming majority as a motive for community investment, ahead of any single factor. Ninety-three percent of companies claimed reputation was a motive. Long-term sustainability of the business and employee engagement was the next most commonly mentioned.

There are some dangers in too overtly pursuing community investment for reputational gain. There are significant risks to overall performance when companies bias their activities to meet performance criteria established by reputation surveys. And activists who trade on a negative image of business are keen to focus attacks on companies that are making high profile moral claims.

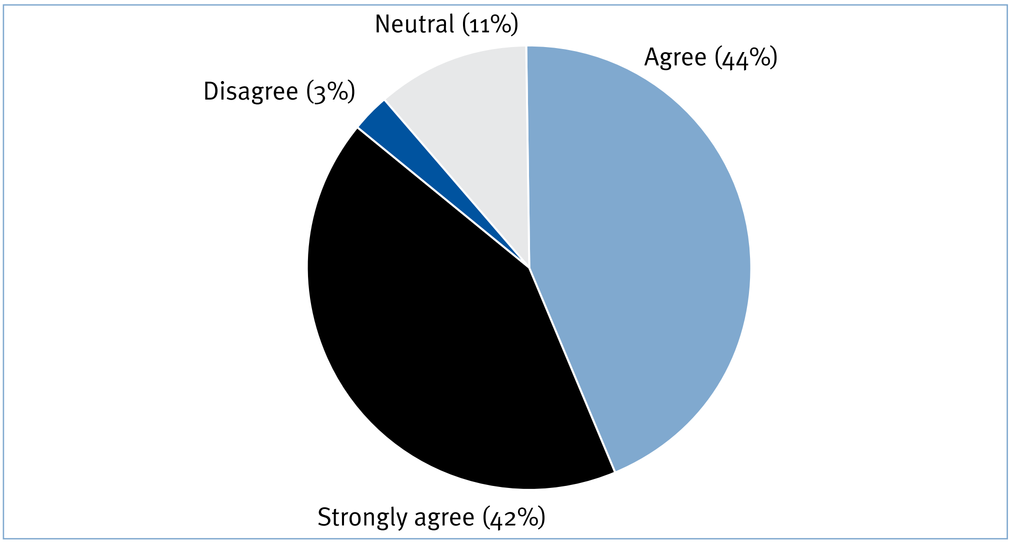
As Vogel comments:

> *...a public embrace of corporate virtue is not without risks. The more a corporation trumpets its social or environmental commitment, the more vulnerable it is to challenges by activists when its behavior fails to meet their expectations.*[32]

## Employee engagement

The 1999–2000 study that preceded this report noted the emergence of staff as a key driver of corporate social responsibility, including corporate community investment. The trend has strengthened in the half decade that followed, to the extent that a number of executives now see staff as the dominant driver. Eighty-six percent of companies surveyed felt it was an important factor, 42% strongly agreed and 3% disagreed.

**Figure 4.10: Programs are designed to promote employee engagement**




Source: Centre for Corporate Public Affairs, Corporate Community Involvement survey, September 2006

Almost all CEOs interviewed raised, unprompted, the demands of young people in the firm to be comfortable with CSR, with many seeking to express their personal altruism through the workplace. Indeed the common story, particularly in the tight labour market and competition for talent, is that beyond applicants for employment having to demonstrate their value, recruiters are being queried about the organisation's community support policies and activities.

CEOs believed opportunities for volunteering, matched giving to worthy causes and approval of a company's overall approach were important factors in recruiting and retaining talented staff.

32 Review of book, D Vogel, *The Low Value of Virtue: The Potential Limits of Corporate Social Responsibility*, Brooking 2005, in *Harvard Business Review*, June, 2005.

**Box 4.4: Generation Y**

Generation Y is defined as the cohort born between 1978 and 1994, comprising around 4.5 million people in Australia. While they are considered more difficult to manage (ie, sceptical and impatient) in the workforce, they are also characterised passionate, trendsetting, ambitious and technologically-savvy. They are more inclined to be 'choosy' about who they work for and will want to check whether corporate values fit in with their own values.

In the US, Generation Y is seen as much more engaged and involved in areas such as volunteering. According to the Boston Globe:

> *We are entering the age of volunteerism. Generation X has shifted charity from the hierarchical, corporate-backed Red Cross and United Way, to a grassroots, episodic volunteerism of, say, tutoring neighbourhood children. And Generation Y is donating more of its time to charitable causes than perhaps any generation in history: According to Leslie Lenkowsky, a professor at The Centre on Philanthropy at Indiana University, 90 percent of college-bound high school students volunteer. Young people are determined to make a difference; they accept a mission that is close to the heart and take action when they can get their arms around the whole project. These attitudes affect choice of both charity and career, and increasingly the two overlap in ways that dignify the word 'synergy'.*
>
> Penelope Trunk, 'Grassroots volunteering draws younger people', *The Boston Globe*, 29 May 2005

Volunteering provides Generation Y with responsibility and a focus to make a difference. In Australia, the Bureau of Statistics estimates that just less than a third of Generation Y (aged 18–24) are involved in some volunteering work. An understanding of what driver the behaviour of Generation Y will assist companies to better attract, manage and engage this new workforce.

Source: Peter Sheahan blog, author of 'Generation Y: Thriving (and Surviving) with Generation Y at Work' (Hardie Grant Books, 2005)

A 2003 survey by researchers at Stanford University and University of California (Santa Barbara) found that of 800 MBA students from eleven leading North American and European business schools surveyed, 94% would accept a lower salary to work for a socially responsible company, one which cared about its employees, community and the environment.[33]

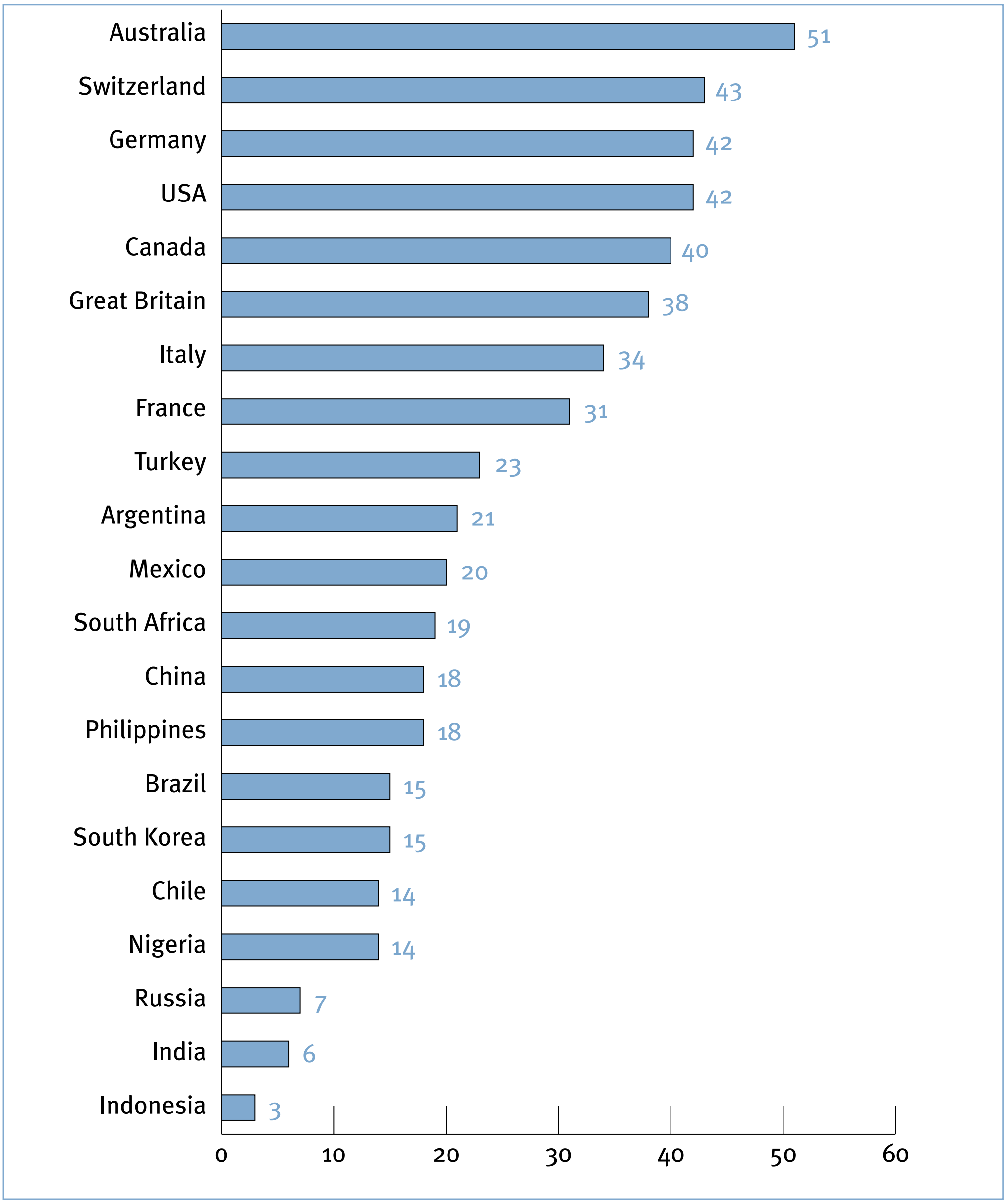
33 Weber, G, "The Recruitment Payoff of Social Responsibility", Workforce Management Magazine, March 2005, quoted in Boston College Centre for Corporate Citizenship *In Focus*, 6 May 2005.

## Customer loyalty

The Year 2000 Millennium Poll and a more recent study by GlobeScan (conducted in twenty-one countries in 2005) suggests that that the Australian public has high expectations of corporate behaviour and will take action against those companies that do not live up to these expectations.

The GlobeScan 2005 survey showed that Australia was the only one of the twenty-one countries surveyed that has a majority of citizens reporting they have punished a company that was seen as socially irresponsible over the past year.

**Figure 4.11: Have punished companies who are seen as socially irresponsible in the last year...**




Source: GlobeScan, annual Australian CSR Monitor, 2005

This, however, is likely to relate to the whole gamut of perceived corporate social responsibility, rather than just community investment.

The concept of social responsibility and the expectations of communities varies from country to country. In the Millennium Poll, the citizen expectation's of companies to go beyond making profits to building a better society were higher in Australia than in any other country (see Figure 4.12).

**Figure 4.12: Role of large companies in society**


Source: The Millennium Poll on Corporate Social Responsibility: Environomics International Ltd (now GlobeScan) in conjunction with the Prince of Wales Business Leaders Forum and The Conference Board, 1999.

Cause-related marketing has been a form of community investment, in some sectors more than others. While consumers have indicated in a number of studies that they more likely to buy products from companies that support a particular cause, only 23% of respondents said their companies were involved in cause-related marketing.

As discussed above, a number of community involvement sponsorships, particularly in sport and the arts, provide an opportunity for customer relationship building, particularly in the B2B sector.

We should note the subtle continuum from brand building corporate or product sponsorship of community activities, through to less marketing-focused community investment. Calls on the corporate donations dollar (for example to State government arts festivals) might best be regarded as a cost of sale for government business or in return for some political support.

In many community investments, apart from cause-related marketing, it is impossible to disaggregate the marketing and community support drivers.

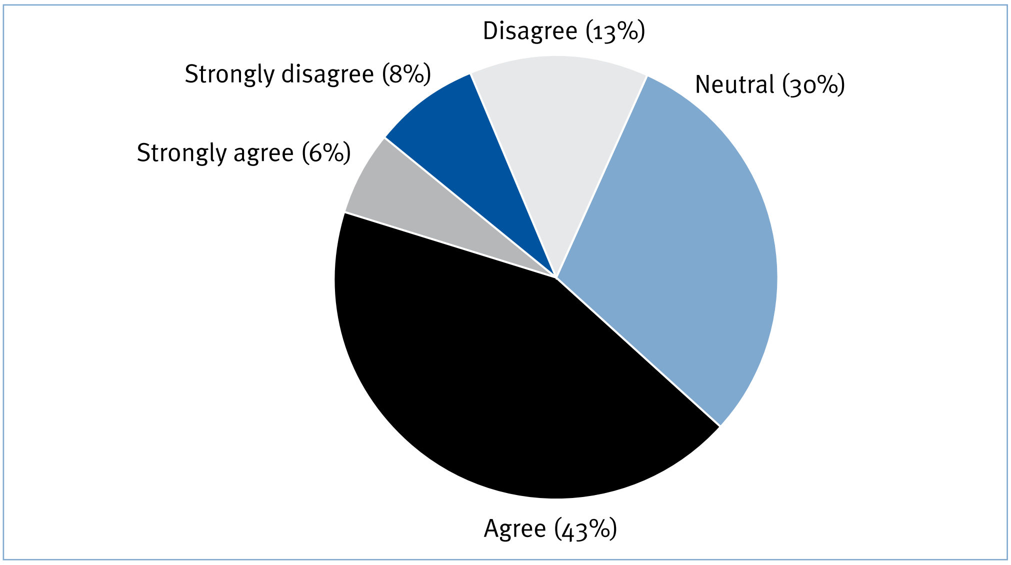
> *[We have a] strong fit between brand values of the product, and the brand values of the community program.*
>
> Public affairs practitioner

This should not be decried; basic commercial drivers will underpin and help the sustainability of the programs of community support.

In addition, as we will see in Chapter 5, companies have embedded community investment into core business activities related to winning and maintaining customers, and enabling customers to access their services. This includes showcasing brands in community activities, technology enabling (for technical service and finance companies), and investing in issues like road safety and public security (for insurance companies).

Customer loyalty was seen as only a moderate driver for corporate community involvement with around 50% agreeing that was a driver in their community programs and 21% disagreeing.

**Figure 4.13: Programs are designed to support customer loyalty**




Source: Centre for Corporate Public Affairs, Corporate Community Involvement survey, September 2006

## Engaging key stakeholders

A number of community investment programs provide opportunities for hosting important stakeholders, including sponsorship of the arts. When hosting customers or suppliers this can be seen as a commercial investment and when it provides access to socio-political or interest groups, it can be seen as an opportunity relating to licence to operate.

Around the mid-1990s a strong new trend emerged to engage stakeholders outside business in order to build stronger relationships of trust and collaboration.

This occurred at a time when companies were realising that to run a zero sum political game with corporate critics was not always smart. Companies sought collaboration, when reasonably achievable, with NGOs and activist organisations. At the same time a number of activists came to the view they could often best achieve their objectives by working with, not always against, companies.

This approach by corporations was re-enforced by an appreciation that unfair attack and negative stereotyping was harder when there was some acquaintance or personal contact (precisely the reason some of the most strident corporate critics eschew such personal contact and collaboration). Accordingly, companies used sponsorship and community involvement resources to develop relations with corporate critics and stakeholders with influence over the corporate environment, and to work collaboratively with NGOs, non-profit organisations and community leaders.

> *We went out deliberately to engage them [activist NGO] because we thought by working with them they would understand our situation better. But we had to demonstrate openness and our bona fides concerning the issues.*

## CEO interview

Engaging non-profits and other stakeholders usually occurred in areas in which common cause, rather than conflict, could be found, and was one of the drivers of the partnership approach that is discussed more fully below.

As noted by Kramer and Kania:

> *However interdependent the nonprofit and business sectors may become, the economic motivations of business will never align perfectly with the altruistic mission of nonprofits. Companies may find many advantages in meeting the needs of the underserved or abating environmental harms, but there will always be social and environmental problems that run contrary to business interests. That is why the nonprofit sector can never be replaced by the business sector.*
>
> *On those social issues where companies have reason to be involved, whether they are motivated by reputation or profit, substantially greater progress can be made if nonprofits can find effective ways of*

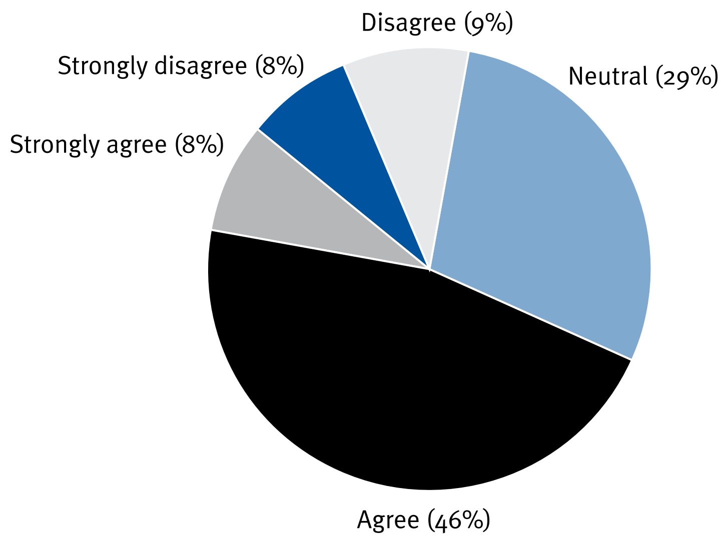
*engaging them in cross-sector partnerships. By embracing a new and positive perspective on business' involvement, nonprofits can tap into a wealth of resources that have long been beyond their reach.*[34]

## Broadening management and staff perspectives

Beyond establishing more trusted relationships, a common motive for active engagement with external organisations, identified in interviews and confirmed in the survey, was to broaden corporate perspectives.

While there was a neutral response to the survey question relating to 'broadening of management perspective' as a motivator for community involvement, more than half of the respondents felt it was a factor, and 8% felt this strongly (see Figure 4.14).

**Figure 4.14: Programs are designed to support broadening of management perspective**




Source: Centre for Corporate Public Affairs, Corporate Community Involvement survey, September 2006

A number of CEOs volunteered this as an important factor, and one reason for their commitment to staff engagement in community investment activities. Many companies appear to be encouraging their staff, including top management, to take positions of responsibility in the community and indeed were demonstrating this to staff by direct CEO engagement in, for example, non-profit organisation governance. The purpose is to gain insight into a world outside the company, and to establish a broader range of relationships.

The general rationale is that exposure to the outside world, including areas of disadvantage, will be developmental for individuals and will help to develop more effective executive and general staff behaviours.

34 M Kramer and J Kania, "Changing the Game. Leading Corporations Switch from Defense to Offense in Solving Global Problems", *Stanford Social Innovation Review,* Spring 2006.

As the 2006 document 'Accenture Corporate Citizenship' states:

> *As one element of our overall corporate citizenship philosophy, corporate community involvement programs create opportunities that enrich the lives of our own people as well as those who benefit from their activities across the world.*

Surprising researchers here and overseas was the serendipitous discovery of new business opportunities arising from exposure to the broader community. This has included opportunities in micro-finance for underprivileged individuals or potential entrepreneurs, and new product ideas in packaging, energy and other areas of environmental management that emerge from engagement with environmental organisations.

Two examples in Asia demonstrate the business value of Unilever supporting entrepreneurship as a form of aid, and the long-run link between aid and brand/market development (see Box 4.5).

**Box 4.5: Unilever in Asia**

**Entrepreneurs and distributors in Indonesia**

Unilever in Indonesia sells soaps, soy sauce, ice-cream and mosquito coils to consumers, more than half of whom live on less than two dollars a day. Among the poorest and least powerful people in the company's value chain are small farmers. To assist with poverty alleviation as well as reinforce supply, the company worked with an Indonesian university and the Dutch company Rabobank to provide credit and improve quality. On the distribution side, the company built supportive relationships with individuals and families in the community to establish small shops, kiosks and 'warung' that operate from family homes, and to assist street hawkers, all of whom were better able to distribute Unilever products.

**Brand and marketing**

Unilever has been innovative in associating its Lifebuoy soap brand with major health needs in Bangladesh. The product itself is associated as much as possible with improving health of underprivileged people ('clean hands stop the spread of germs and clean skin helps prevent diseases').

The company joined local humanitarian organization, Friendship Association, in a major program the company calls 'cause-related marketing' to bring health services to difficult-to-access and underprivileged parts of the country via its system of rivers and canals. It refitted an old oil tanker as a floating 'Lifebuoy Friendship Hospital' (decked out in Lifebuoy livery) to provide free treatment and medicine, immunisation, basic dentistry, public health and hygiene education, and so on. It also hands out free samples of Unilever products.

Source: 'Globalisation's strange bedfellows', *Financial Times*, 8 December, 2005, p.14.

Writing in *The Economist*, Ian Davis, Worldwide Managing Director of McKinsey & Company, notes the risk of lost opportunities of a short-term profit orientation:

> *...billions of dollars of shareholder value have been put at stake as a result of social issues that ultimately feed into the fundamental drivers of corporate performance. In many instances, a "business of business is business" outlook has blinded companies to outcomes, or to shifts in the implicit social contract, that often could have been anticipated.*
>
> *Just as important, these outcomes have not just posed risks to companies but also generated value creation opportunities: in the case of the pharmaceutical sector, for example, the growing market for generic drugs; in the case of fast-food restaurants, providing healthier meals; and in the case of the energy industry, meeting fast-growing demand (as well as regulatory pressure) for cleaner fuels such as natural gas. Social pressures often indicate the existence of unmet social needs or consumer preferences. Businesses can gain advantage by spotting and supplying these before their competitors do.*[35]

Proximity, dialogue and partnerships with organisations with these interests, and communities with specific needs, are important means to identifying these opportunities.

## Values as a driver

One CEO interviewed said that being involved in the community and supporting business activity was 'just the way we do business here'. Many companies now refer to themselves as 'values driven organisations', meaning they have articulated core values, embedded them within the organisation, and are using them to drive and reinforce behaviours that benefit the company and its stakeholders.

Discussion with CEOs and public affairs executives on corporate community investment frequently turns to the issue of values, and what some refer to as principles-based organisations. In a speech on corporate responsibility one CEO put the issue succinctly:

> *Leading an organisation based on principles generally results in one that makes a lasting contribution. It requires a strong ethical and moral foundation that strikes at the heart of what we are trying to create, and inspires people to do the right thing. Running an organisation by rules generally leads to a company that operates at the boundary of what is tolerable.*[36]

The worldwide CEO of IBM, Sam Palmisano, told Harvard Business Review:

> *You have to empower people while ensuring that they're making the right calls the right way. And by 'right' I'm not talking about ethics and legal compliance alone; those are table stakes. I'm talking about*

35 Ian Davis, "The Biggest Contract", *The Economist,* London, 26 May 2005.

36 John McFarlane, Speech to Asia Business Council 2006 Autumn Meeting, Seoul, September 2006.

*decisions that support and give lift to IBM's strategy and brand, decisions that shape a culture. That's why values for us aren't soft. They're the basis of what we do, our mission as a company. They're touchstone for decentralized decision-making.* [37]

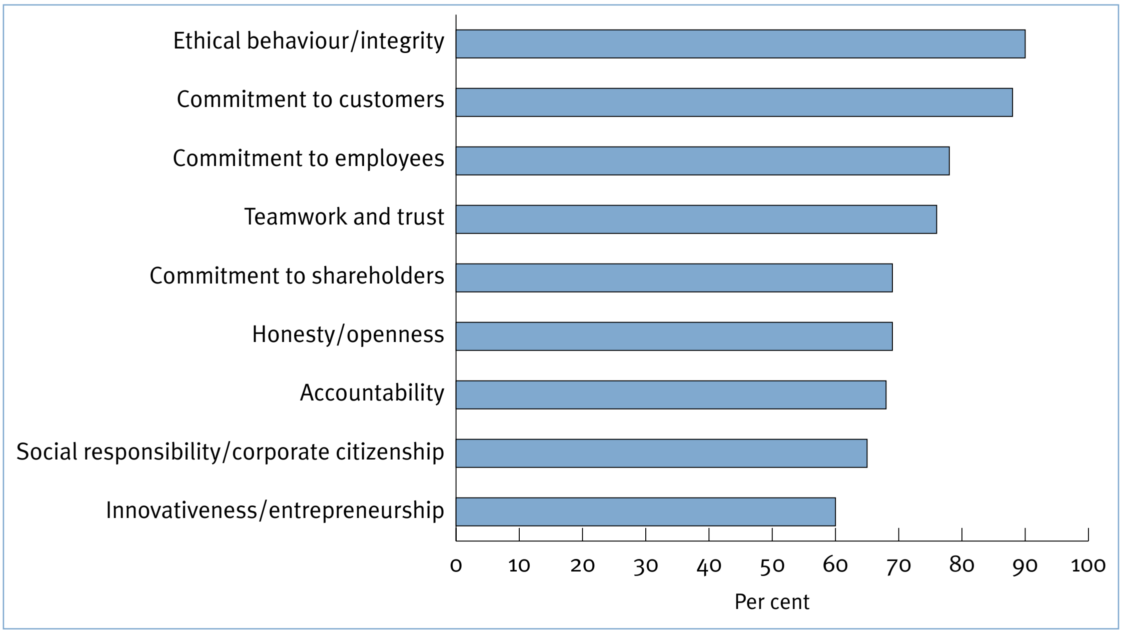
Some companies place corporate citizenship front and centre; the first item of McDonald's statement, 'Our Core Values', has as its first item:

*We give back to the communities in which we do business. We are a local business. We must be leaders in social responsibility. Our customers view us by the positive influence we have on the neighbourhood, its people, and the environment.*[37]

A Booz Allen Hamilton/Aspen Institute survey of 365 companies in thirty countries suggests that: 'Increasingly, companies around the world have adopted formal statements of corporate values, and senior executives now routinely identify ethical behaviour, honesty, integrity and social concerns as top issues on their companies' agendas'.[38]

The study identified values most commonly included in corporate values statements and found that the most common were very commercially focused (see Figure 4.15).

**Figure 4.15: Values most commonly included in corporate values statements**



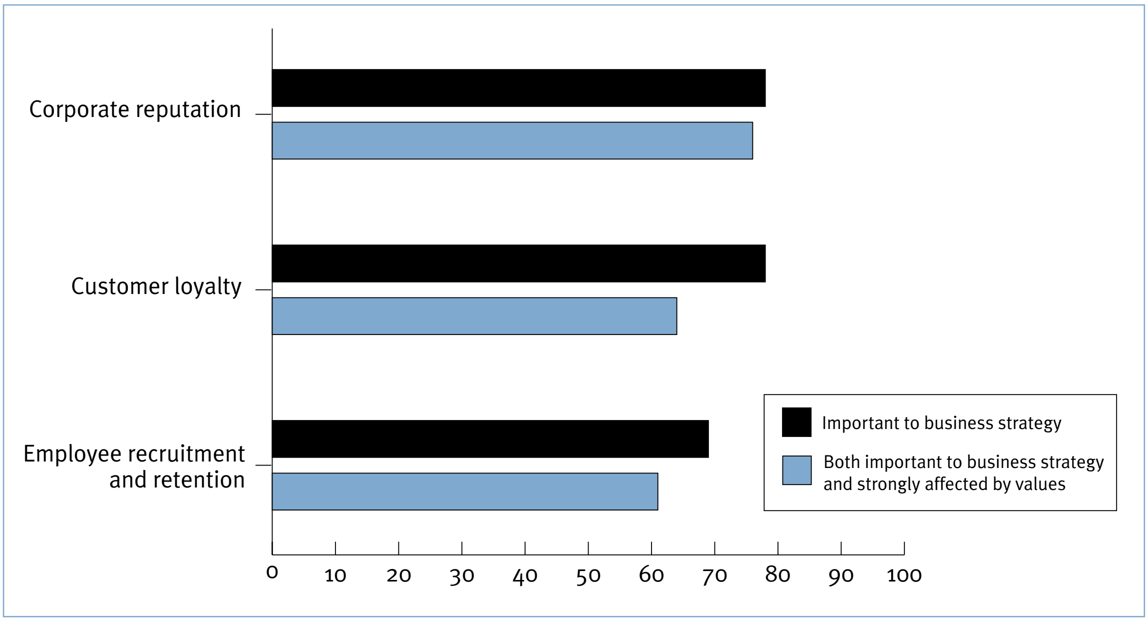

Source: Booz Allen Hamilton/Aspen study

37 HBR Interview, Harvard Business Review, December 2004, cited in Rochlin, SA, Googins, BK, 'The Value Proposition for Corporate Citizenship', A Centre for Corporate Citizenship at Boston College Monograph, 2005.

38 Van Lee, R., Fabish, L. and McGaw, N. 2005, 'The Value of Corporate Values', *Strategy + Business,* Issue 39

The value, 'social responsibility/corporate citizenship' was cited by 65% of responding companies. It is interesting that specific values that were deemed most critical in areas most closely related to corporate community investment such as reputation and relationships (see Figure 4.16).

**Figure 4.16: Factors important to business strategy and strongly affected by values**




Source: Booz Allen Hamilton/Aspen study

This survey highlights the growing trend of companies to make their values explicit, a significant change from corporate practices ten years ago (89% of surveyed companies have written corporate values statements). While some of this may be due to corporate scandals that have resulted in companies looking inwards to find out what went wrong, the authors of the survey suggest that the commitment to corporate values is much deeper. Companies are now doing much more than just displaying value statements. They are undertaking values-driven management improvement activities, such as training staff in values, including values in management and staff appraisal, and engaging consultants to better understand how values affect corporate performance. Various studies show strongly the most effective means of reinforcing corporate values is explicit CEO support. The tone set and values lived by chief executives is the dominant determinant of a corporation's values — this is confirmed in the Booz Allen survey. Other contributing factors include values statements, performance appraisals, internal communications and training. Although according to Booz Allen Hamilton and Aspen Institute study, these factors are not effective if not supported by CEO leadership.

Values driven organisations encourage employees to 'live the company values' in their day-to-day behaviour. As Goldsmith[39] argues, too often values statements become an 'obsession with words'. He suggests that Enron is a good example of the

39 Goldsmith, M. 2005, 'Leaders Make Values Visible', In Van Lee, R., Fabish, L. and McGaw, N. 2005, 'The Value of Corporate Values', *Strategy + Business*, Issue 39.

disconnect between the corporate values and behaviour of leaders. By comparison, Goldsmith points to the Johnson & Johnson Credo established in the 1940s as an example of a company in which management take values seriously and executives are consistently challenged to understand and live the corporate values.

Shell is another example of a values driven organisation. Its global principles govern how Shell companies in each country will conduct its affairs. In its statement 'Shell's Business Principles' it states its values, lists its responsibilities to its stakeholders, and identifies eight business principles including:

> *Principle 6 — Local Communities*
>
> *Shell companies aim to be good neighbours by continuously improving the ways in which we contribute directly or indirectly to the general wellbeing of the communities within which we work. We manage the social impacts of our business activities carefully and work with others to enhance the benefits to local communities, and to mitigate any negative impacts from our activities. In addition, Shell companies take a constructive interest in societal matters, directly or indirectly related to our business.*

# Chapter 5

## *Nature of activities*

**SNAPSHOT**

This chapter illustrates the nature of community investment activities undertaken by major companies in Australia.

While it was the dominant approach for companies a decade or so ago, 65% of companies surveyed said they gave less than 20% of their community contribution in response to requests for cash or kind.

A major development has been to select activities which are connected to the particular attributes or interest of an industry or business in order to pursue greater mutuality of interest, to address specific concerns and to better utilise the available company skill sets and technologies.

Considerable resources are spent on non-marketing sponsorship, or on sponsorships that have the dual purpose of building corporate or product brands while investing in community activities. Related to this is cause-related marketing, particularly for fast moving consumer product companies which align good causes with revenue generation.

Some companies are pursuing community investment activities as a competitive reputational differentiator. At the same time they and others will work collaboratively to deliver programs more efficiently, or to build scale in their activities.

In some cases these collaborations are at the industry level, usually related to particular industry issues. In others they are geographically based to address local circumstances.

Local community programs feature strongly with only 3% of companies not pursuing them at all. These programs are particularly prevalent in heavy industries, and around remote facilities.

Volunteering and workplace giving have been rapidly growing activities, responding to staff aspirations. Companies are increasingly engaging NGOs and 'influencers' in part to break down negative stereotypes and win influential support.

Partnerships with research operations, such as universities, working in the area of health, environment and education are also common.

Fifty-five percent of companies surveyed support research partnerships but most do so with a small percentage of their community investment resources.

The year 2000 report that preceded this study drew attention to some emerging approaches to community investment. In leading companies these included the decline of cheque book charity and disinterested 'philanthropy'; a shift to fewer deeper relationships with community partners; pursuit of activities that were a good fit to the industry, technology or skill sets of the firm; and looking for new ways to meaningfully engage staff.

The story of the ensuing six years has been for organizations to shift further in this direction, and for more companies to embrace these developments. This chapter explores the nature of major corporate activities and approaches, and relevant issues.

Heike Bruch and Frank Walter[40] provide a framework for community investment using the language of 'corporate philanthropy' (which is still mainstream in American academia). Their framework is based on the perspectives of market orientation (external approach) and competence orientation (internal approach). A market orientation puts stakeholder expectations at the centre of the corporate approach to philanthropy with activities focused on the needs of stakeholders. A competence orientation focuses on internal issues and the alignment of philanthropic activities to corporate expertise.

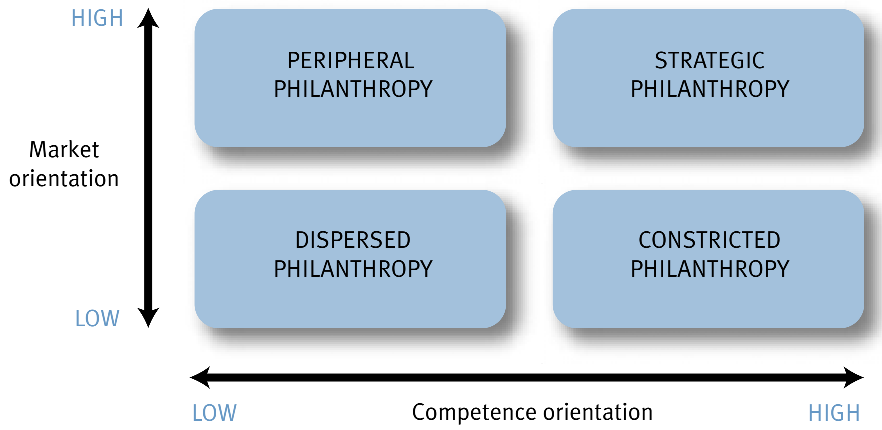
Despite the use of the term 'philanthropy', the four approaches Bruch and Walter identify are useful for exploring corporate community involvement in Australia. They are:

- peripheral philanthropy — where activities are driven by external demands and stakeholder expectation, considered difficult to sustain in the long term;
- constricted philanthropy — where activities are based on corporate core competencies to achieve a social purpose without consideration of an external stakeholder perspective. This approach is useful in some circumstances but lacks strategic orientation and has limited impact on a company's competitive situation;
- dispersed philanthropy — a 'piecemeal' approach that does not consider internal competencies or stakeholder expectations, is often the approach for corporate donations. This approach lacks strategic direction for activities and should not be considered as a general approach; and
- strategic philanthropy — seen as the best approach as it allows for the alignment of corporate expertise with philanthropy activities, while also taking into account stakeholder and market expectations.

Figure 5.1 illustrates the four types of corporate philanthropy.

40 Bruch, H. and Walter, F. 2005, 'The Keys to Rethinking Corporate Philanthropy', *MIT Sloan Management Review*, 47 (1), pp.49–55.

**Figure 5.1: Four types of corporate philanthropy**



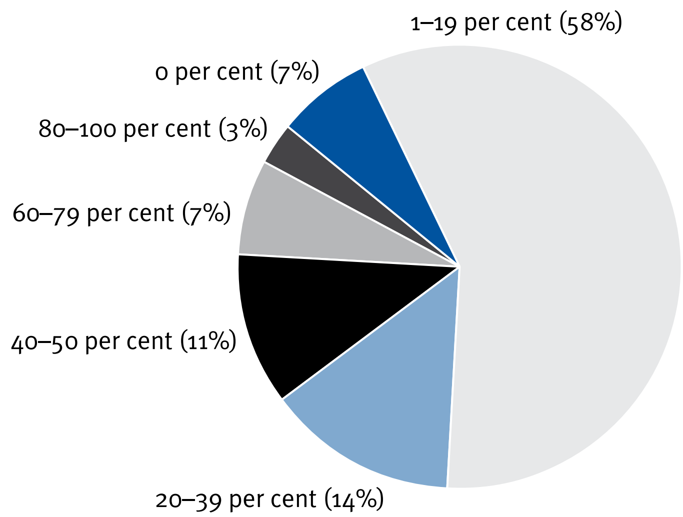

Source: Bruch and Walter, 2005.

A number of companies still operate on the traditional model of corporate community involvement which Bruch and Walter call peripheral. Some companies still have a significant percentage of their activity based on *ad hoc* community requests, or do so in addition to a few deeper and more strategic relationships. Some companies involved in this current study routinely support 300 to 400 charitable organisations or community activities, not counting local community activities around business locations.

As illustrated in Figure 5.2, only a modest percentage of resources are currently spent in this way, although it is an element in the programs of almost all companies.

**Figure 5.2: Responses to requests for support in cash/kind**

- 7% of companies do not provide any resources to requests for support;
- 58% of companies estimate that between 1% and 19% of their community contribution is used to respond to requests;
- 14% of companies allocate 20% to 39% of their budget to requests for support;
- 11% of companies allocate 40–59% of their cash and in-kind contribution to requests;
- 7 per cent of companies allocate between 60–79%; and
- just 3% of companies allocate between 80% and 100% of their community contribution in response to requests for support.




Source: Centre for Corporate Public Affairs, Corporate Community Involvement Survey, September 2006

Even in the late 1990s when a positive response to *ad hoc* requests was more common, Telstra reported that nearly all of its 900 or so requests per month for funding were unsuccessful 'because they did not fit within Telstra's sponsorship program, even though many could provide leverage for Telstra' (Telstra strategy planning document, 1999).

The *realpolitik* of companies and their management in communities, however, is that some discretion to deal with *ad hoc* requests is practical, and where they are not part of a formal mandate, some managers will find a way 'under the line' to respond.

Companies that operate on the more traditional *ad hoc* response mode would normally operate within a fixed budget, but are more likely than those with a more strategic approach to vary their level of contribution with the business/profit cycle.

At the other end of the continuum, 73% of companies surveyed have indicated that they have actively created, or played a leading part in creating, an external activity or organisation to channel community involvement activities.

These range from high level national and significant activities though to local community activities, while others include initiatives to support neighbourhoods around plants and facilities.

For a variety of reasons, including transparency, performance pressure and community expectations, companies have become more strategic in selecting activities from the vast array of community engagement opportunities. They are increasingly seeking to add value to the company as well as the recipients of their support. This leads them to question how they can be more effective.

## Alignment with business attributes and interests

For recipients, effective corporate community involvement frequently means accessing the particular resources and competencies of a particular company or business sector. For the company, effective involvement can mean finding alignment between community partners or engaging in activities with business imperatives.

ANZ CEO John McFarlane has touched on the need for alignment between community investment and the needs and competencies of specific industries:

> *'... we should be pro-active in increasing community support for our industries.*
>
> *We all work in industries that are larger than ourselves. A healthy industry creates the environment for successful companies to prosper within the industry. For this reason we should encourage the community to admire our industries, as a pre-condition to admiring our companies.*
>
> *To make sense of our community obligations, company leaders must first ensure that their community programs are consistent with the business of the company and its reason for being. What this means is that community initiatives that are not consistent with our reason for being in business, cannot easily be justified as being in the interests of the shareholders as owners of the company.*
>
> *For this reason it is natural for medical companies to promote community health, and for banks to promote financial health in the community. For this reason, all of ANZ's community programs focus on financial issues in the community.'*[41]

Box 5.1 and Box 5.2 illustrate the pervasive alignment between industry interests and attributes and community investment selection. The following examples make the same point:

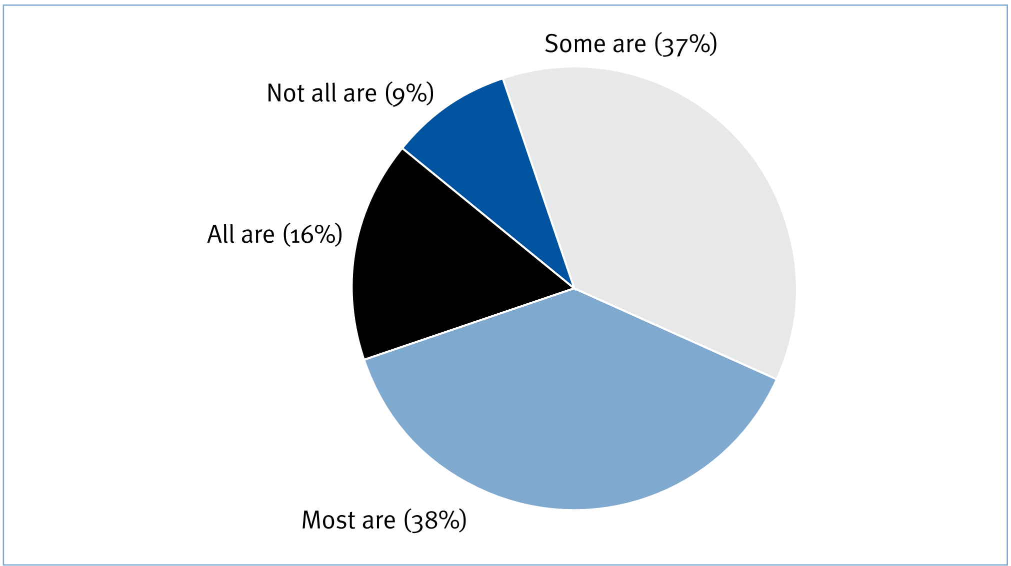
- mining companies work particularly on environment, indigenous affairs, and relevant services the Flying Doctor Service (as well as local community activities around sites);
- personal products companies work particularly with issues of hygiene and public health, as well as environmental issues associated with their production;
- pharmaceutical companies work particularly on public health and health care;
- information technology companies focus on science, eduction, computer literacy and the digital divide;
- breakfast food companies align themselves with community sport, healthy life styles and causes that their youth market embraces;
- oil companies and utilities will tend to concentrate on environmental issues such as energy use and relevant science and technology;

41 John McFarlane, Speech to Asia Business Council 2006 Autumn Meeting, Seoul, September 2006.

- fast food companies align themselves with nutrition, children's health, welfare and healthy lifestyles;
- professional service firms will assist with *pro bono* work in areas of their expertise such as law, accounting or strategy consulting;
- telecommunications companies occupy the help line space; and
- insurance companies are prone to work on areas of public risk, community safety and most recently, climate change.

Figure 5.3 illustrates the degree of alignment between community engagement activities and business attributes and interests. Only 9% of respondents said their community involvement activities were not at all aligned with business attributes and specific interests. Thirty-seven percent said some were, 38% said most were, and 16% said all were.

**Figure 5.3: Are your significant community involvement activities aligned to your business sector or its specific interests?**




Source: Corporate Community Involvement survey, September 2006

This trend has been so developed in some companies that the overwhelming majority of their support is in-kind (product and staff time) with very limited cash on the table.

**Box 5.1: Programs linked to business competencies and attributes — finance sector**

Citigroup Australia supports two major corporate community partnerships, which are funded by the US-based Citigroup Foundation.

Finance First is an initiative developed by Citigroup and YWCA NSW that targets financial education. The initiative focuses on development of skills to manage personal finances in order to make informed decisions. Finance First consists of two programs — Making Cents, a curriculum based program for primary school students and Even Start, a program for adults. The initiative is supported through a professional development workshop that allows teachers to better understand financial concepts and help incorporate those concepts into their lesson plans.

Westpac has developed a range of discounts on financial products and services commonly used by non-profit organisations, to help them maximise their resources.

Westpac has also developed a 'Guide for Community Treasurers' to improve the financial knowledge of people looking after a group's finances. The free publication has been developed in conjunction with Our Community, a company that provides products and services to the community sector.

The Commonwealth Bank has instituted various programs to increase the financial literacy within the community, such as student banking, school visits, DollarsandSense website, investor education, retirement focus day and retirement planning seminars, banking made easier for older persons and an array of self-help guides.

Saver Plus is ANZ's financial literacy and matched saving program helping families on low incomes to improve their financial knowledge, build a long-term savings habit and save for their children's education. In 2004, 257 families saved a total of $240,500, which ANZ then matched with a further $481,000. In 2005 the program targeted another 50 families.

MoneyMinded is ANZ's adult financial education program developed to assist people, in particular those on low incomes, to build their financial knowledge and make informed decisions about their money. The program provides unbiased consumer education and is delivered by community educators and financial counsellors.

**Box 5.2: Programs linked to business competencies and attributes — other sectors**

**Newmont and the Royal Flying Doctor Service**

Newmont Australia has provided millions of dollars in sponsorship for the Royal Flying Doctor Service. The company aims to raise $1 million to contribute to the purchase of new aircraft over four years through a dollar-for-dollar matching arrangement for employees. It services remote areas including Newmont Australia sites. In recognition of this support, the Royal Flying Doctor has put the Newmont logo on two of its aircraft.

**IBM's reinventing education program**

IBM's corporate community involvement has a strong focus on the role of information technology in education. IBM launched 'Reinventing Education' in 2001, involving twenty-five schools from metropolitan and rural Victoria. IBM has contributed expertise and technology to help teachers investigate ways to integrate information and communication technologies into teaching practices through this program. IBM has also collaborated with the Victorian Department of Education & Training to develop a CD-ROM, 'Guiding School Change', based on the learnings from the Reinventing Education program in Victoria.

**Kraft Foods — healthy and active families**

Kraft Foods community involvement programs focus on the communities around manufacturing facilities in Victoria and South Australia. One partnership is with Oz Child, a children's welfare agency, which addresses childhood obesity issues in primary schools. Kraft Foods has also sponsored a program called Healthy and Active Families, which works with the parents of early primary school children to provide education around nutrition and activity in the home and at school.

**Kimberly-Clark focus on health, families and the elderly**

Kimberly-Clark's Community Care Program focuses on health, families and the elderly and currently supports three organisations: The Children's Medical Research Institute, Alzheimer's Australia and The Continence Foundation of Australia. Kimberly-Clark is helping the organisations increase awareness of issues such as dementia and incontinence.

**Diageo responsible drinking campaign**

Diageo aims to:

- set world-class standards for responsible marketing, product innovation and combating alcohol misuse;
- work with others to reduce alcohol related harm; and
- seek to promote a shared understanding of what it means to drink responsibly.

Diageo Australia participated in the establishment of DrinkWise Australia, a major industry–community partnership that is focused on promoting cultural change to develop a more responsible Australian drinking culture that will minimise harm and maximise benefits from the consumption of alcohol. The theme is 'Moderation is Always in Good Taste'.

Diageo has introduced a number of other projects that address the issue of responsible drinking.

**NRMA Insurance Climate Help program**

NRMA Insurance (part of Insurance Australia Group) has developed Climate Help, an online tool for customers to offset greenhouse emissions associated with using their cars. It enables individuals to calculate estimated emissions created from driving a vehicle and the costs of neutralising these emissions. NRMA Insurance buys carbon credits through the NSW Greenhouse Gas Abatement scheme if the individual decides to pay the costs of neutralisation. (A non-profit program.)

**Powerlink and Greening Lockyer**

Powerlink Queensland and the Esk, Gatton and Laidley Shire Councils established the Greening Lockyer program in 2003. It aims to build relationships and understanding with communities living near existing transmission lines and new lines to be built on existing vacant easements.

Legacy Projects aim to improve the visual amenity in these communities while its Environmental Stewardship Projects address environmental issues such as forest restoration and salinity management. The programs funded by Powerlink have involved some 2000 community members over a two year period.

**Optus and Kids Help Line**

The help line provides free, professional youth counselling services for around 3.8 million Australians aged between five and eighteen years. Optus also helped the Kids Help Line establish the world's first free real-time online counselling service in 2000. Optus executives sit on both the national and Victorian Kids Help Line boards.

**Shell's partnership with Questacon**

The Shell Questacon Science Circus focuses on educating children about science, technology and engineering in rural and regional areas. Shell's partnership with Questacon (The National Science and Technology Centre) and the Australian National University has enabled the circus to visit more than 150 towns and communities and 500 schools each year to assist in science and engineering education.

## Sponsorship

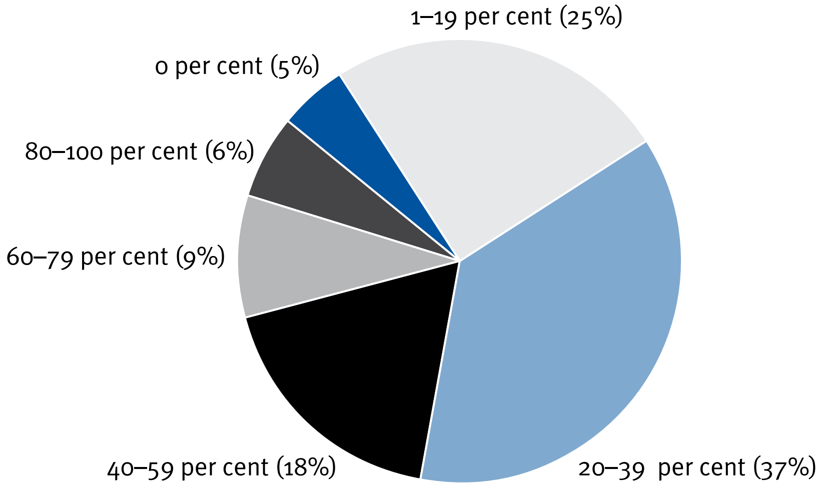
A large amount of corporate resources are applied to marketing sponsorships of, for example, sporting events and personalities that are directly related to building commercial brands and selling products. Many of these will have benefits to the community as a secondary effect.

Non-marketing sponsorships are intended to support community activity or to build corporate reputation, and many have benefits to sales and commercial brand awareness as a secondary effect. Non-marketing sponsorships can include a range of programs including local community activities, sporting and cultural activities, health research and education. They are delivered by cash or kind and frequently in medium to long-term partnerships with non-profit organisations. There is a natural continuum from product or corporate marketing or brand building sponsorship on the one hand (usually managed by marketing departments) and sponsorship of community activities with a community investment motive on the other. In many cases there is a significant overlap, for example in the sponsorship of the arts or community sporting activities that provide brand visibility (corporate or product) as well as opportunities for building relationships with stakeholders or social utility.

The following figure illustrates the estimate of corporate resources (cash and in-kind) devoted to non-marketing sponsorship.

**Figure 5.4: Estimate of resources devoted to non-marketing sponsorship**

- 5% of companies do not allocate any resources to non-marketing sponsorship;
- 25% of companies estimate that between 1% and 19% of their community contribution resources is allocated to non-marketing sponsorship;
- 37% of companies allocate 20% to 39% of their community resources to sponsorship;
- 18% of companies allocate 40–59% of their cash and in-kind resources to sponsorship;
- 9% allocate between 60–79% of their community resources; and
- 6% of companies allocate between 80% and 100% of their corporate community involvement resources to non-marketing sponsorship.




Source: Centre for Corporate Public Affairs, Corporate Community Involvement Survey, September 2006

Some sponsorships include activities for both marketing and non-marketing motivations. For example, the sponsorship of an arts company may focus on brand and hospitality, but may help the community through teaching drama or music in underprivileged schools. And sponsorship of a major sporting code aimed at television and other brand awareness will frequently also include a grassroots community activity (see the example of Australia Post, Box 5.3). A number of companies that support high profile sports have accompanying local community, and/or youth activities, with a focus on issues such as youth welfare or public health.

**Box 5.3: Australia Post and arts sponsorship**

Around 42% of Australia Post's community sponsorship budget is allocated to the arts. Its main arts partnership is with Opera Australia and sponsorship of its touring arm, OzOpera. In 2005/06, OzOpera performed to more than 80,000 primary school students across Victoria and New South Wales, and took its production of Carmen to twenty-two towns.

Australia Post also supports the Bell Shakespeare Company and its touring productions and educational activities. Bell Shakespeare tours Australia, bringing live performance to schools as well as conducting student and teacher workshops.

Source: Australia Post

Some argue that it is irrelevant or not particularly useful to make clear distinctions in the motives for sponsorship. Others believe it is important if only to clarify a fundamental strategic purpose, segment budgets or to determine how to report expenditures to interested stakeholders.

Some of those who see important distinctions between marketing and community investment sponsorships argue that the priorities and approach established by the marketing mindset are likely to be different to those of community investment.

They also argue that the marketing approach to promotion and publicity can, when inappropriately managed, damage the reputation value of the activity.

Others note that companies find it easier to spend significant resources on marketing initiatives because returns are perceived to be more tangible. In that case, they argue, the more that community investment activities can leverage off 'the mighty marketing dollar' the better.

In research for this study and other consulting activities we found that the more conservative and non-strategic approaches to community investment still embraced sponsorships, even at CEO level. As one CEO put it: 'My predecessor was a sports fanatic so a lot of our sponsorship went in that direction, I guess I'm more into the arts, and can see the value of that. We are slowly shifting our community sponsorship towards the arts.'

## Cause-related marketing

Cause-related marketing has been defined as:

> *The process of formulating and implementing marketing activities that are characterized by an offer from the firm to contribute a specified amount to a designated cause when customers engage in a revenue-providing exchange that satisfy organizational and individual objectives.*[42]

Some common examples of cause-related marketing are telephone companies offering to donate an amount to a designated charity for every call made in a low traffic period, or donations of computers to local schools in return for shopping volumes in local supermarkets. More subtle examples might be aligning product promotion with social goals such as a rejection of female beauty stereotypes, or a company donation to a worthy cause for each ace served in a tennis tournament.

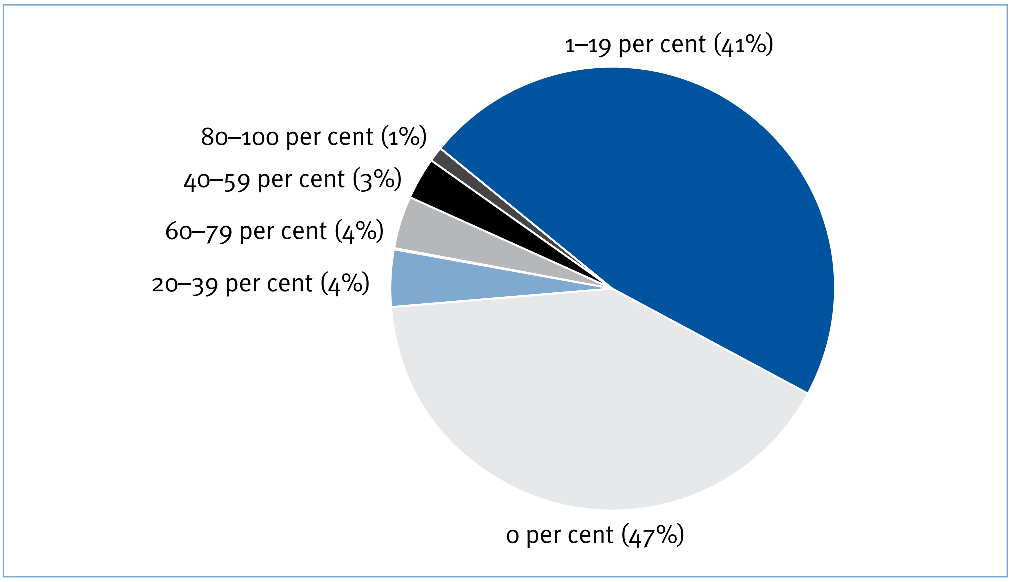
Companies are devoting significantly less resources to cause-related marketing. Figure 5.5 shows that nearly half (47%) of survey respondents indicated that their company did not allocate any resources to cause-related marketing. A further 41% were allocating between 1% and 19% to cause-related marketing.

Obviously, companies dependent on strong retail brands will have a greater interest in cause-related marketing than other companies. See Box 5.4 for some examples.

42 Varadarajan, PR and Menon, A, "Cause Related Marketing: A Coalignment of Marketing Strategy and Corporate Philanthropy", in *Journal of Marketing*, Vol. 3, No. 52, 1988.

**Figure 5.5: Cause-related marketing**

- 47% of companies do not allocate any resources to cause-related marketing;
- 41% of companies estimate that between 1% and 19% of their community contribution resources is allocated to cause-related marketing;
- 4% of companies allocate 20% to 39% of their community resources to cause-related marketing;
- 3% of companies allocate 40–59%; 4 per cent allocate between 60–79% of their community resources; and
- 1% of companies allocate between 80% and 100% of their corporate community involvement resources to cause-related marketing.




Source: Centre for Corporate Public Affairs, Corporate Community Involvement Survey, September 2006

**Box 5.4: Cause-related marketing**

### Dove Self-esteem Fund and BodyThink

Unilever's Dove brand has established a global Dove Self-Esteem Fund that aims to educate one million children about body image by 2008. In Australia, the fund has collaborated with the Butterfly Foundation and the Victorian Government on an educational program, BodyThink, targeted at children aged between eleven and fourteen years. Dove has provided $100,000 to the Butterfly Foundation to run the courses. Plans are for the program to be rolled out nationally.

### Corporate support for breast cancer research

More than fifty companies have formed partnerships with the National Breast Cancer Foundation (NBCF), to help raise funds for research. The Buy Pink campaigns have seen organisations adapt product packaging to incorporate some visible 'pinkness' or the pink ribbon symbol in order to raise awareness that buying the product will result in some donation to the NBCF. For example:

- Coca-Cola Amatil — aims to raise $100,000 annually for the next three years through the sale of Mount Franklin water, which incorporated a limited edition pink bottle top.
- Unilever — released a limited-edition Dove Pink Range, including pink soap and pink deodorant. A percentage of the purchase price goes to fund NBCF.
- Double A paper — purchases of a carton of paper from Officeworks will result in a $1 donation to NBCF.
- GSK — For every pack of pain relief product sold, GSK will donate 10 cents to NBCF.
- Arnotts — aimed to raise $150,000 through the sale of pink Tim Tams.

In 2006, corporate partners assisted in raising over $2 million for NBCF.

### Body Shop and HIV/AIDS campaign

The Body Shop has launched a global campaign with MTV to help raise funds for HIV/AIDS. As part of the Spray to Change Attitudes campaign, proceeds from a limited edition bottle of Body Shop fragrance (also available in Australia) will go the MTV Staying Alive Foundation which helps young people fight HIV/AIDS and change attitudes.

### Bendigo Bank initiatives with Oxfam and RSPCA

The Bendigo Oxfam Australia Cash Management Account allows account holders to forego interest for the benefit of Oxfam. The bank also pays Oxfam a commission of up to 0.5% for every dollar deposited. Loan applications can also provide a commission for Oxfam Australia (for the life of the loan) without any effect on the interest rate. Bendigo Bank also has a credit card that helps raise funds for the RSPCA by making a payment to the RSPCA based on a percentage of individual spending.

**American Express and Oxfam**

American Express also has an arrangement with Oxfam Australia, which provides for a contribution of funds to Oxfam when individuals use their Oxfam Australia American Express Card.

**Sunbeam and the Heart Foundation**

Appliance maker Sunbeam raises funds for the Heart Foundation through the sale of its products. Proceeds from the sale of certain hair dryer and straighter appliances go to the Heart Foundation.

**Banrock Station Wines and Landcare**

Banrock Station Wines, a BRL Hardy brand, runs a program that raises funds for Landcare Australia. Proceeds from bottles and casks of wine are provided to Landcare's community wetland restoration projects.

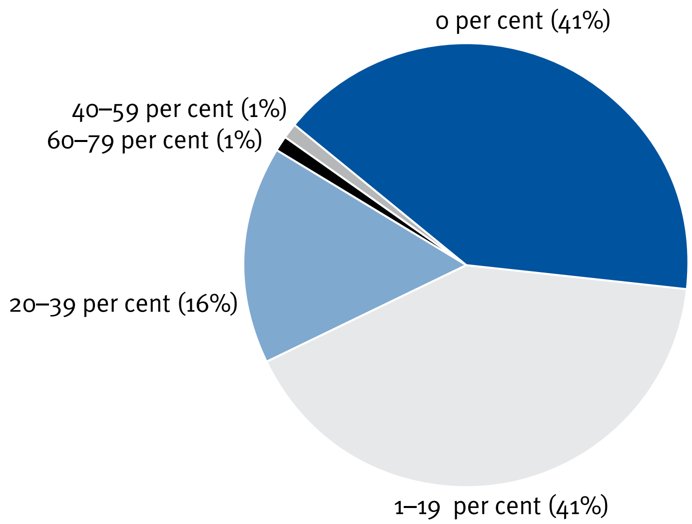
### Inter-firm collaboration and competition

One question companies face is whether or not to pursue community initiatives alone rather than in partnership with other companies, to maximise visibility and brand and to differentiate programs and image for competitive reputation advantage. A go-alone strategy can help build the most direct and specific relationships directly with stakeholders, and align a company's activities and partnerships with its specific needs and competencies. These motives suggest that working alone or as a clear lead sponsor is preferable to an activity in which the corporate position (profile and opportunity for relationship) is diluted by agglomeration with other companies.

Figure 5.6 shows estimates of corporate community investment resources allocated to programs developed or delivered with a consortium or collaboration of other companies across industries. It reveals the practice is common but that the level of resources spent in this way is small relative to other approaches.

**Figure 5.6: Programs developed or delivered with a consortium or in collaboration with other companies across industries**

- 41% of companies do not allocate any of their resources to collaborative programs;
- 41% of companies estimate that between 1% and 19% of their community contribution resources is allocated to collaborative programs;
- 16% of companies allocate 20% to 39% of their community resources to these sorts of programs; and
- just 1% of companies allocate 40–59% and 1% allocate between 60–79% of their resources to collaborative programs.




Source: Centre for Corporate Public Affairs, Corporate Community Involvement Survey, September 2006

Factors supporting collaboration in a cause or program include the greater depth and quality of support, bench strength, shared administrative burdens and synergies in support (for example for volunteering).

An organisation can also carve out a specific niche or speciality within a collaboration that delivers at least some of the advantages of a 'go-alone' strategy.

A significant number of programs require, or are best served, through substantial intermediaries in the non-profit sector. Intermediaries depend on the support of a multiplicity of corporate (as well as private) contributions and in return have the delivery mechanisms and have expertise in relation to target beneficiaries. See Box 5.5 for examples of effective collaborations.

One CEO who played a leading role in the establishment of a collaborative community support program has also led his company into a deep commitment to stand alone company programs and highly badged sponsorships.

> *There is room for both. I'd love to see more businesses working collectively on important general issues, but the company has its own specific interests with all the benefits and obligations associated with our own targeted community programs.*
>
> CEO interview

An associated issue is how much public recognition or media attention to seek for programs and activities. Opinions varied greatly between CEOs on this question, sometimes reflecting personal style and philosophy, and sometimes reflecting business judgement.

Views ranged from, 'We'll let the actions speak for themselves' and 'Bragging makes our commitment just look like PR', to 'In pursuit of the business case, it is important for our stakeholders to know what we are doing'. If winning and maintaining reputation is an important element of the business case, and justifies the spending of shareholders' funds, informing relevant stakeholders of those activities seems appropriate.

One issue is to determine what proportion of the community investment budget should be spent on promotion. Opinions vary according to the nature of the industry sector. There has been strident criticism, for example, of consumer product companies spending multiples of the dollar contributions that are being promoted on TV and other press. This might be seen as a form of cause-related marketing, in which case it may be appropriate to allocate the whole budget (for the cause as well as its promotion) to the marketing department.

A number of companies have also wrestled with leveraging community investment to optimise the benefit of activities, such as adequately engaging busy executives in publicity or taking advantage of relationship or learning opportunities.

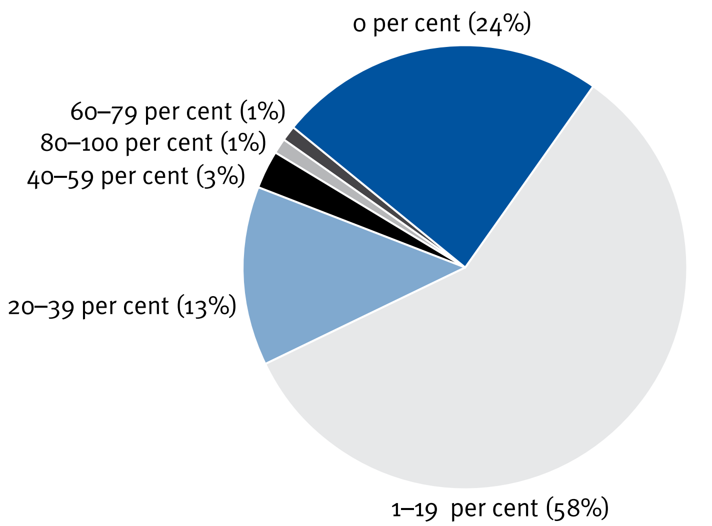
Previous reference was made to the role of corporate community investment in inter-firm competition. This arises particularly, but not exclusively, in industries subject to socio-political vulnerability or reputational sensitivity and where perceived corporate social performance (CSR including community investment) can deliver staff commitment, customer support, or comfort for regulators. In one example from the mining sector, an Australian company was advised its success in bidding for an exploration permit in an Asian country was 'because of your strong demonstrated behaviours with local communities'. We have seen the high profile competition to establish CSR and community investment credentials between petroleum companies globally.

Companies in the Australian banking industry compete through paid advertisements promoting comparative achievements. In several sectors, there have been explicit decisions made in industry associations to pursue social or community programs company by company, rather than through unified industry-level programs.

The following figure provides estimates of corporate community investment resources that are provided to programs delivered at an industry level. It is apparent that, as with collaborative programs, companies contribute a relatively modest amount of corporate resources to community investment at this level.

**Figure 5.7:Resources devoted to programs delivered at industry level**

- 24% of companies do not allocate any resources to industry programs;
- 58% of companies estimate that between 1% and 19% of their community contribution resources is allocated to industry programs;
- 13% of companies allocate 20% to 39% of their community resources to these sorts of programs;
- 3% allocate between 40% to 59%;
- 1% allocate between 40% and 79%; and
- 1% allocate between 80% and 100% of their resources to industry programs.




Source: Centre for Corporate Public Affairs, Corporate Community Involvement, September 2006

**Box 5.5: Collaborative programs**

### Australian Business and Community Network

The Australian Business and Community Network (ABCN) was created in 2004 by a group of senior business leaders with a vision to 'inspire, engage, and challenge businesses to have a greater positive impact in the community'. It currently focuses on education and provides mentoring, partnering and support programs to schools.

ABCN currently consists of twenty-three members: Insurance Australia Group, Optus, Commonwealth Bank, HBOS Australia, Wesfarmers, Channel Ten, Fairfax Publications, JP Morgan, PricewaterhouseCoopers, Stockland, Mallesons SJ, KPMG, Minter Ellison, UBS, Bain & Company, Fuji Xerox, Ecos Corporation, Babcock & Brown, Rabobank, Goldman Sachs JBWere, Ernst & Young, American Express and STW Communications.

### Melbourne Cares

Melbourne Cares, an initiative of the Committee for Melbourne, supported by Pilotlight Australia, works in partnership with Business in the Community (UK).

The group works in the areas of 'social inclusion and diversity', 'young people and education', 'employability, skills and enterprise', and 'community safety, environment and city pride'.

The founders of Melbourne Cares are: Accenture, The Ambit Group, Amcor, ANZ, Cadbury Schweppes, City of Melbourne, Committee for Melbourne, Connell Wagner, Department for Victorian Communities, Ernst & Young, Macquarie Bank, Medibank Private, Melbourne Football Club, Rio Tinto, Seven Network, The Age. Other supporters include Optus, Sensis and South East Water.

### Pharmaceutical collaboration with the Mental Health Council

In October 2004, the Mental Health Council of Australia commenced a collaborative partnership with seven pharmaceutical companies: AstraZeneca, Bristol-Myers Squibb, Eli Lilly Australia, GlaxoSmithKline, Lundbeck, Pfizer Australia and Wyeth. This is aimed at demonstrating a shared vision and commitment to improving the health outcomes for consumers and carers. It also creates a forum for companies to understand the intent and themes of mental health policy, its scope and key challenges.

### Pilbara industry's community council

The Chamber of Minerals and Energy of Western Australia has helped facilitate an industry initiative aimed at better coordinating the resources sector community activities that address issues such as Indigenous employment and training and long-term sustainability in the Pilbara region in Western Australia. Corporate members of the council include BHP Billiton Iron Ore, Pilbara Iron Ore (part of the Rio Tinto Group) and Woodside Energy Limited. These organisations will run the new Pilbara Australian Technical College.

**Reading for Life**

Unilever Australasia started its Reading for Life Program in mid 2003 for the company and its employees to make a social contribution to issues that employees were concerned about. The program is run in partnership with Learning Links, which supports primary school children with learning difficulties and their families. Employee volunteers spend one hour per week at local schools and run through semi-structured Learning Links reading packs.

This program has grown to include a number of other companies and some members of the Melbourne Cares group. Final-year University of Western Sydney Master of Educational Psychology students are also participating in this program.

**CSIRO'S Sustainable Communities initiative**

The Sustainable Communities Initiative is a three year 'action learning' program that will operate from 2006 to 2009. It networks across the public, private and civil society sectors to develop and deliver innovative solutions to community-specific sustainability issues. This program is underpinned by CSRIO research on Australian communities and CSIRO's Regional Development Futures Framework.

Apart from CSIRO, the program's partners include five Commonwealth departments, five non-profit organisations and the companies Westpac, Insurance Australia Group, Harvey Norman, GRM International.

## Fewer, deeper, relationships

We have noted previously that there has been a distinct trend over the past decade to step back from simply responding to requests on their merits, for example, via donations committee. This has been to concentrate efforts in specific areas determined strategically, and to select — in some cases to actually create — community partners with whom deeper relationships can be established.

These partnership relationships are now commonly established with clear formal agreements that might cover each party's expectations, measures of success, or reciprocal obligation and issues around the length of commitment and termination.

The nature of relationships vary widely. They can include:

- collaborative research in areas of common interest;
- funding non-profit organisations to support company or local community related needs;
- using partners with close proximity to recipients and relevant skills to deliver the community benefits (for example welfare, education and community capacity building); and
- working directly with partner organisations such as schools, arts companies, and local community networks.

A common element in close partnership relationships is the direct engagement of company personnel in volunteering, discussed further below. Another is for senior managers to accept management or governance responsibilities with partner organisations. As noted elsewhere, managers see the value of exposure to external experiences that come from active engagement in community activities. Working closely with non-profit partners and in community groups is a convenient vehicle for this exposure. Several CEOs stated that they accepted the role of chair or committee member of agency boards of non-profit organisations, to cement these relationships and inspire others in management to get involved.

**Box 5.6: Partnerships**

**Nestlé and nutrition education at the Australian Institute of Sport**

Nestlé is a supporter of the Australian Institute of Sport (AIS) as part of its Good Life Program. The alliance has developed a free teachers resource, 'Get the AIS into your classroom', and a Personal Development Health and Physical Education (PDHPE) program for upper primary schools. Nestlé Fellowships have been supporting nutrition fellows at AIS since 1999.

**Alcoa's partnership with Fairbridge**

Alcoa of Australia's partnership with Fairbridge Western Australia focuses on facilities and skills development programs for disadvantaged youth, including those with young people who might have a disability, are unemployed, in the justice system or at risk. Fairbridge also maintains thirty acres of farmland. Alcoa's contributions over a decade have resulted in youth training programs with over 180 youth organisations across WA. In-kind contributions include skills, equipment and materials, and volunteering by Alcoa staff.

**BHP Billiton support of 'Revive Our Wetlands'**

BHP Billiton's partnership with Conservation Volunteers Australia (CVA) helps communities revive wetlands around Australia; many of the areas where it operates are close to significant wetlands. The partnership has been running for six years.

In the program's first three years:

- More than $1.5 million in practical assistance has been provided to various groups, including funding, volunteer time, specialist expertise such as intellectual property advice and legal expertise and assistance with communications and marketing.
- Reached target of 17,000 volunteer days, including BHP Billiton employees.
- Across 100 sites around Australia, the teams removed 300 kilograms of carp; controlled 678 hectares of weeds; planted 173 200 stems and propagated 30 000 more; erected fifty kilometres of fencing; rejuvenated thirty kilometres of walking tracks; constructed eight kilometres of new tracks and six rock crossings; conducted ninety-six flora and fauna surveys; and built two bird hides and four stick islands.

The second phase of the program was designed to rehabilitate further significant wetlands, measure and demonstrate outcomes, and raise awareness of wetlands issues.

### Coca-Cola's partnership with Beyond Empathy

The Coca-Cola Australian Foundation provides a focus for Coca-Cola's community involvement activities by providing grants to community projects with Australian youth. One National Grant recipient is Beyond Empathy — a not-for-profit organisation that uses the arts to deliver benefits to disadvantaged youth. The Foundation is funding Beyond Empathy's 3-year mentoring program that provides leaderships skills for young people who have participated in community arts projects over the last six years. These disadvantaged youths will learn to drive arts projects with the aim of breaking the welfare cycle.

### Aurora Energy's partnership with the Asthma Foundation of Tasmania

Aurora Energy's health-related focus is on 'research, awareness and promotion of environmental health initiatives', particularly matters related to air pollution. In 2000, Aurora Energy formed an alliance with the Asthma Foundation of Tasmania. Aurora supports the foundation through staff funding, membership drives, school programs, fund raising events, information brochures and community service announcements for television and press.

### Leighton Holdings and the Sydney Symphony Orchestra

In 2002, Leighton Holdings entered into a two year sponsorship deal with the Sydney Symphony Orchestra to become the naming sponsor of the Sydney Sinfonia. This alliance was renewed for two more years in 2004. The Sydney Sinfonia, a mentoring orchestra, draws together some of the symphony's leading musicians with accomplished Australian tertiary music students. The Sinfonia performs around fifty concerts a year and offers fellowships and professional development programs for aspiring musicians. Through this alliance, special Sinfonia concerts are held for Leighton Group employees, their children and Leighton's stakeholders.

### Toyota Community Spirit partnerships

Toyota Australia's corporate community involvement program, 'Toyota Community Spirit', aims to develop partnerships to transfer Toyota's skills, networks, resources and expertise. A strategic alliance agreement with Hobsons Bay City Council (Vic) provides the framework for the development and implementation of community involvement initiatives.

Toyota Community Spirit Principles include:

- addressing local needs identified by local communities;
- supporting business objectives of all parties;
- multifaceted partnerships (must involve more than just funding, such as contribution of skills through employee volunteering);
- delivering long term sustainable benefits;
- building and strengthening relationships and reputation; and
- employee and dealership participation.

**Alcoa and Greening Australia**

For more than two decades, Alcoa has worked with Greening Australia. Through this partnership, more than 10 million trees have been planted and thousands of hectares of degraded land rehabilitated. In extending and deepening this relationship the Alcoa Greening Australia Alliance chose rivers as its key area of focus. Alcoa is the founding alliance member for River Recovery, with a commitment of $2.3 million over three years.

**Colgate-Palmolive and The Smith Family**

Colgate-Palmolive has been supporting The Smith Family since 1992. It was the first major and long-term partner of The Smith Family's Learning for Life Program, which helps families break the cycle of poverty through educational opportunities including financial and personal assistance. The company supports two education support workers in each of its manufacturing locations in Australia, which will help 940 disadvantaged young Australians each year for three years.

**Bristol-Myers Squibb and Inspire Foundation**

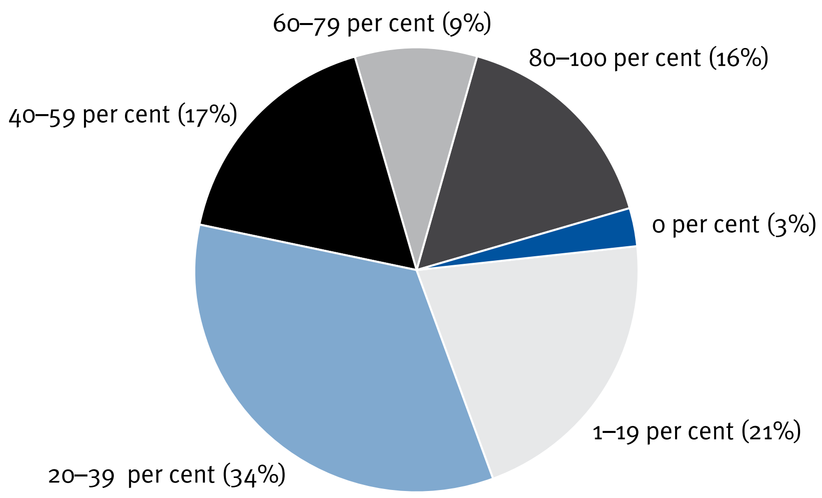
One of BMS's headline CSR projects is its involvement with the Inspire Foundation. The partnership between BMS and the Inspire Foundation started in 2002 after BMS employees identified the high level of youth suicide in Australia as a key issue to address through the company's community investment program. The foundation and BMS work together to deliver the Reach Out! Youth Ambassador program to more than 120 young people around Australia. The Reach Out! Program is an internet based initiative and has grown into a service that provides a support, information and referral service. BMS employees also volunteer their time to run skill development workshops for the Reach Out! youth ambassadors.

## Community relations

The survey shows that companies are devoting more resources to community relations programs than to the other areas of community investment, both in terms of cash and kind resources. Figure 5.8 illustrates resources provided to community relations activities such as building relationships with local communities, supporting community activities, and other matters relevant to location and local licence to operate. Twenty-five percent of companies spend 60% or more of their community investment resources in community relations and 16% of companies spend 80% or more.

**Figure 5.8: Resources devoted to community relations**

- 3% of companies do not allocate any of their resources to community relations programs;
- 21% of companies estimate that between 1% and 19% of their community contribution resources is allocated to community relations;
- 34% of companies allocate 20% to 39% of their community resources to community relations;
- 17% of companies allocate 40–59%;
- 9% of companies allocate 60–79%; and
- 16% of companies allocate 80–100% of their community investment resources to community relations projects.




Source: Centre for Corporate Public Affairs, Corporate Community Involvement Survey, September 2006

Interviews and other research confirms that local community relations activity is a high priority for heavy industry where impacts in urban settings are significant; for resource companies in remote areas, where staff or staff connections dominate the population; or in rural areas where there can be significant dependency on corporate economic activity.

Community relations is also important in other ways. Banks and companies like Australia Post, whose operations are nationwide, are sensitive to their role in the local as well as the broader community, and face high expectations to contribute to community life.

**Box 5.7: Community relations programs**

### Wesfarmers support for environmental initiative

In May 2004 Premier Coal (Wesfarmers) won a Banksia Award for Sustainable Development Leadership for its innovative community based programs to redevelop old mine sites for motor sports, driver training, acquaculture research and the establishment of a recreational lake.

### BP: community strengthening

Whereas once BP regarded crime as a security issue, the company now recognises that antisocial behaviours sometimes experienced at BP service stations are symptomatic of a struggling community. In response, BP is working in a number of local communities, businesses and governments to develop practical ways of achieving long-term social change and opportunities, particularly for young people.

BP has established community building projects at three sites. The catalyst for these projects arose from increasing concern from local business, BP itself, and local residents regarding the increasing number of young people who gathered around BP service stations at night, sometimes under the influence of alcohol, leading to vandalism, loss of good staff, customer fear, theft and damage to property.

### Rio Tinto Business with Communities program

Rio Tinto businesses are required to develop locally designed community relations programs that include five year community plans, baseline community assessments, consultation procedures, community assistance and cultural heritage programs. A major program to address social and environmental impacts is Rio Tinto's Business with Communities program. This consists of more than eighty collaborations, including a number of national, research and government partnerships and seven Rio Tinto initiated foundations, trusts and funds — each with multiple partnerships focusing on regional stakeholder needs.

Outcomes achieved within the Indigenous communities include:

- production of the first comprehensive dictionary of the Ngaanyatjarra language;
- creation of the largest online collection of Indigenous culture by digitalising the Mitchell Library's collection of Indigenous materials;
- delivery of the Diabetes Management and Care program upon the request of local communities; and
- establishment of culturally sensitive local community maternal health services.

**Coal & Allied (Rio Tinto): Sustaining Communities**

Coal & Allied sponsors the School Innovation Design Challenge to increase the numbers of students choosing learning pathways aligned to manufacturing and engineering. Singleton and Cessnock Councils also contribute to the program, which is coordinated by the Hunter branch of the Local Government Association of Engineers.

**Bendigo Bank**

The Bendigo Bank has a number of community enterprise models that engage the community and the bank in activities that are designed to build local capacity. These include:

- Community Bank — local communities can own and operate a franchise branch in return for revenue share;
- Community Telco and Community Enterprise — local demand for services (such as telecommunications) is aggregate and channelled through a locally owned company, to deliver an income stream and create jobs in the local community;
- Lead On — a youth and community development program providing opportunities for young people to participate in local projects; and
- Community Enterprise Foundation — provides funding for local community programs, such as health, education, environment, arts, youth and families.

**Xstrata**

Xstrata's corporate community involvement constitutes funding to initiatives that benefit communities in its Queensland operations. This multi-dollar program comprises five Queensland partnerships with health and community welfare providers.

**Energex**

Energex's sponsorship of the Community Rescue Service helps provide a vital community service for medical emergencies, as well as assisting with searches for lost people. It is staffed mainly by volunteers as well as emergency doctors, nurses and paramedics, and works in cooperation with Queensland Police, SES, Ambulance, Fire and Rescue, and Queensland Health.

**Leighton Holdings**

Leighton Holdings developed a program, 'Leighton Salinity Assault' with Landcare Australia to support regional and rural communities to reduce the impact of dry land salinity. Leighton sponsors local Landcare groups to undertake practical projects to evaluate and remediate the impacts of salinity in their local area.

**Nestlé Community Environment Program**

The Nestlé Community Environment Program support projects in the local areas in which Nestlé has its sites. In Australia, each of the fourteen Nestlé sites undertakes an annual community project focusing on improving the local environment. The sites work with local environmental and community groups to identify projects each year. Examples are:

- revegetation of 1.5 kilometres of the Merri River in Victoria; and
- landscaping and building interpretive walking track in Dagun, Queensland.

**AMP Community Fundraising program**

The AMP Foundation encourages AMP financial planners to support their local community. The foundation matches dollar-for-dollar the money that an AMP financial planner actively raises for a non-profit organisation, up to $10,000 per event.

## Volunteering

Through the first half of the 2000s the engagement of employees in community investment activities has grown more strongly than any other element.

Interviews revealed that this has become a major issue for senior executives. As one CEO put it: 'We find them interviewing us rather than us interviewing them and we are under the pump to demonstrate that we are making a positive social contribution.'

Competition for talent in a tight labour market is a major factor in corporate success. Therefore, companies seeking to become an employer of choice need to consider the growing demand of employees to contribute to the community.

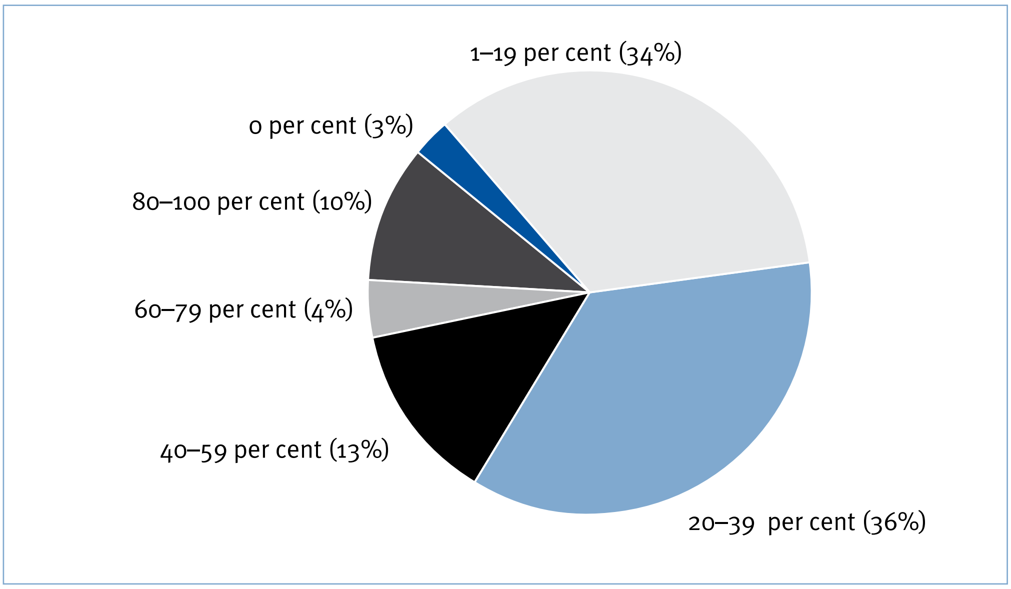
In recent years, there has been an increase in employee volunteering and workplace giving. Volunteering Australia estimates that 6.3 million people in Australia volunteer around 836 million hours of their time each year. This includes both individual and corporate volunteering. A 2006 survey by Volunteering Australia and Australia Cares indicates that most corporate volunteer programs have been established since 2003.[43] The survey also found that nearly a third of companies had a full-time person dedicated to employee volunteer programs. Many companies have a policy to provide paid work time for employee volunteering: 40% of corporate respondents provide one day a year, 21% provide two to three days and 6% provide a week.

As Figure 5.9 indicates, only 3% of companies do not allocate any of their resources to programs designed to engage employees and 10% of companies allocate 80% or more to these programs.

43 Volunteering Australia and Australia Cares, 'Corporate Volunteering Survey', 2006.

**Figure 5.9: Programs designed to engage employees**

- 3% of companies do not allocate any of their resources to these projects;
- 34% of companies estimate that between 1% and 19% of their community contribution resources is allocated to projects to engage employees;
- 36% of companies allocate 20% to 39% of their community resources;
- 13% of companies allocate 40–59%;
- 4% of companies allocate 60–79%; and
- 10% of companies allocate 80–100% of their community investment resources to projects that engage employees.




Source: Centre for Corporate Public Affairs, Corporate Community Involvement survey, September 2006

Workplace giving (employees donate to charitable organisations through automated payroll deductions) has also increased in recent years. This is a voluntary program that provides an automatic tax reduction for employees, by nominating a regular payment to a deductible gift recipient (DGR status). This is further discussed in Chapter 6.

The 2005 report 'Giving Australia: Research on Philanthropy in Australia'[44] (an initiative of the Prime Minister's Community Business Partnership) provides more perspective on the scale of giving in Australia. It estimates that 525,900 businesses in Australia provided $3.3 billion in donations, sponsorship and community business projects in 2003/04 and highlights volunteering (individual and corporate) as having increased significantly in recent years.

44 Department of Family and Community Services (on behalf of the Prime Minister's Community Business Partnership). 2005, *Giving Australia: Research on Philanthropy in Australia,* Commonwealth of Australia.

## Engagement of 'influencers'

We noted earlier that companies have responded pragmatically to the power of corporate critics and others with different perspectives on community issues, and sought to build relationships with them.

At one level this engagement is designed to break down negative stereotypes, diffuse hostility and win corporate credibility by association with groups that have successfully captured the high moral ground. Examples include NGO's active environmental, consumer, and health activities. Another objective is to gain genuine value from this relationship by a closer understanding of non-corporate perspectives, or to use these organisations as intermediaries effective in the delivery of community investment activities such as environmental management, welfare and community education.

This trend toward engaging community groups has moved so quickly that some advocacy organisations have had difficulty in responding with their own resources to the proliferation of companies seeking partnerships, and have felt the risk of being diverted from their core advocacy mission by engaging in corporate-related activities.

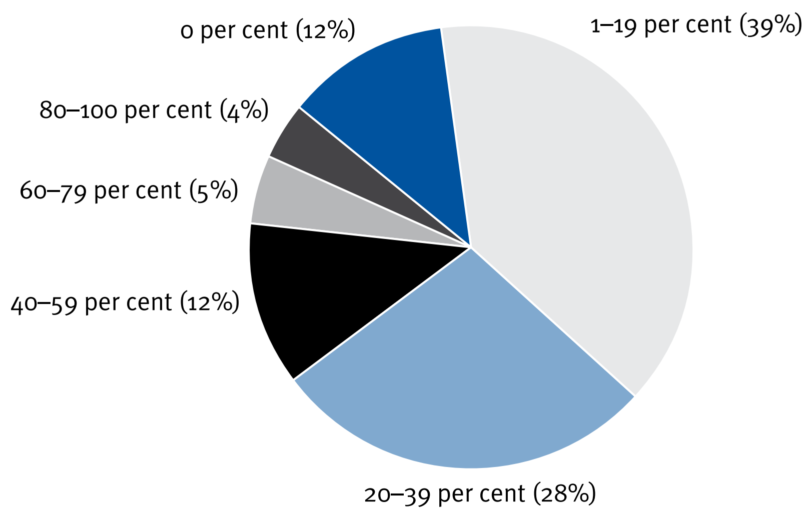
There is still deep-seated suspicion and in some cases outright hostility to the corporate sector within much of the not-for-profit sector, and activist organisations in particular are keen not to be seduced by collaboration into or perceived endorsement of, corporate agendas.

There has been a significant overall trend to bridge this gap with movement from both sides. Many non-profit organisations have embraced this whole heartedly and accepted that collaboration with companies that engaging them with integrity, can make a positive contribution to their organisational objectives.

**Figure 5.10 indicates the allocation of corporate resource to projects designed to engage NGOs and influencers**

Figure 5.10: Programs designed to engage NGOs and 'influencers'

- 12% of companies do not allocate any of their resources to these projects;
- 39% of companies estimate that between 1% and 19% of their community contribution resources is allocated to projects to engage NGOs and influencers;
- 28% of companies allocate 20% to 39% of their community resources;
- 12% of companies allocate 40–59%;
- 5% of companies allocate 60–79%; and
- 4% of companies allocate 80–100% of their community investment resources to projects that engage NGOs and influencers.




Source: Corporate Community Involvement survey, September 2006

## Research partnerships

Working through controversial issues, and establishing mutual understanding has been one reason for companies to participate in research partnerships with NGOs, government agencies and universities. Figure 5.11 suggests a small majority of major companies are engaged in this activity. It varies considerably from university collaborations to solve technical questions in production (with benefits for the institution, but not counted as community investment) to the altruistic funding of research intended to address social problems.

In a majority of cases this research will be closely aligned with the industry's particular needs or attributes, with a clear win-win outcome in mind. One clear example is BioMaps. BioMaps is a five year partnership between Rio Tinto's WA Future Fund and the Australian Museum to conduct a biodiversity and regional mapping project in the Pilbara region (where the company has major projects and an exploration agenda). The information will be fed into an Australia-wide biodiversity map that the Australian Museum is creating in conjunction with Rio Tinto. The Pilbara research project has collected more than 95,000 specimens, of which 80% were previously undescribed in scientific literature. While contributing to the stock of scientific knowledge, the company is also collecting data to inform its exploration teams of potential environmental risks, and facilitate its environmental management.

A recent phenomenon has been the development of company coalitions to influence policy through research based advocacy. A recent example of funded research through this mechanism is the Australian Business Roundtable on Climate Change, involving a number of CEOs and the Australian Conservation Foundation. See Box 5.8 for examples of research partnerships.

**Box 5.8: Research partnerships**

**Rio Tinto: sustaining the minerals industry**

The Rio Tinto Foundation for a Sustainable Minerals Industry has been established to foster environmentally and socially sustainable development in the mining, metals and energy industries. The foundation, which is governed by an advisory board of six members, including representatives from government, academia, industry and Rio Tinto, coordinates part of Rio Tinto's involvement in research, technology and other initiatives for sustainable development. Initiatives cover energy efficiency, greenhouse gas reductions, water management, environmental management, regional sustainability and stewardship. Funding is reserved for qualifying projects with the best potential for producing positive impacts.

**Microsoft: academic research programs**

Microsoft is a supporter and contributor to academic research in recognition of the significant role it plays in technological innovation.

- Microsoft's University Relations program promotes collaboration between the academic community and Microsoft Research Asia. Over the past five years the company has invested more than $21 million in various research grants to Australian universities and to establish the Microsoft Chair of Innovation at Macquarie University.
- The company supports sixty-six university departments and 80 000 students through the MSDN Academic Alliance, a program that provides the latest technology and tools to specific curriculum areas and their respective students and department laboratories.

**Australian business roundtable on climate change**

The roundtable was formed by the CEOs of BP, Visy, Westpac,Swiss Re, Origin Energy and the Insurance Australia Group in conjunction with the Australian Conservation Foundation to advance an understanding of the business risks and opportunities regarding climate change and to pursue appropriate policies. It commissioned the CSIRO to determine climate impacts on Australia, and the Allen Consulting Group to model economic implications of policy options.

**AstraZeneca**

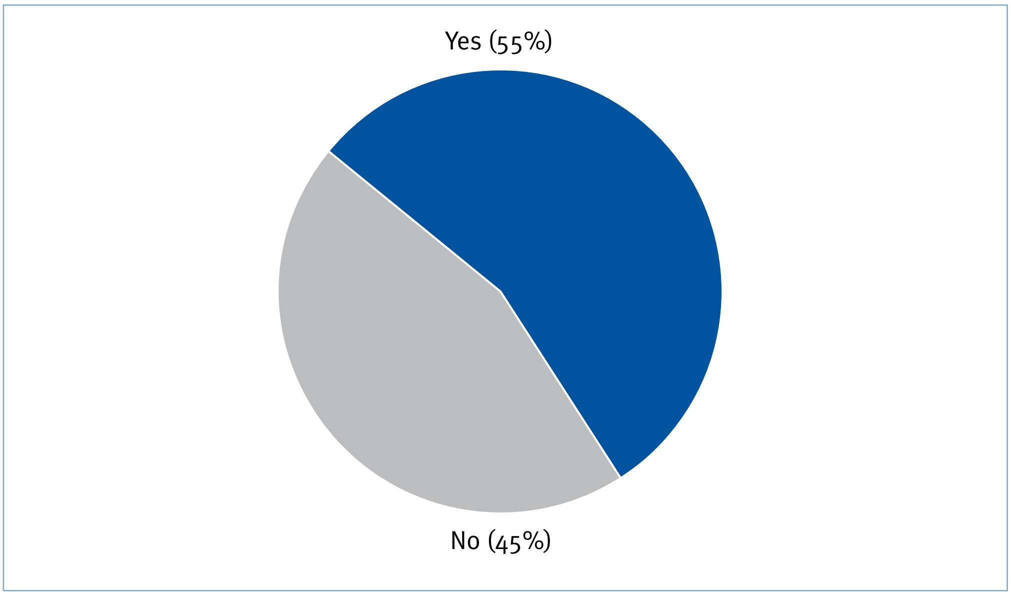
AstraZeneca Australia has formed a number of research alliances with universities and other external partners. One such partnership is AstraZeneca Australia's support of the Natural Products Discovery unit at Griffith University (Queensland), a commitment of more than $100 million since 1993. In collaboration, the unit has been collecting and investigating plants and organisms in Australia for potential use in medicines.

**Telstra**

Telstra supports research into electromagnetic emissions issues through its Telstra Research Laboratories. The laboratory is also a participant of the Australian Centre for Radiofrequency Bioeffects Research, which aims to foster understanding of the biological and health effects of human exposure to radio fields.

**Figure 5.11: Research partnerships**

Are you involved in research partnerships with NGOs or government that are related to business interest (eg health, environment, education)?




Source: Centre for Corporate Public Affairs, Corporate Community Involvement survey, September 2006

# Chapter 6

## *Management issues*

**SNAPSHOT**

This chapter examines the nature of company decision making and a number of issues in the management of community investment programs.

While most CEOs or boards are involved in determining broad strategy in this area, they are less likely to be involved its development, or in determining specific initiatives. Public affairs practitioners usually play this role. External consultants or selected stakeholders are sometimes employed to assist (formally, or informally).

A variety of approaches are taken with regards to control and delegation however there has been a tendency to seek cohesion within a given overall corporate framework.

It is common for staff to be involved in considering strategy and determining initiatives. Staff are most frequently involved in selecting the destination of matched giving and volunteering where their own resources are most directly deployed.

While there is a long history of company foundations in Australia, including a significant number created since the turn of the century, only around a third of companies responding to the survey had a foundation.

The rationale for establishing a foundation includes corporate convenience and enhanced visibility for corporate activity.

Budget setting mechanisms are briefly explored; most companies set a fixed amount for community involvement in the annual budget cycle, but will find additional resources to meet unanticipated crisis events. A small but increasing number of companies are establishing a fixed percentage of some metric, most commonly pre-tax profit. Measurement of the performance of community initiatives for both business and social impact have been judged difficult. Continuing efforts are being made to find appropriate methods. Only a small minority of companies said they measured business benefits, and that they were moderately accomplished in doing this, but most approaches were subjective.

A major long-term trend has been to develop fewer and deeper partnerships with non-profit organisations and to a lesser extent with government agencies. Increasingly these partnerships are being established with clear agreements or contracts that have mutual benefits, ensure clarity in roles and relationships and specify exit arrangements.

An increasing number of companies are establishing performance indicators in arrangements with community investment partners and seeking increased transparency and accountability in the use of resources.

We have previously concluded that many larger companies are in transition from a model characterised by a donations committee of the board or top management distributing largess to favourite causes. It is not uncommon for senior executives to still sometimes intervene to push their interests, or respond to peer group pressure or *ad hoc* requests. Some such activity may, of course, be meritorious and a good fit with corporate strategy and this flexibility can be an important complement to more structured processes. However, a number of companies are aware they are behind contemporary practice, are now benchmarking themselves against their peer group approaches, and developing a more strategic approach to managing community investment.

A surprising number of CEOs were not confident that they knew the extent and nature of contributions their company was currently making. Several said there would always be understatement because of the unreported — even unrecognised — contributions made in-kind, or by volunteering by managers and staff at their own discretion. A number of CEOs said they were only just starting to access overall data on their corporate contributions and community activities. Many of those who have done so recently have been surprised at the extent of activity, but also of the mixed value and performance of activities. The current trend and growing community expectation of corporate social reporting is driving some companies to collect this data, including from decentralised company operations.

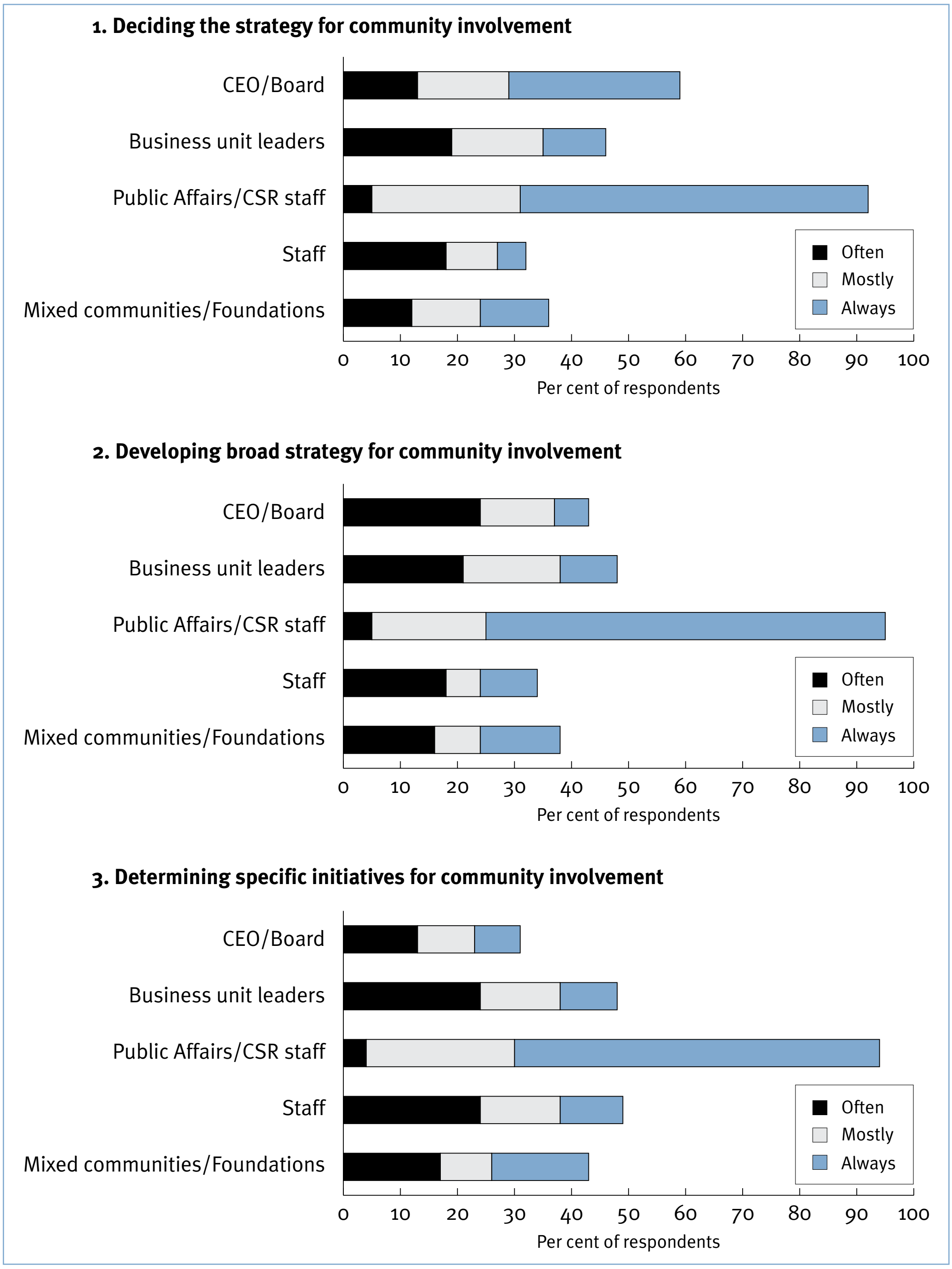
## Decision making

The survey of companies outlined in this report looked at the locus of various decisions affecting community investment activities. It asked about the level of engagement by various categories of decision maker in relation to:

- determining the strategy for decision;
- developing broad strategy for community involvement as a basis for recommending action; and
- determining specific initiatives, which might include selection of partners, and the nature of contracts and mutual deliverables.

The data shows that in almost all companies surveyed, public affairs staff are involved in developing and determining strategy, and deciding on specific initiatives.

**Figure 6.1: Determination and development of overall strategies and specific initiatives for community involvement**




Source: Centre for Corporate Public Affairs, Corporate Community Involvement Survey, September 2006

Around 60% of CEOs or boards are always, mostly or often involved in deciding broad strategy, but considerably fewer are always or mostly involved in developing these strategies, or determining specific initiatives for community involvement.

The survey demonstrates that business unit leaders or local managers are 'sometimes' or 'often' involved in decisions relating to developing and deciding strategy, and determining significant initiatives.

Drawn from the interviews and considerable experience in consulting to companies by the authors of this report, a typical scenario in a company with a considered approach would be as follows.

A board or CEO, possibly with encouragement from public affairs practitioners (who are close to stakeholder expectations and professional practice) would suggest that a strategic framework is required, and might specify some broad directions or strategic objectives.

A public affairs practitioner would explore the issues and seek peer group benchmarking or consultant advice. A draft policy would be developed in discussion with senior business unit or other managers including the CEO, and possibly interested members of the board.

In certain circumstances some key stakeholders might be engaged in dialogue, and valuable advice sought from close relationships of trust.

Some companies would establish a formal advisory body to assist in determining priorities and shaping their practice (see Box 6.1). Others might look to external consultants or a foundation board for this input.

**Box 6.1: Advisory bodies on community investment**

**Telstra Country Wide**, a business unit of Telstra, is focused on improving telecommunications and IT services to regional, rural and remote customers. Its advisory board, consisting of nine members who represent business and community interests in rural and regional Australia, acts as a sounding board for strategies. Board members travel around Australia, meeting with government, business and community, to hear about the communication issues that are important to these stakeholder groups. Telstra says the insights of board members enables it to 'address issues on behalf of customers and stakeholders, while adding significant value to the business strategy, operational performance, major investment priorities and service improvement initiatives of Telstra Country Wide'.

**NAB** has sought feedback from community forums since 1998. Its original stakeholder forum has evolved into a formal seven person community advisory council. The council provides input on NAB's community activities, bring important community issues to the attention of the bank, provides feedback on how NAB is addressing community issues, and reports on an annual basis on its activities via a public report. Tim Costello, CEO of World Vision Australia, chairs the council which meets on a quarterly basis. Ahmed Fahour, CEO Australia, is the company's representative.

Source: Telstra, NAB

> *[Our organisation has created] a external advisory committee to advise on all community and environment related activity.*
>
> *We have set up community care committees and a staff steering committee at each operating site.*
>
> Public affairs practitioners

A draft policy would then be put to the board or CEO for ratification and this would provide an ongoing framework for budgets and specific partnerships or programs.

Typical elements of a policy would be the rationale for the program, the nature of its links to business plans, and its key objectives, all of which would be considered within some tangible or intangible business case framework. A range of other factors would be outlined, typically criteria for selecting mechanisms for delivery, and control of protocols and delegations. There would be reference to budgets and how they are derived, and increasingly, a framework for measurement and evaluation.

In a number of companies deemed to be most progressive in this area the CEO (or in some cases another senior executive champion) is the driver of both the extent and nature of engagement, though invariably works with specialist practitioners in the company.

Business unit leaders and local managers in decentralised operations will normally have a delegation to spend and engage within the overall corporate framework, or will frequently have autonomy within their own profit centre to deploy resources in the direction and to the extent they see fit (though rarely these days without reference to overall corporate priorities and policy).

One problem has been keeping a handle on what is happening in decentralised companies. A reason for this concern is the increasing demand for a social or triple bottom line report on overall activities. Another is to ensure conformity with corporate positioning and policy. A third is to access information needed to ensure corporate resources are being used efficiently and effectively.

A lack of cohesion in some organisations has led to 'forum shopping' with supplicants approaching different business units, as well as undisciplined association with activities that do not fit the desired corporate image or indulge the interests of a particular manager.

However, overcentralisation has also been a problem. For example, one bank attempted to control all giving from the centre, leaving a local manager exposed when he was forced to deny a community group's last minute request for a $1000 donation for the Easter Parade.

The local operations of multinational companies share some of the characteristics of business units in large Australian firms. Typically, a global company will have a framework with a set of focused priority areas such as environment (including possibly water or energy), education, or public health and hygiene. European companies, in particular, have major partnerships with global NGOs or UN agencies to assist in the delivery of global corporate programs.

Some will have a global foundation to manage some or most of their community investment. Their business entities in Australia may have access to these global resources but subsidiary companies in different geographical areas are largely responsible for funding their own programs and building their own relations within countries or regions.

The corporate headquarters of a multinational company may well have a number of specific program packages, with support materials and internal consulting support, so regional or business line entities can apply them to local conditions when appropriate.

Each entity or country will have its own mandate within its territory, but may also participate collaboratively in global activities.

Companies take a number of approaches to the issue of how narrowly defined or broad activities should be and the level of global corporate control over them. One global company in the IT industry, for example, is very specific about the narrow band of activities a division can support; others are much more permissive, allowing decentralised management to respond broadly according to specific stakeholder needs or priorities expressed by local communities.

Regardless of the content of a particular program, key factors will determine its success or value. Box 6.2 illustrates questions to ask when considering a project, as recommended by one advisory group working in this area. These questions illustrate the clear business case considerations underlying company decisions.

**Box 6.2: Key evaluation questions**

- Is the activity related to, or will it address an issue, goal, or objective important to the company?
- Does the activity support one or more of the company's strategic initiatives?
- Will it increase the image or reputation of the company with an identified stakeholder or influential community?
- How will the activity affect customers or other valued relationships?
- Is the activity important to employees or company employee relations goals?
- Is the program high or low risk — will it succeed?
- Is there a company sponsor who will be responsible for oversight?
- What is the expectation for repeated support?
- Can the program be replicated in other sites?
- Will the activities increase revenues or reduce costs?
- What are the implications if the program did not exist or if the company did not get involved?
- What benefits or opportunities will the company realise by being involved?

Source: The Consulting Network, Vienna, Virginia, USA.

## Company initiated activities

It is not uncommon now for companies to proactively establish organisations or programs as part of their suite of community investment activities. These can sometimes involve non-profit partners. Reasons to establish a community organisation include a very specific opportunity or need that is not being addressed; an inability to find an appropriate partner; or a deep and direct contact with the ultimate beneficiaries or programs. See Box 6.3 for examples.

**Box 6.3: Company initiated programs**

**McDonalds and Ronald McDonald House Charities**

The Ronald McDonald House Charities (RMHC) is a non-profit organisation that aims to help seriously ill children and their families. The housing initiative was established in the US in 1974, and offers a home-like atmosphere for families while their child is receiving medical treatment at a nearby medical facility. In Australia, there are twelve Ronald McDonald Houses and the charity also supports a learning program, cord blood bank, beach houses, other facilities and grants.

**IBM KidSmart Early Learning Program**

The IBM KidSmart Early Learning Program provides technology and training to enhance learning in disadvantaged preschools and childcare centres in Australia. KidSmart aims to improve learning skills and encourages children to become confident technology users though creative play and social interaction. Each KidSmart package is accompanied by teacher training workshops. IBM also supports the building of peer networks between teachers and provides opportunities for Australian KidSmart teachers to transfer learnings from these programs to teachers in countries such as China and India.

**Bundaberg Rum Bush Fund**

The Bundaberg Rum Bush Fund is an initiative between Landcare Australia and Bundaberg Rum (a Diageo brand). The fund helps farmers, landholders and volunteer community groups working at the grassroots level repair Australia's waterways. The fund, together with Landcare Australia, the NRL, Channel 9, North Queensland Cowboys and Westpac hosted a Rugby League match to raise funds for the sugar growing areas of far north Queensland (following Cyclone Larry).

**Australian future directions**

The National Australia Bank brought together around 100 Australians under or around forty years of age who were identified as having the potential to be leaders in Australia over the next twenty years. They were drawn from all areas of public life and spent four days locked up together in a 'social island' to reflect on Australia's greatest issues, and their solutions.

Participants included corporate CEOs, politicians, NGOs and leaders in ethnic communities. NAB sought co-sponsorship from Australia Post, BHP Billiton, Telstra and Qantas. The initiative has led to a similar program in collaboration with Reconciliation Australia.

## Managing staff involvement

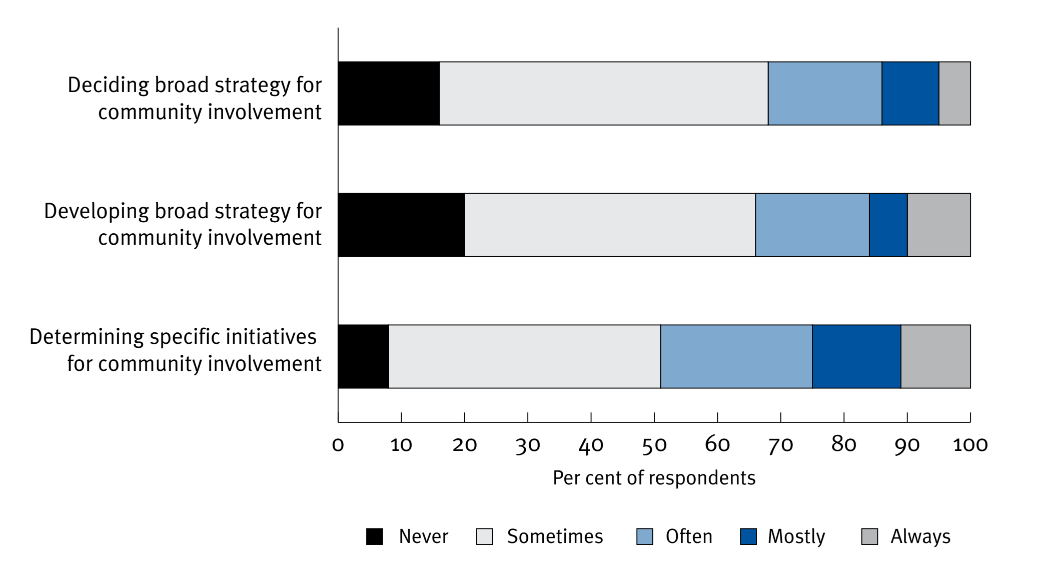
We outlined earlier in this report that a major and growing driver of corporate community investment is the expectations of staff, especially young people who are sensitive to the reputations of the firms they work in and want to include and exercise their personal altruism through their employment. It is natural then for companies to include staff in at least some areas of decision making.

There are a number of avenues for direct employee involvement in corporate community investment:

- seeking employee input into the selection of community investment programs by engaging representatives of a cross section of staff on relevant committees or foundation boards;
- seeking input on the direction of, for example, matched grants to specific not-for-profit partners through focus groups or staff survey;
- providing salary sacrifice opportunities for matched grants to nominated organisations; and
- direct volunteering, which can be structured in a variety of ways.

Figure 6.2 suggests staff are engaged to some extent in decisions on community investment, but not commonly in relation to strategy. In almost 50% of companies staff are engaged often, mostly or always via consultation in relation to specific initiatives.

**Figure 6.2: Staff are involved via consultation in:**




Source: Corporate Community Involvement survey, September 2006

It is apparent that staff are particularly involved in selecting the direction of matched giving (see Box 6.4). Through this process companies offer, for example, dollar for dollar or two for one dollar contributions (sometimes with an individual or total company cap) to worthy causes.

Staff contributions are normally salary sacrificed and paid to tax exempt non-profit organisations. Most companies manage contributions to a limited number of organisations in order to simplify payroll management and administrative. They might select categories for employee choice, for example, specifying one organisation in each of the fields of environment, community welfare, overseas aid, the arts and public health. Staff are frequently involved in selecting partners by a representative committee, focus group or survey. Other organisations manage a multiplicity of recipient organisations through individual staff selection and report they have adequate payroll systems to accommodate this.

A variation is the quite common practice of offering a specific dollar amount annually, through staff, to organisations with which employees are actively involved. This occurs particularly where external engagement is encouraged to enrich staff development and experience.

**Box 6.4: Employee giving and volunteering**

**Westpac: employee initiatives**

Westpac Matching Gifts is the bank's largest giving program. The bank matches the donations of employees dollar for dollar, to any tax-deductible charity in Australia. Around 810 charities received $10 million in six years.

Westpac provides community leave and flexible working conditions for employees to do volunteer work with any not-for-profit organisations as individuals or in teams. To help raise awareness of volunteering opportunities, a network of around 300 Westpac Community Champions across Australia provides information and support to employees in their local areas.

Westpac recognises and rewards outstanding contributions by employees to the community through the annual CEOs Community Volunteering Awards.

**Mallesons: volunteering**

Volunteering is a key component of the Mallesons in the Community program. Hundreds of people volunteer with Mallesons' community partners including for example:

- Australian Red Cross Start Breakfast Club program — providing breakfast and mentoring to disadvantaged school children.
- The Smith Family Student2Student program — telephone advice sessions, giving support to student mentors who, in turn, help younger, disadvantaged students to improve their reading skills.

Staff volunteers are offered paid volunteer leave during working hours enabling staff to develop new skills, enhance self-esteem and team building.

**IBM: volunteer initiative**

IBM launched On Demand Community for its employees in late 2003. Managed through a company intranet available to employees and retirees, the initiative includes a full range of technology solutions designed specifically for volunteer work in schools and non-profit organisations.

It includes enabling its approximately 160,000 retirees to leverage new technology tools to increase the impact and value of their volunteer efforts.

**BP: Green Collect**

Launched in 2001, Green Collect is the brainchild of BP employees who sought to help Melbourne's long-term disadvantaged by providing new work and training opportunities to people facing barriers to employment.

Green Collect coordinates regular cork collections from licensed premises and businesses and it is involved in environmental assessment services including waste, energy, water and policy development.

**Employee volunteering at Loy Yang Power**

In 2006 Loy Yang Power launched a program to recognise and reward employee volunteering in the Latrobe Valley community. It provides grants to organisations, such as local sports groups, music groups, rural fire brigades, and youth groups where an employee has completed at least fifty hours of volunteer work over twelve months.

A group of electricity generators in the Latrobe Valley have also established a workplace giving program to match employee contributions to the Gippsland Cancer Centre

**BAT Australia working with Conservation Volunteers Australia**

BAT Australia's community involvement program focuses on partnerships with NGOs in social welfare and the environment. One aim is to provide opportunities for employee involvement in the communities in which they work and live. One of BAT's two main partnerships is with Conservation Volunteers Australia, in support of its Heritage Treasures program.

**Clayton Utz and volunteering**

Many professional services firms provide *pro bono* services to community clients in need. Clayton Utz's community involvement program includes 26 000 hours of *pro bono* legal work per annum. Around 130 Clayton Utz volunteers work as models and mentors with Daystar Foundation in Sydney in the Literary Buddies Program, which aims to improve literacy amongst children aged nine to thirteen years. Around 25% of the Melbourne office participated in the Ardoch Literary Buddies Program in 2004. The foundation has provided Indij Readers (an organisation to improve literacy in Indigenous schools and communities) with both funding for a book series as well as *pro bono* legal advice.

### Employee volunteering at Microsoft

Microsoft's Australia encourages its employees to take three paid leave days a year for volunteer activities. Employees can choose to participate in company programs, team-based activities or their own personal volunteer activity. Company volunteer programs are part of existing citizenship programs including the Unlimited Potential (aims to increase digital literacy for underserved communities) and Think U Know (improving online safety for youth) initiatives. Volunteers support these programs through the provision of training, for example working with Australian schools to teach children about internet safety issues.

### Diageo

Through Diageo's workplace giving program (Helping Hands) around 45% of employees participate, contributing around $20 000 each month. This is matched by the company, through its dollar for dollar matching policy. Beneficiaries, including The Smith Family, National Breast Cancer Foundation, Life Education and Clean Up Australia, were chosen by employees. An employee survey indicated four sectors of interest: major diseases, environment, drug and alcohol education and child welfare.

### ExxonMobil

ExxonMobil has provided more than $250 000 to groups in Australia and New Zealand through its Volunteer Involvement Program. Target community groups are those where an employee provides more than twenty hours of volunteering work. An annual volunteering event is the ExxonMobil Day of Caring. In 2005, approximately 280 employees participated in a day's project work at selected community organisations such as hospitals.

### Sensis

Sensis encourages one day of team based paid volunteering leave each year to assist with a community project and matches one donation per staff member at a cap of $500 per year to the chosen charity.

### Tabcorp

Tabcorp encourages employee participation in the community through its Shine Community Spirit Awards for staff. Each Tabcorp property and division selects its own gold, silver and bronze award recipients. Recipient activities range from administration, governance and teaching to Indigenous communities, leadership coaching in the State Emergency Services, transfer of technical and financial skills, to fundraising events.

Companies also take a variety of approaches to volunteering. As noted, it is common for CEOs and senior management to engage in the governance of organisations to demonstrate the value of this to others. Despite enormous pressures on CEOs, one is the chairman of one major charity, and active in two others.

> *We give through our Foundation, but not to any charity. Only where our people get involved. Every one of our relationships has a Partner of the firm involved. He or she makes the case for and is responsible for the activity including oversighting our volunteers. It's also tied into their personal development — leaders in the community, leaders in the profession.*
>
> CEO (accounting firm) interview

Volunteering, however, normally involves groups of staff engaged together on projects, or individual members of staff taking a certain amount of time on full pay to participate in community activities. It is now very common for companies to offer up to three days of paid leave annually and some companies expect their staff to engage in workplace volunteering.

Motives for programs organised in groups includes team building, as can be seen when t-shirted corporate volunteers work together on tree planting expeditions or Clean Up Australia Day.

The rapid growth of volunteering, built in part on employee interest, has resulted in a number of stress points, and unless addressed can limit the real potential value to the community.

Problems arise when there is insufficient preparation and planning in conjunction with recipient organisations. Some non-profit organisations tell horror stories of teams of volunteers seeking to help when no meaningful task has been arranged ("There are only so many times we can paint the woman's refuge"), or when resources needed to host and use the volunteers become a greater burden than the positive contribution that can be made.

Australian business and non-profit organisations are rapidly climbing the leaning curve to ensure that goodwill converts to optimal outcomes. This is an area for urgent and deep consideration with both sectors working together.

## Foundations

There has been a proliferation of domestic and international corporate foundations that operate with relevance to Australia. In recent years these are sometimes established as a separate local entity from the parent company and are funded in a variety of ways including fixed budget allocation or earnings on investment reserves.

Box 6.5 provides examples of corporate foundations in Australia. Some are 'inherited' and established many years ago as charitable trusts. Most have evolved into more strategic vehicles for corporate community investment.

The Westpac Foundation is an example. It evolved from the Buckland Fund set up in 1879 to help families of deceased bank officers who faced financial difficulties. The Buckland Fund was expanded into a modern charitable trust in 1999. The foundation is an independent charitable trust that provides funding to non-profit organisations that address the causes of social problems in disadvantaged communities and is an integral part of Westpac's community investment strategies.

A number of the foundations established in recent years have been formed by American CEOs importing the concept from their home environment where foundations are more common, due to tax considerations peculiar to the USA.

While a number of foundations have been established in Australia in recent years, most companies have not established this structure. Our survey of corporate community involvement shows 37% of respondent companies have a foundation, however this includes the global foundations of overseas multinational companies, as well as the Australia foundations of their local subsidiaries, and indigenous firms. The majority of survey respondents who do not have foundations said their company was not considering establishing one in the future. Of those with a foundation, nearly half have been in existence for more than a decade, and a fifth have been in existence for six to ten years. Most indigenous Australian companies that have foundations established them since 2000. Those with longstanding foundations tend to be in the resources sector and in the finance sector, with some in the latter category initially established as a charitable trust.

**Box 6.5: Foundations in australia**

Examples of foundations established in Australia:

- **Telstra Foundation** — Telstra established its foundation in 2002 to focus on 'enriching the lives of Australian children and young people and the communities in which they live'. The foundation supports two funds (Telstra Foundation Community Development Fund and Telstra's Kids Fund) and in 2005/06 contributed around $4.2 million to grants. The Kids Fund allows Telstra employees to apply for a grant up to $1200 to support a non-profit organisation involving a child in their family. The Telstra Foundation is an independent legal entity with its own board. The board has criteria and rules for grant allocation and can review and vary these rules.
- **Macquarie Foundation** — Macquarie Bank established its foundation in 1984. It focuses resources in six core areas: education, arts, health research and health care, welfare and the environment. The foundation provides more than $8.5 million to more than 400 community organisations each year.
- **RACV Foundation** — The RACV Foundation was established in 1997 to 'manage the RACV's continuing support for charities and worthwhile community causes'. Funding guidelines are set by the Trustee (RACV Ltd) and funds are administered by an Advisory Committee, appointed by the Trustee.

- **AMP Foundation** — Established in 1992, the AMP Foundation focuses on community involvement and youth employment. It supports groups that deliver 'tangible social outcomes'. The foundation works with established partners and does not seek applications.
- **Vodafone Australia Foundation** — Vodafone established its Australia Foundation in 2002, following the establishment of its global foundation, ensuring a globally coordinated approach to their social investment activities. The foundation focuses on programs that empower youth. It also provides funding to support employee volunteering and workplace giving programs, and a pool of funding for state offices to fund local projects, consistent with foundation strategy. The foundation comprises a working committee and board of trustees (staffed by Vodafone Australia employees).
- **Commonwealth Bank Foundation** — The Commonwealth Bank established the foundation in 2003 to focus on education and financial literacy. The foundation received a $70 million contribution from the bank, and the income stream from this capital supports its activities. It is chaired by the Commonwealth Bank CEO and its board is comprised of senior executives.
- **Coca-Cola Australia Foundation** — Coca Cola established its foundation in 2001 with a mission to 'make a difference to Australia's youth'. CCAF provides national and community grants that amount to around $1 million annually.

Source: various corporate and foundation websites

The rationale for establishing a foundation cited in the survey responses includes:

- to provide focus and visibility to corporate community involvement activities;
- to provide an effective and accountable means for distributing community funds;
- to provide independence in decision making (through a separate charter and external representation on the board);
- to centralise global corporate giving; and
- for tax and administrative purposes.

The following quotes from public affairs practitioners reinforce the various rationales.

> *[Our foundation] is the pure philanthropic arm of our community involvement as opposed to our other strategies which are implemented at a business unit level.*
>
> *[The foundation] is semi-independent and does not distract or overly involve management. It takes subjective interests and agendas out of the decisions.*

Public affairs practitioners

A notable trend in Australian company foundations is the move from 'chequebook philanthropy' to a broader and more strategic focus.

*[Our foundation was established] to place a structure around the large amounts of community donations and projects undertaken by the company.*

*We are in the process of establishing a foundation. The rationale for this decision is to provide focus for our corporate social responsibility program.*

*We are pulling most of our engagements through to a Foundation to enhance their visibility, and to make them better aligned to our overall strategy.*

Public affairs practitioners

Foundation activities are more likely than general company programs to respond to requests, and spread resources to a number of causes and activities, with less stringent business case criteria.

The global foundations of multinational companies often provide an international focus for community investment activities. Some foundations focus on specific issues, which may be more relevant in particular countries. For example, Nike's global foundation focuses on empowering of disadvantaged girls, and its projects are focused in Bangladesh, Brazil, China, Ethiopia and Zambia. Australian businesses contribute to these efforts when local profits are repatriated. Other global foundations will be the major source of community funding for all its decentralised country operations.

In Australia, Citigroup's major community partnerships are funded by its global foundation. In some cases, such as Shell, the Australian business will compete with other locations and business units for access to funds from the global foundation, while managing almost all domestic programs from within their own local budgets.

*Virtually no foundation money comes to Australia — our local initiatives are funded from local businesses.*

Public affairs practitioner

Of companies that have a foundation (global or Australian foundation), our survey shows that 61% have external representatives and 64% have junior or mid-level staff engaged in foundation governance. The majority of directors on the Telstra Foundation board are independent. Most corporate foundations in Australia however, have a working committee comprised of company executives. A review of foundations in indigenous Australian companies, however, indicated that only a minority had independent directors and published their own reports. A global foundation is more likely to have independent directors and publish regular reports.

Internal executives, including public affairs professionals who typically manage the programs, have a heavy influence in determining priorities, and these are normally pursued in the context of agreed overall corporate community involvement strategy.

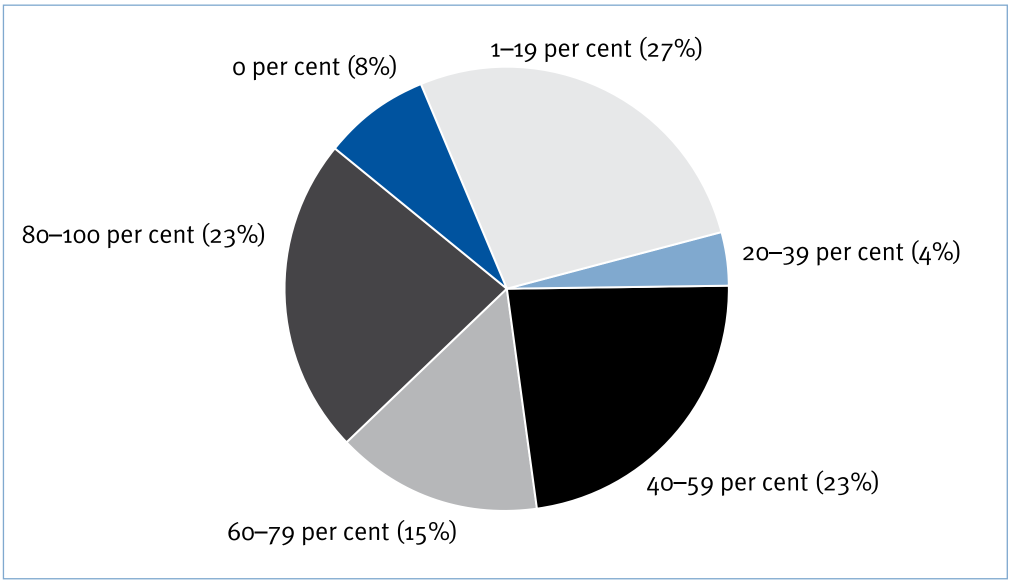
While some organisations funnel a significant proportion of their community resources through a foundation, in many cases it is still only a small proportion.

> *Our foundation spend represents about a third of our total spend, the remainder being stock donations and brand activities.*
>
> *Only the annual return on the trust investment is disbursed on community programs each year and this is minimal in relation to the total spend.*
>
> Public affairs practitioners

Figure 6.3 indicates the proportion of resources channelled through the corporate foundation.

**Figure 6.3: Percentage of community resource channelled through foundation**

- 8% of companies do not channel any of their community resource through the foundation;
- 27% of companies estimate that between 1% and 19% of their community resources flows through the foundation;
- 4% of companies allocate 20% to 39% of their resources to the foundation;
- 23% of companies allocate 40–59%;
- 15% of companies allocate 60–79%; and
- 23% of companies channel 80–100% of their community resources through the foundation.




Source: Corporate Community Involvement Survey, September 2006

## Budgets

It has not been the purpose of this study to quantify the contributions allocated to, and spent on, community investment by major companies. Attempts in any case would be complicated by inadequacies of internal corporate data, problems of definition and so on. Definition is an issue for all social reporting. For example, does a utility that provides a waver or phased payment for their services to families in emergency call the consequent opportunity cost a social contribution or should they be counted on market value that would otherwise be the cost? What of the community service obligations associated with telecommunications? And should contributions be measured in terms of direct cost to the company with or without reciprocal benefits, to recipients?

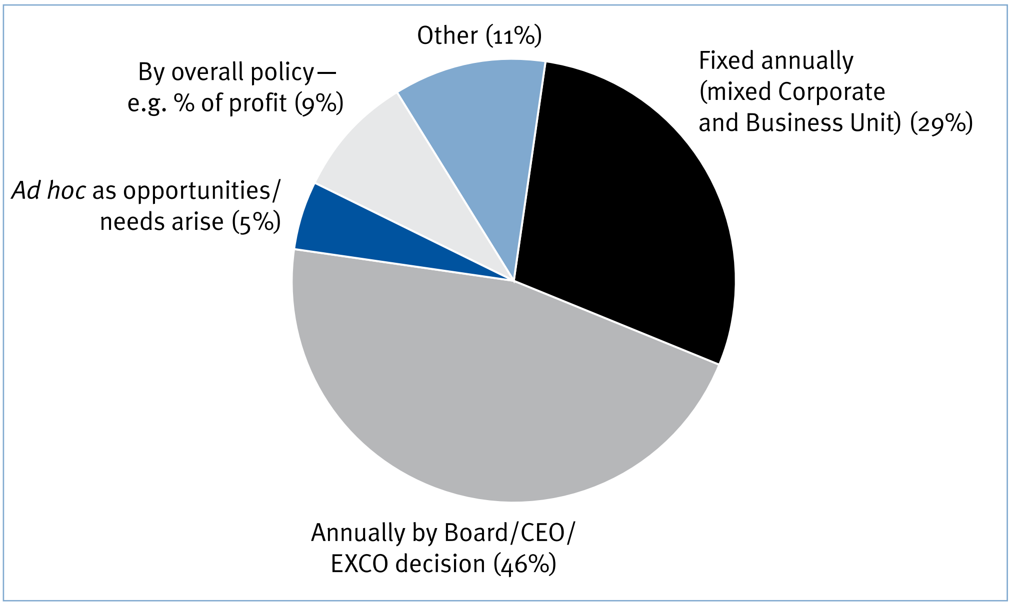
In our survey, when asked what proportion of pre-tax profit they contributed, 9% said they contributed more than 2%, 22% contributed between 1 and 2%, 15% between 0.5 and 1% and 36% contributed less than 0.5%. Asked about annual dollar amounts in cash and kind, 45% contributed less than $500,000, 37% contributed between $1million and $5 million. Thirteen companies contributed between $5 million and $20 million, and eight companies contributed more than $20 million each year.

As in other aspects of corporate community investment there is wide variation in company approaches to budgets and resourcing. As noted earlier in this report, some decentralised business units or profit centres have full autonomy concerning levels of spend while others are tightly controlled at the centre. In one company with a prescribed total pool, business units 'pitch' their particular needs and the value that contributions can add to the company, to determine their share.

The survey asked companies how their community involvement budgets were set (see Figure 6.4). In almost half of the companies surveyed, budgets for corporate community investment activities are set on an annual basis by the board, CEO or executive committee. A further 29% have a set annual budget based on decisions of both the corporate centre and business units, but with business unit autonomy. In only 5% of the companies is this spend *ad hoc*, and based on opportunities or needs as they arise. In all companies, however, senior management or the Board will have the capacity to make an exceptional case, with an *ad hoc* contribution, for example in relation to a catastrophic national or human event.

Nine percent claim to set their budgets within a continuing, overall fixed policy, for example, a fixed percentage of pre-tax profit or other similar method.

**Figure 6.4: Budgets are principally set:**




Source: Corporate Community Involvement survey, September 2006

Further investigation suggests a fixed policy for setting community budgets may be growing in popularity. Allocating 1% of pre-tax profit for non-marketing sponsorship and other aspects of corporate community investment seems to be developing as a benchmark as it is in the large corporate sector in the USA (although many companies contribute less and a number contribute significantly more).

Taking a fixed longer-term view may contribute to stability, but one risk is that recipients generate high expectations at the top of the business cycle and puts pressure on resources at the bottom of the cycle (at which time the community need might be greatest). At least one company benefiting from the mid-decade resource boom is dealing with this is 'smoothing'. Surpluses from large funds in the best years are saved and provisioned to top up available funds in less prosperous times.

**Box 6.6: BHP Billiton — funding arrangements**

BHP Billiton has a target to voluntarily contribute 1% of pre-tax profits to community programs — this amount is in addition to any commitments made as part of legal lease agreements. The target is calculated by averaging the pre-tax profit figures from the previous three years to reduce the impact of the cyclical nature of the resource sector and includes the cash, in-kind contributions and administrative time in delivering the programs. The target is set at the company level and is managed by the corporate centre. Each year, the business units report to the corporate centre on their proposed expenditure; the corporate centre compares this total to the target and if there is any gap, makes up the difference. Expenditure by business unit comprises about 90% of the company's total community contribution. Business units are responsible for determining an appropriate level of expenditure for their asset according to scale, impact, country context and stage of operation. For example, a land based business in a densely populated area of a developing country may spend more than 1% of pre-tax profit, while it is likely that an offshore oil and gas operation would spend considerably less than 1%. In 2005/06, BHP Billiton's voluntary contribution to community programs was US$81.3 million which equates to 1.45% of pre-tax profit (three year historic rolling average). The amount contributed to community programs has increased in recent years, in line with increasing profits, enabling the company to meet its commitment to share its success with its host communities. Currently the contribution is spent in each financial year, however there are plans to establish an entity that could 'warehouse' funds for a short period of time until effective partnerships and projects are identified.

Source: BHP Billiton

## Measurement

There is a strongly held view in some companies that 'if you can't measure it, you can't manage it'. In a number of areas in public life however a more apposite statement is Einstein's, 'Not everything that can be measured counts, and not everything that counts can be measured.'

A number of corporate CEOs interviewed cautioned against having to have precise return on investment data before making decisions to invest in community activities, because of the intangible and amorphous nature of potential outcomes. In any event, the search for precise *post hoc* evaluation of community investment has been difficult. As noted in an earlier chapter, while there is an overwhelming focus on establishing a business case for these investments, a large majority of companies do so broadly, with reference only to intangibles.

Some types of activity are easier to measure than others. Some forms of cause-related marketing can generate relatively clear metrics. The value to a firm of sponsorships, for example, can be assessed more easily than partnerships and activities associated with relief of poverty or drug rehabilitation.

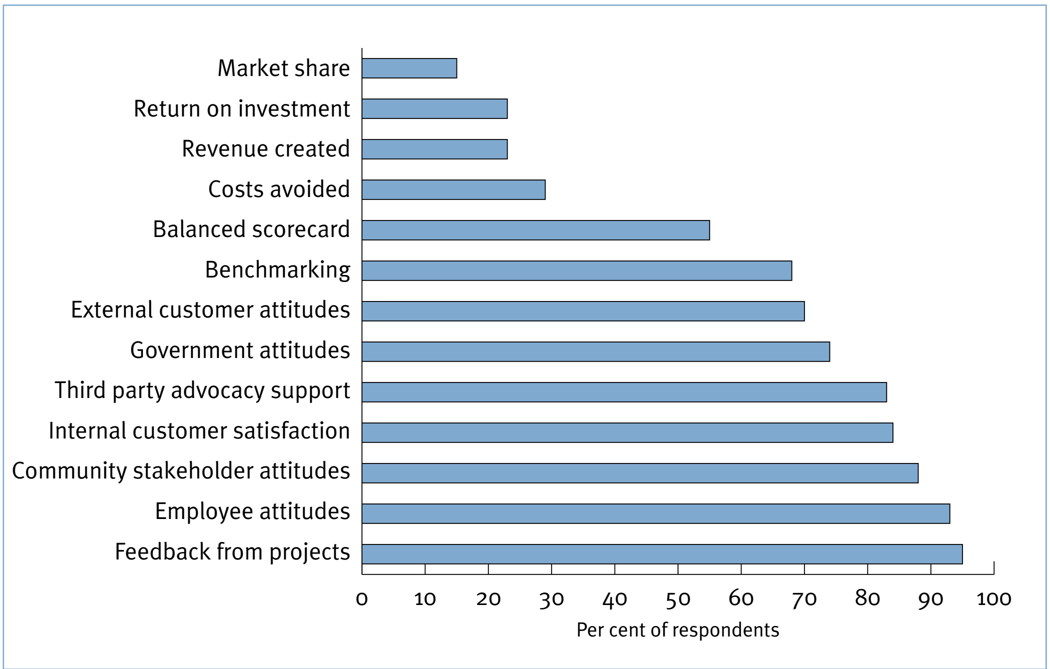
When assessing the performance of community initiatives, it is easier to measure inputs than outputs, and outputs than outcomes, yet the value of the activity can only be really assessed in terms of outcomes.

It is also common for companies to resist spending resources on measurement, preferring to keep overheads low and maximise the available dollars for direct community benefit. This can be a false economy and some companies routinely allocate a fixed amount (10% has been cited) of the community investment budget for evaluation.

Despite difficulties, evaluation of outcomes is important and many companies are appropriately attempting to improve their capacity in this area.

A small majority (55%) of companies surveyed said they measured the business benefits of community involvement activities. 'Feedback from projects' and 'employee attitudes' were the most commonly used measures. Least used measures nominated were 'market share' (most relevant when there is a connection to product or service promotions), 'return on investment', and 'costs avoided' (however these are assessed) (see Figure 6.5).

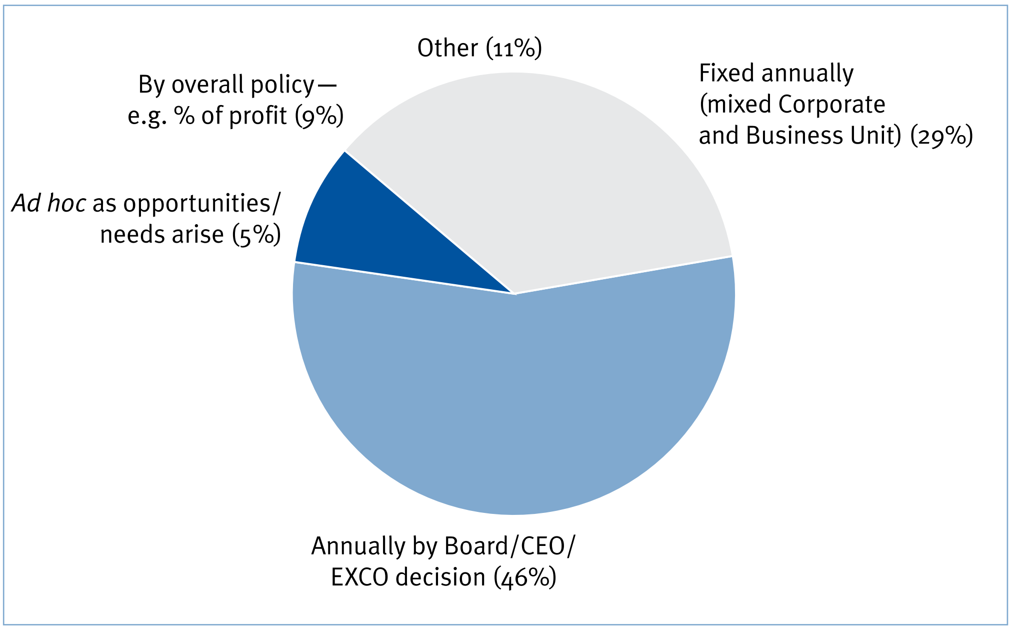
**Figure 6.5: Measures used to gauge business benefits**




Source: Corporate Community Involvement survey, September 2006

Figure 6.6 demonstrates that a small majority of companies surveyed felt they were moderately accomplished at measuring community involvement value for the company. A significant number (36%) felt they were not very accomplished and only 9% felt they were very accomplished.

**Figure 6.6: Capability to measure and evaluate community involvement value/impact**




Source: Corporate Community Involvement survey, September 2006

While only a small majority of companies measured benefits to the business, about two-thirds of companies made some attempt to evaluate benefits to the community.

For some companies, this is only done in areas deemed most easily evaluated, such as arts sponsorship (and even this would assess only direct or first round benefits). Many companies reported that evaluation was informal, anecdotal or on the basis of judgements made on stakeholder feedback. Some relied on performance in external reputation indices or rankings.

> *[We hold] an annual review of all programs, based mainly on observations, rather than hard evidence.*
>
> *This is more informal than formal but we look at employee engagement, benefits of the program itself and positive outcomes generated with key stakeholders for us and the community partner.*
>
> Public affairs practitioners

The most common form of evaluation however is by survey at various levels of rigour and formality, including surveys of recipient organisations and affected communities.

The London Benchmarking Group (see Box 6.7) provides a model for measuring community investment. It has recently established a facilitated process between companies in Australia to assess comparative performance collaboratively (see Figure 6.7).

**Box 6.7: London benchmarking group**

The London Benchmarking Group (LBG) is a group of companies working together to measure corporate community investment. The LBG model allows companies to measure and benchmark their community contribution, including cash, time, and in-kind. The model seeks to measure inputs, outputs and impacts of corporate community investment projects on society and the business itself. It allows companies to assess their contribution, how well they are achieving their goals and how their organisation compares to their peers.

LBG Australia/New Zealand (launched in Australia in 2005) comprises corporate members who use the London Benchmarking Group methodology. Corporate members include AAMI, AGL, ANZ, Australian Unity, Bayer, Cadbury Schweppes, Cisco, Coles Myer, Commonwealth Bank, Elders Limited, Energy Australia, Foster's Group, Genesis Energy, GlaxoSmithKline, Hewlett-Packard, IAG, Mitchell & Partners, NAB, Pacific Brand, Transpower New Zealand, Unilever and Woolworths.

Source: London Benchmarking Group

**Figure 6.7: LBG model**


Source: London Benchmarking Group

An increasing number of companies are specifying, in formal agreements, key performance indicators for both corporate and non-profit partners, which require periodic evaluation of value for both parties.

> *Mutually agreed outcomes must be reached on an annual basis by the community partner; this determines the availability of funding for the following [period].*

> *We require financial statements and governance arrangements to be presented up front.*
>
> *[We evaluate community benefits by] commissioning independent research into the performance of the programs against initial goals/objectives. Targets for participation in programs are set annually in advance.*
>
> Public affairs practitioners

Another issue of growing importance is the need of companies to be satisfied with non-profit organisation stewardship of resources. An increasing number of companies encourage staff engagement in the governance or management of organisations they support financially, partly to ensure adequate stewardship of resources.

> *We conduct an audit of sponsorship/community engagement program that includes a random review of community organisations. We also have company representatives at board or management committee level on a number of recipient community organisations.*
>
> Public Affairs Practitioner

Companies were asked whether they evaluated fiduciary controls, governance and efficiency of donations to community organisations; about half claimed to do so (see Figure 6.8) and others indicated their intention to do so in the future. Many companies that evaluate community programs require reports including metrics, audited accounts and in some cases they insist on external audits.

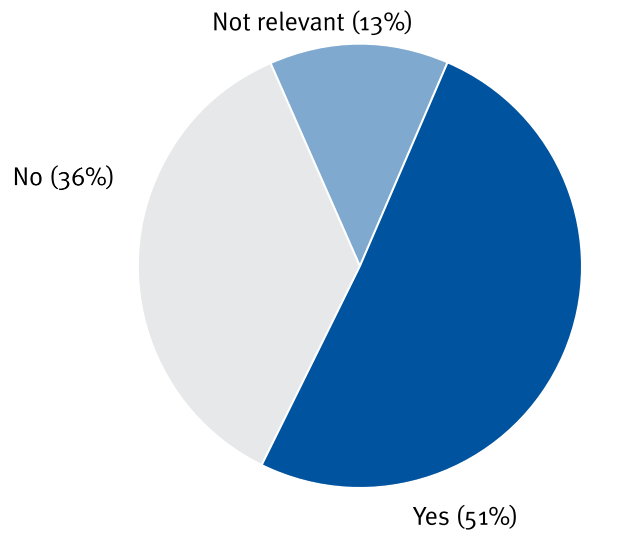
> *[We conduct an] internal and independent review of the level and size of involvement both pre engagement and post engagement. These reviews include focus groups, random telephone surveys and staff surveys.*
>
> Public affairs practitioner

It is also common for companies to carry out detailed due diligence at the outset of a relationship to ensure beneficiaries can deliver on their promises, that organisations are compatible, and that there are no potential reputational risks involved.

> *We undertake due diligence of organisations to which we support to ensure they have adequate governance structures in place.*
>
> Public affairs practitioner

As with accountability frameworks for government grants, this performance monitoring and reporting on performance adds an administrative and cost burden on not-for-profit organisations. In some cases it has been welcome in retrospect, because it can provide new and valuable internal management information. Support for management accounting and cost benefit analysis is a common area of corporate volunteer assistance. While enhanced accountability is seen as an inevitable (and, by many, a positive) trend, companies should be sensitive to the increased demands and possible diversion from the core non-profit task that excessive administrative burdens can create.

**Figure 6.8: Do you evaluate fiduciary controls, governance and efficiency of donations to community organisations?**




Source: Corporate Community Involvement survey, September 2006

Companies listed in the USA (including Australian jointly listed companies) have expressed concern at the excessive bureaucracy imposed by the Sarbanes-Oxley legislation which requires detailed reporting of non-profit relationships and requires that all board members of non-profit organisations that receive funds be subjected to probity checks.

## Partnerships

As can be seen in examples given in chapter 5, partnerships between business and non-profit or government (or semi-government) agencies play a major role in community investment. Government partnerships might include, for example, initiatives in communities with local government, or with welfare agencies to deal with specific social problems.

> *We have developed a new community investment model with specific aims and areas of focus that we want to achieve in the community through partnership with selected key charity partners. This model will utilise all our resources from capital to staff, skills and other resources available across the [organisation].*
>
> *Most community programs delivered in partnership with NGOs, however one program is delivered in partnership with Commonwealth Government and local community organisations — in other words a tripartite model.*
>
> Public affairs practitioners

Working with host government agencies is very prevalent for multinational companies, particularly for those working in Asia. Semi-government partnerships include relationships with UN-related organisations such as UNICEF.

While some partnerships have existed for many years, the growth in corporate-community partnerships reflect a shift from the 'arm's length', donor–recipient characteristics of pre-strategic corporate philanthropy.

As noted above, benefits for companies of establishing deeper, longer-term relationships include establishing trusted vehicles for the delivery of activities close to the social marketplace by people who have a deeper understanding and relationship with that marketplace. Some companies have sought to develop partnerships with issues adversaries in an attempt to find common ground, break down negative stereotypes, and provide opportunities to explore each other's perspectives.

Companies can also gain reputational capital by association with highly regarded community organisations.

The trend to develop some form of contract (formal or informal) between companies and their partners helps to optimise the value for each party. This is well illustrated by the approach taken by CRA, and as it evolved, into Rio Tinto.

The company was an early mover in Australia and internationally in developing sophisticated relationships with NGO partners. The CRA/Rio approach emerged following conflicts between the community sector and mining industries in the 1980s and early 1990s, and was driven by 'stakeholder dialogue and engagement as an attempt to build social capital in the communities' in which the company operated.

Criteria for success included that :

- both parties (the company and its partner) are committed to mutual benefit that can be articulated and understood by both parties;
- neither will be in a dependency relationship to the other as a result of the partnership;
- both parties are able to demonstrate the relevance of the partnership to their own stakeholders, and society at large;
- both parties recognise the strategic importance of the partnership beyond the immediate program's objectives and deliverables, to the longer-term importance of sustainability, reputation, and social cohesion;
- both parties are committed to transparency and accountability in all aspects of the partnership, having the highest regard for individual rights and ethical, social, legal and environmental imperatives;
- both parties are committed to a set of principles for the relationship, including respect, recognition and regards; and
- both parties are committed to establishing a mutually agreeable exit strategy.

These objectives were articulated in comprehensive and formal contracts with community investment partners which set out mutual expectations and obligations, and criteria for evaluating performance.

*Our organisation always establishes a Memorandum of Understanding with organisations and evaluates the agreed objectives at end of project.*

Public affairs practitioner

Not all partnerships are established smoothly. Some non-profits are reluctant to lend their own reputations, through public association, to companies or sectors and sometimes have to manage internal constituencies that are hostile to these relationships.

The partnerships can also be mismanaged on both sides. Sue Nattrass, leader of a number of cultural organisations said, for example:

*…with the drive for corporations to get their maximum value out of sponsorships, they sometimes pressure too hard. If the 'sponsee' feels under pressure to be something they are not, it can destroy their very essence, which is what the sponsor was interested in the first place. Sometimes the sponsorship departments are under pressure to keep working things harder and get maximum benefits — they need to sit back and look at the wider benefits.*[45]

At the same time, some organisations are reluctant to acknowledge the contribution of their supporters (although this is becoming less common). Others may be willing, but have an inadequate appreciation of the expectations or value propositions of supporters. As one researcher has suggested:

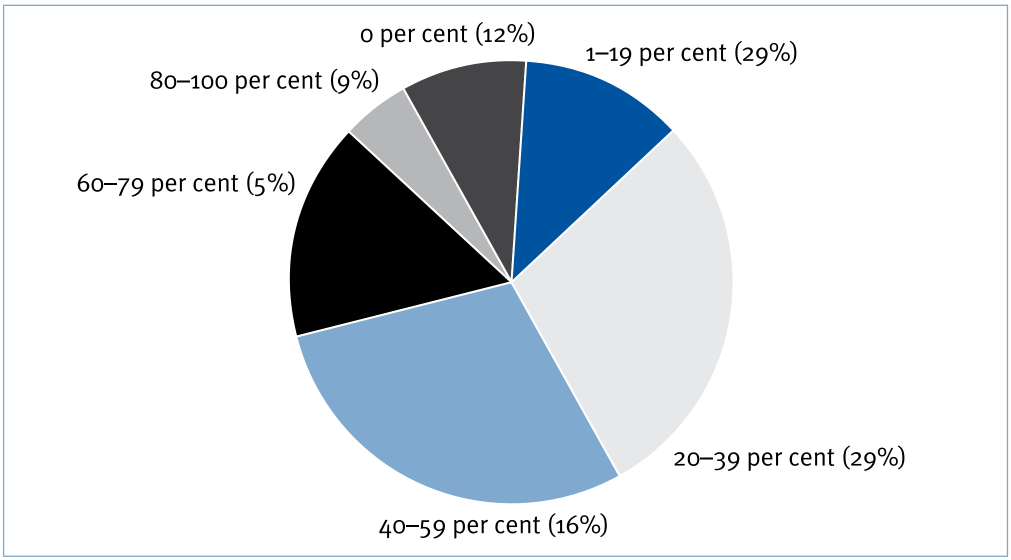
*…important factors for non-profits to consider include stakeholder orientation, stakeholder goal congruence (do the donors, non-profits and recipients agree on the goals?), and the degree of the non-profit inter-functional coordination (do the fundraisers communicate the donors wishes correctly within the non-profit so that goal congruence can be reached?). These considerations or donor satisfaction present different challenges for non-profits to those of "profit" driven organisations. Specifically, non-profit organisations must understand the motivations and drivers of corporate support behaviour in order to maximise both the level of corporate support and the level of satisfaction of corporate supporters.* [46]

45 Sue Nattrass AO, Interview reported in Connect, the magazine of the Australian Business Arts Foundation, No. 3, December 2006.

46 John Cantrell, on the "Motivations of Corporate Giving in Australia": Australia and New Zealand Marketing Association 2005 Conference.

**Figure 6.9: Programs delivered with medium to long-term NGO or government partners**

- 12% of companies do not allocate any of resources to projects delivered with NGO or government partners;
- 29% of companies estimate that between 1% and 19% of their community contribution resources is allocated to these projects;
- 29% of companies allocate 20% to 39% of their community resources;
- 16% of companies allocate 40–59%;
- 5% of companies allocate 60–79%; and
- 9% of companies allocate 80–100% of their community resources to projects that are delivered with medium to long-term NGO or government partners.




Source: Centre for Corporate Public Affairs, Corporate Community Involvement Survey, September 2006

# Chapter 7

## *Trends and future directions*

**SNAPSHOT**

Most companies are planning to increase their support of community but with deeper involvement in a narrower range of activities. Companies are also likely to be more proactive in seeking out partners and activities that address corporate needs.

Staff engagement, including volunteering, will continue to grow with greater focus on building capacity with partners that utilise company skills and technologies.

While flexibility will continue in order to address local needs, greater focus and cohesion will be sought across company entities, and there will clearer protocols around delegation and operating procedure.

Despite difficulties, companies will press on with attempts to find better approaches to measuring the outcomes of community activities and will continue to redefine relationships with non-profit organisations. These trends will have implications for non-profit management.

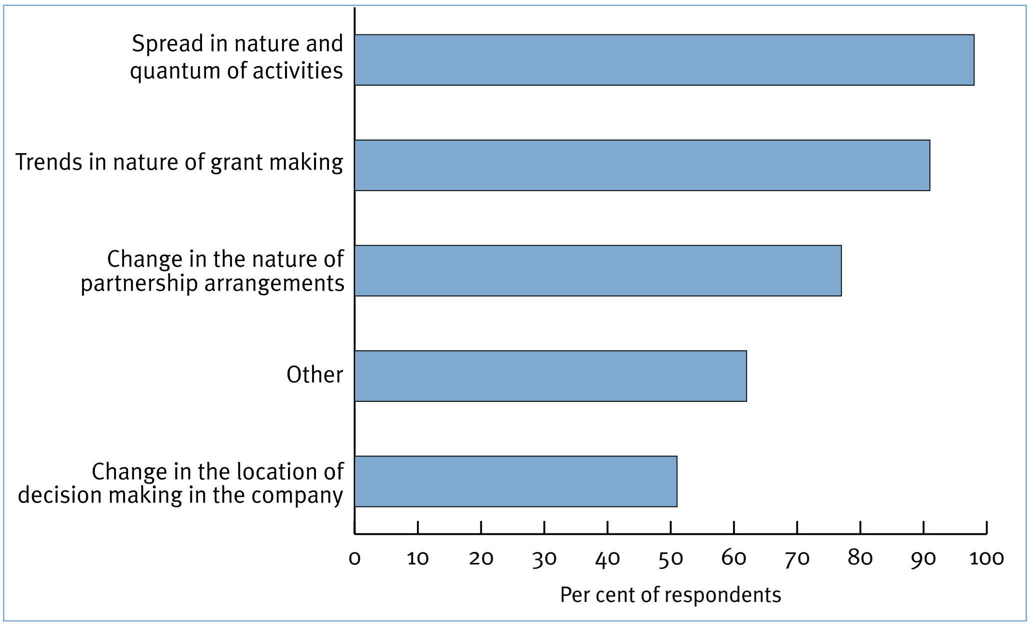
Some innovative approaches being taken to build the capital base and capacity in non-profit enterprises provide a model for effective delivery of social benefit.

Contextual factors that are likely to influence future directions include:

- continued growth in community expectations of corporate contributions;
- growing acceptance of mutual benefits accruing from corporate social investment leading to community investment being more deeply embedded in business models, and increased acceptance and sophistication in non-profit organisations;
- greater demands for transparency and accountabilities on both sides; and
- increased use of corporate community investment activities and relationships as a differentiation for competitive advantage.

As Figure 7.1 shows, the overwhelming majority of companies said they have noted clear trends in corporate community involvement over the past five years.

**Figure 7.1: Trends over past five years**




Source: Corporate Community Involvement survey, September 2006

These trends are examined in the light of comments accompanying the survey, consulting experience, and interviews with CEOs and public affairs practitioners.

## Nature and quantum of activities

While several companies were consolidating their activities, and one reported it was lowering its community contribution, most companies said they had recently increased or were planning to increase their community support:

> *The quantum of funds allocated for this purpose have progressively increased and we now actively seeking out 'worthy' organisations.*
>
> *We have a broader approach in terms of types of activities, and more funding in line with growth of the business.*
>
> Public affairs practitioners

Several companies noted that community expectations and government pressure on corporations to support the community would continue to be drivers of greater resource commitment.

Some explained that they had reduced resources to community programs due to financial pressures. One CEO said:

> *During our recent financial trouble we cut out anything surplus until we got our financial performance back. We are still coming out of that and our involvement is modest...we are in transition and don't have a thought out view, but we are benchmarking with other companies to see what they are doing and are moving to develop a proper policy.*
>
> CEO interview

Another CEO drew attention to different pressures:

> *While local management has discretion to do things in their communities, our current priority has to be addressing some difficult legacy issues in the health, safety and environment issues.*
>
> CEO interview

Regardless of different levels of involvement, there continue to be a number of clear trends in approach to activities.

The most pervasive trend is companies continuing to involve themselves in fewer activities within which they can build closer relationships – relationships that are aligned with corporate competencies and corporate values.

> *We are focused on providing multifaceted support for several community organisations over the longer term, rather than providing support on an ad hoc basis. This involves developing deeper and broader partnerships that have become more embedded within the organisation, that is, a genuine two-way flow of value creation.*
>
> *A trend in our organisation is for a greater reliance on the sustainability of those with whom we partner as well as alignment to the broader corporate areas of focus and interest.*
>
> *Over the next few years we will move away from sponsorship and towards a few partnerships where there is a greater focus on meeting community need.*
>
> Public affairs practitioners

Companies are continuing to be more proactive in seeking out activities and partners that can best meet on their needs. This means the shift will continue from responding to *ad hoc* requests and to more strategic consideration of goals and pre-determined criteria.

> *We are generally becoming more strategic and less ad hoc with more consideration given to longer-term social benefits, staff engagement and closer alignment with the business.*
>
> *We have developed much clearer guidelines and selection criteria... that supports projects internationally, nationally, locally and at the employee level.*
>
> Public affairs practitioners

Another major trend is for companies to seek activities that afford greater opportunities for staff engagement, including options for volunteering. This is also aligned with a shift in focus from direct aid, towards capacity building, drawing on the skill sets and technologies of corporations.

> *We have moved from a number of smaller projects to even fewer and larger. We have clear areas of focus and decision making processes that involve employees. Employee involvement will be a critical part of all our social investment projects.*
>
> *We have a tendency to look for organisations that may provide suitable volunteering opportunities.*
>
> *Our organisation has much higher expectations about employee involvement.*

Public affairs practitioners

A more recent trend, which is expected to grow strongly in the future, is for companies with offshore operations to follow their investments with overseas social programs. This corrects a bias that has been noted universally, that companies tend to over invest in community activities in the countries of their headquarters, rather than more broadly in proportion to the scale of their operations. Several companies also said they were exploring a greater commitment to overseas aid activities, which in part also reflected staff aspirations.

> *In the future, we will be looking at a greater global allocation of resources to support the developing countries where we operate.*

Public affairs practitioner

## Nature of decision making

Consistent with the more strategic approach of developing fewer, deeper relationships are changes in the processes by which programs are determined.

On the one hand, there is a tendency to pull back to the corporate centre the development of an overarching framework and decisions concerning, and management of, the few key programs. There is also a trend to more structured protocols about community investment criteria; greater discipline around conformity to policy; ensuring commitment and consistent performance; and greater attention to achieving line management understanding of strategy and value.

> *We now select projects against predetermined criteria.*
>
> *There has been a move to tie in programs to business strategy... [which means] better reporting and leveraging, transparency and respect for process.*

Public affairs practitioners

About half the survey respondents reported changes in the location of decision making during the past five years. This reflects three basic developments: clarification and relocation of decision protocols at different levels of the organisation; increased engagement of communities and community leaders; and engagement of staff in decision making.

A number of companies are turning to stakeholders to help define their priorities in light of community needs. Corporations may seek advice from peak organisations such as consumer, environment or welfare groups when determining broad strategy. It is more common to consult with community leaders at the local level, to articulate local community investment priorities.

> *We have established a community fund which allows community members to be involved in the decisions about projects.*
>
> *[In the future,] we will establish joint committees comprising company and community representatives administering the local corporate community involvement program.*
>
> *We want to see greater engagement of community leaders so that programs can be tailored to individual communities.*
>
> *We aim to increase employee involvement, in volunteering, sourcing projects and decision-making. We also want to ensure continued engagement at the senior level of the organisation.*
>
> Public affairs practitioners

Part of developing a more cohesive strategy has been deciding who should make decisions and where accountabilities lie. This is particularly important in companies operating in multiple business streams, or decentralised by geography or other factors. In recent years there have been shifts to centralise, decentralise and recentralise, as have occurred in other aspects of management.

The dominant trends in this area, however, are captured by comments from two separate companies.

> *We are pursuing fewer, larger, strategically focused programs with ad hoc business level donations or programs. Some flexibility around local programs has been retained, however with tighter guidelines in place and support provided to the businesses in making judgements and decisions about community support programs.'*
>
> Public affairs practitioner

> *For small grants we have set up committees of employees at our sites made up of managers, operators and union representatives to approve them. For large commitments we have developed a Partnership Strategic Council made up of the CEO, CFO, Operations Managers and other members of the executive lead team.*
>
> Public affairs practitioner

Finally, as discussed in earlier chapters, there is a continuing growth of staff engagement in decision making, and in particular, direct involvement through matched giving and volunteering.

> *Our focus is for more emphasis on employee involvement as another way to engage with employees and retain them in a tight skills market.*
>
> *Employee engagement has been a key area of focus and commitment that has grown during the past five years. [We] have implemented a matching program for staff payroll donations, have implemented a day of paid leave for staff to volunteer with community partners... [and] have seen staff become more actively involved in our community support activities.*
>
> Public affairs practitioners

## Evaluation

As noted in chapter 6, there has been an increased focus on measurement and evaluation of programs, both for their value to the firm and the community. This is manifest in discussions around establishing the business case for activities, and *post hoc* evaluation which leads to further commitment and decision making. Some of the feedback that relates to measurement and evaluation includes:

> *We are looking at better measurement of value to the business, including measurement of in-kind contributions and employee time. We aim to have greater participation in benchmarking projects, to reap better experience around how to measure the intangibles.*
>
> *Closer alignment with business needs and more focus on ROI and measurement are two key developments for our organisation.*
>
> *We will be focusing on more evaluation and benchmarking activities, including further alignment with Australian and international best practice, to ensure we have suitable program initiatives that are more focused on community capacity building.*
>
> *We will be putting more emphasis on measurement and evaluation. This includes measuring impacts as well as outcomes of specific projects and being able to demonstrate the total socio-economic contribution of the business (rather than just community involvement in isolation).*
>
> Public affairs practitioners

## Nature of partnership arrangements

Companies will continue to seek much deeper associations through partnerships that are sustainable and aligned with company values and objectives. This trend increases mutual dependence, with deeper financial commitment and closer relationships in mentoring and capacity building on the one hand, and opportunities for staff engagement, reputational benefits, and greater non-profit accountability on the other.

A number of companies have sought to leverage their community investment by investing considerable funds to achieve the necessary scale to deliver ambitious programs.

The AMP Foundation's support for the Smith Family is a case in point. It has continued to build and expand its multi-million dollar funding to the Smith Family, building trust and evaluating performance as the relationship develops. The two parties agreed that to maximise fundraising opportunities, some of its resources could be used to invest in Christmas appeals. Annual funding has evolved into triennial funding and other companies such as Macquarie Bank have been brought in to support the organisation's capacity building and growth capital. Accenture has also joined the process, seconding three staff for a full year to develop customer relations management capabilities. Accenture's CEO chairs the steering committee for that activity.

The value of deepening relationships with partners is reflected in the thinking of other companies.

> *In future, we expect a narrowing of strategy with fewer partners where we can make more of a difference. At the moment our internal resource is spread too thinly to give the support to our partners which we would like.*
>
> *[There is] increased emphasis on selecting and building durable long term partnerships. Cash handovers for short-term brand benefit has almost disappeared. There is increased emphasis on being part of the recipient organisation's management and administration and not just a funding source.*
>
> *We are increasing our emphasis on identifying social/environmental issues and community organisations to then develop a partnership with, rather than reacting to ad hoc requestions. We also ensure more consistent use of selection criteria and reducing the number of projects supported to increase our capacity to make a difference to specific issues. We also have more formalised arrangements with agreed goals, objectives, accountabilities and KPIs in place for larger community partnerships.*
>
> Public affairs practitioners

These sorts of arrangements will compel many non-profit organisations to reconsider the way that they work with companies. Kramer and Kania suggest non-profits need to consider a number of different issues when creating cross-sector partnerships (see Table 7.1).

**Table 7.1: Creating partnerships**

*A new role for non-profits*

When creating a cross-sector partnership with a company a non-profit should:

**1. Seek business partners, not villains.** Non-profits often have a lot of experience developing lists of companies that may have caused a particular social problem, in order to apply public pressure on those companies to change. By focusing instead on companies that have the resources to help solve the problem, a non-profit can come up with a different and greatly expanded list of potential corporate partners.

**2. Help companies set affirmative goals.** Many companies are looking for ways to demonstrate their corporate responsibility by developing affirmative approaches to solving social problems. But they often lack the ability to understand the issues fully and to frame ambitious but realistic goals. Non-profits often have a deeper understanding of the social problem, which enables them to help companies devise more comprehensive strategies and set more ambitious and attainable goals.

**3. Ask companies for more than money.** It is relatively easy for a non-profit to target a company for a grant or a donation. It is much more difficult for a non-profit to understand the full complement of resources that a company can bring to bear on solving a social problem. To understand those capabilities and know how to ask for them requires that non-profit managers learn a new set of skills. Mastering this approach will not be easy, but the potential power that can be deployed when business and non-profits work together dwarfs what money alone can buy.

**4. Share the halo with business.** Many non-profits are afraid to align themselves too closely with business partners because it may put their reputation at risk. Non-profits need to overcome that fear, because the benefits that can accrue from doing so far outweigh the risks. Non-profits can look smart, creative, and efficient by tapping business capabilities, and companies can enhance their reputations by taking affirmative steps to solve social problems. It is a win-win solution, but only if non-profits and businesses are willing to share with one another the halo effect that comes with success.

Source: Mark Kramer and John Kania, 'Changing the game', Stanford Social Innovation Review, Spring 2006, p.26.

Another continuing trend identified by several companies was for better marketing of the results of community support to existing employees, potential employees and key stakeholders.

## Contextual trends

Finally, companies were asked to identify external environmental factors that might influence the development of corporate social investment in the medium-term future.

The following major themes emerged:

- Growth in expectations of business to contribute to community wellbeing will not abate. Despite distrust of big business and its power, it will be expected to deepen its contribution to solving social, environmental and other community problems. Some believe that not only community and NGO expectation's will drive this, but governments will also pressure companies to become more active. This is linked in part to the perception that government was withdrawing support in some areas, and that business would be expected to fill the gap.
- There is a growing acceptance, including in the non-profit community, of synergies to be built between corporate and community interests. This in itself would strengthen current trends to more deeply embed social obligation and community engagement into business models, and in turn, add to corporate value. Building those synergies would require increased sophistication in the non-profit sector and some possible concentration (merger or new forms of cooperation) in non-profit organisations to build scale so as to best appropriate the benefits of corporate engagement. This has obvious implications for smaller non-profits that are less able to engage meaningfully with big business.
- As relationships between the sectors deepen there will be stronger demands for corporate transparency and accountability. The trend to corporate social accounting through the triple bottom line or sustainability frameworks will continue, with pressure for external review.
- There will also be more corporate and community demands on non-profit organisations for increased transparency and accountability which will impose a greater administrative burden. But this will facilitate better management decision making. The deeper relationship with companies will bring skills transfer to assist in this area.
- As expectations for corporate community investment continue to build for, the current trend for companies to use programs and relationships as a differentiator and for competitive advantage will itself drive deeper engagement — a virtuous cycle.

> *Companies are becoming increasingly sophisticated in their incorporation of community programs and partnerships and this will most likely continue. Companies will increasingly seek to differentiate themselves to their consumers by using CSR messages and activities, and the private sector will play an ever increasing role in the alleviation of disadvantage in the community.*
>
> Public affairs practitioner

# Chapter 8

## *Recommendations*

- The government should continue to see its role in corporate community investment as endorsing constructive innovation, facilitating best practice and partnering business and non-profit enterprises where appropriate opportunities arise. There is no 'one size fits all' model of best practice and governments should allow divergent models to emerge without mandating specific approaches.
- The Parliamentary Joint Committee on Corporations and Financial Services recommended that the Australian Government provide seed funding to establish an organisation, the Australian Corporate Responsibility Network, to be modelled on the UK initiative, Business in the Community (an organisation that attracts substantial government as well as private sector funding). We note there are already several initiatives in Australia that reflect at least some of the activities of Business in the Community and believe these should be left run their course. We note however that there may be scope for an enhanced mechanism to facilitate the spread of best practice by collecting and disseminating data and showcasing the successes and challenges of corporate experience. The development of a business model for such a vehicle, based firmly in the business sector, could be explored.
- While there is still progress to be made in many large corporations towards sophisticated and optimal community investment, this is at an early stage of development with SMEs. The Prime Minister's Community Business Partnership should consider how it can further assist the development of strategic community investment in SMEs. Larger companies with relevant experience should be encouraged to support any initiatives to transfer learnings and skills to SME sectors.
- Companies should be aware of growing staff demands for corporate community investment and for direct involvement of employees in community activities. Opportunities for staff volunteering and matched giving should be considered by companies where they do not currently exist.
- There are major challenges ahead to ensure that the current trend of staff volunteering leads to the best possible outcomes for both companies and community organisations. While some non-profit organisations are currently addressing this, further analysis and capacity building for both sectors is a priority to ensure optimum use of resources. Some further government support for non-profits to assist in this area should be considered.

- The report notes in passing the paucity of attention to corporate community investment in management education, including in business schools, other business related education, and in the internal orientation and training programs of companies in Australia. Management education is very client driven and given its significance in business strategy and the attitudes of young staff and executives, there appears to be some market failure here. This could be addressed in part by an initiative by business and government to create greater awareness of this gap, and to help resource teaching materials and possibly staff positions in leading schools.
- It is noted that both the Parliamentary Joint Committee on Corporations and Financial Services (June 2006) and the Corporate and Markets Advisory Committee (December 2006) strongly supported further development and expansion of corporate social and environmental reporting (including corporate community investment) while rejecting regulation and mandatory reporting. This position is supported, but companies are encouraged to publish and further enhance this reporting, and to collaborate to achieve a more uniform approach.

# Appendix A

## *Participating companies*

The following companies provided input to this project either through attendance at a workshop, completing the online survey or individual interviews.

- AAMI
- ABN Amro
- Accenture
- Alcoa of Australia
- Allianz Australia Insurance
- Amcor
- American Express
- ANSTO
- ANZ Banking Group
- ASX
- Aurora Energy
- Australia Post
- Aviva Australia
- AWB
- Barrick Gold of Australia
- Bendigo Bank
- BHP Billiton (Corporate)
- BHP Billiton Iron Ore
- BHP Billiton Nickel West
- BlueScope Steel
- Boral
- BP Australia
- Brambles Industries
- Bristol-Myers Squibb Pharmaceuticals
- British American Tobacco
- Cadbury Schweppes
- Caltex Australia
- Cement Australia
- Chevron Australia
- Citigroup
- CitiPower & Powercor Australia
- Clayton Utz
- Clough
- Coca-Cola Amatil
- Comalco Aluminium
- Commonwealth Bank
- Crown
- Diageo
- DuPont
- Energex
- Energy Australia
- Envestra
- Ernst & Young
- ETSA Utilities
- ExxonMobil
- Foster's Group
- Freehills
- GE Australia & New Zealand
- GlaxoSmithKline
- Goldman Sachs JB Were
- GRD Limited

- HBOS Australia
- Horizon Power
- IBM
- Iluka Resources
- ING Australia
- Insurance Australia Group
- Integral Energy
- Jetstar Airways
- John Holland Group
- Kimberley-Clark
- Kraft Asia
- Leighton Holdings
- Loy Yang Power
- Macquarie Bank
- MBF
- Medibank
- Metropolitan Fire and Emergency Services Board
- Microsoft Australia
- Mitsui & Co (Aust)
- National Foods
- National Australia Bank
- Nestlé Australia
- Newmont
- Nike Pacific
- NRMA
- Optus
- Orica
- Perilya
- Port of Brisbane Corporation
- Powerlink
- Queensland Energy Resources
- RACV
- Ravensthorpe Nickel Project, BHP Billiton
- Reckitt Benckiser
- Rio Tinto
- Sanitarium
- Sensis
- Shell Australia
- SKM
- Smorgon Steel
- Tabcorp
- Telstra Corporation
- Thiess
- Tourism Tasmania
- Toyota Australia
- Transfield
- Transurban
- Unilever
- Veolia Transport
- Verve Energy
- Visy
- Vodafone Australia
- Worsley Alumina
- Water Corporation
- Wesfarmers
- Western Power
- Westpac
- Woodside
- Woodside Energy
- Xstrata Copper
- Zinifex