

The Shareholders' Project
Shareholder-Corporate Relations in Australia: Some New
Economics, Corporate Citizenship and Sustainable
Capitalism Perspectives

A paper prepared for the Shareholders' Project with close reference to the two surveys of individual and institutional investors conducted for the Shareholders' Project by Irving Saulwick & Associates, September 2001

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The Shareholders' Project

We don't all need to actively buy shares to be a shareholder these days. Most of us in Australia own shares, in one form or another, though many of us may not realise it. This Shareholders' Project is a group of people expert, and interested, in shareholder-corporate relations, who have come together to think through what this rise in shareownership in Australia might mean for individual and institutional investors, as well as for society overall. Activities like forums and specific research will be designed to both bring together some leading thinkers and analysts in Australia to open up a long overdue discussion on all aspects of what it means to be a shareholder in contemporary Australia, and to also conduct detailed research on shareholders in Australia. The Shareholders' project has an Advisory Group, and a Project Steering Committee, and as its first major activity, commissioned Irving Saulwick and Associates to conduct two detailed surveys of individual and institutional investors (see Shareholders' Project, 2001b & 2001c). This paper is an examination of the results of those two surveys and positions those findings against the larger landscape of some of the major conceptual developments in sustainability, new economics and corporate social responsibility now widely debated around the world.

Sustainability and New Economics

There is a commonly held view in Australia that the next few years are likely to see a dramatic rise in shareowner power, and with that, it is generally hoped, will come significant improvements in corporate governance (see Latham, 1999). Such views predate the recent spate of corporate collapses in Australia, and are born, in the main, from an increased awareness in the media of institutional (and to a lesser extent, individual) shareholder activism both in Australia and overseas. How (and whether) that shareowner 'power' is realised is going to be very interesting to watch. But however, and whenever, it is realised, any developments should perhaps be positioned against some of the big picture issues which have been emerging in recent years (in Australia and worldwide) and which are of growing concern to an increasing number of Australians (both institutional and individual), particularly those involving various manifestations of sustainability, corporate citizenship, governance and New Economics.

Issues of sustainability, in some form or another, have been on the world agenda, in developed economies at least, for some considerable time, and they come in the wake of a long history of thinking and writing (though not very deeply embedded in most corporate cultures) in corporate environmental and social responsibility and (more recently) corporate citizenship. Increasingly now, especially within a European context, these issues are more and more being positioned within the context of 'the new economy' – not, as narrowly interpreted in Australia as the IT Industry, but 'as no less than a socio-economic revolution that impacts on all aspects of our relationships with others and ourselves.' (Zadek, et al 2000a: 5).

As such, the new economy ‘is fundamentally an organisational phenomenon, characterised by shifts in speed of change; the relevances of knowledge, innovation and communication; and shifting proximity.’ (ibid). Corporate citizenship and sustainable development are integral to this understanding of the new economy ‘in that companies will take greater account of their impact on society as a business basic,’ although, as Simon Zadek and others point out, ‘this does not mean that business behaviour will necessarily be better or worse.’ (ibid), because there are elements within the new economy that can just as easily undermine good corporate citizenship and sustainable development as encourage it (ibid).

Seen as ‘an organisational revolution’, the New Economy ‘embraces increased volatility and insecurity, shorter term and contingent careers and jobs, and shifts the basis on which people interact with each other as individuals and communities. But it also opens up amazing opportunities for generating economic wealth, and indeed, social and environmental gains. The New Economy, like all social phenomena, does not therefore create *necessary* goods or bads, but rather new patterns of possible outcomes that need to be variously pursued and offset, which is where corporate citizenship comes of age.’ (Zadek, et al, 2000a:7)

At the heart of the New Economy, then, is a much deeper understanding of the importance of stakeholder (including shareholder) dialogue and influence. Corporate citizenship, as part of the New Economy therefore ‘implies a strategy that moves from a focus on short-term transaction to longer-term values-based relationships with these stakeholders.’ According to Zadek, and others, this ‘is exactly what one would expect in the New Economy, where loyalty will be based on a company’s ability to build a sense of shared values and mission with key stakeholders.’ (Zadek et al, 2000a:8) As James Wolfensohn, President of the World Bank, says, ‘The New Economy is shorthand for nothing less than a revolution in the way business works, economic wealth is generated, societies are organised, and individuals exist within them.’ (Wolfensohn, 2000 cited in Zadek et al, 2000:9).

Corporate Citizenship, as an integral part of the New Economy, then, is about communication between all stakeholders in society in order to build social capital in order to build sustainable societies. To do this involves business, government and community recognising that business is a significant social enterprise shaping community values, attitudes and cultures. But, recognition of this is not enough. We need to know the extent to which business shapes culture. We need to know where the real drivers of change will come from, where they will go and what they will achieve.

As The New Economics Foundation (NEF) founded in 1984 by the leaders of the Other Economic Summit (TOES) as a challenge to the economic thinking of the G7 Summit type, makes clear in all of its work, ‘conventional economics is the story of cash-flow. It leaves out the fact that every economic activity – from the corner-shop to the multi-national economy – has an impact beyond money alone. Money’, the NEF claim, ‘is only part of the whole economy.’ (NEF publicity material).

New economics, according to the NEF ‘looks at the whole way we create wealth, and what we mean by wealth...It demonstrates the need for an economy where:

- Every economic transaction, however small, takes account of its environmental and social impact
- Every organisation is accountable to the people involved in it
- People of all; backgrounds are respected
- Production, trade and consumption operate on a more local, human, scale
- Unpaid work and care are valued' (ibid)

But the NEF recognises that 'building a new economy takes tools' (ibid). These include:

- Social accounting
- Ethical auditing
- Sustainability indicators
- Social investment
- Alternative currencies

The NEF have six main areas of action research and policy work:

1. Values Count – Building Corporate Accountability
2. The World View – Reshaping the Global Economy
3. A More Civil Society – Redefining the Third Sector
4. Small is Bankable – Growing Community Finance
5. People at the Centre – Participation
6. Telling it like it is – Asserting the New Economy

It is the underlying concerns of these six areas that are likely to be the main drivers for the corporate world, in closer partnership with government, civil society, a wider range of stakeholders, and the increasing number of shareholders, especially indirect shareowners, for achieving sustainable growth economically, environmentally and especially socially, in the future. The Shareholders Project in Australia is one part of that quest for understanding the drivers of future (but sustainable) change (see Shareholders' Project, 2001a) particularly with respect to understanding, in Australia, new developments in both individual and institutional shareholder thinking on investment.

Share Ownership in Australia

We have developed a reasonably clear understanding in the last few years of some of the basic issues involved in rethinking a new economics, especially on stakeholder dialogue, inclusivity and environmental sustainability, but we have not paid a great deal of attention to the growth of share ownership and its relations with some of the longer term social economics sustainability issues for the future. We do have a reasonably good understanding of basic numbers with respect to shareownership

growth in Australia, especially following the initial sale of Telstra shares in November 1997 when John Howard invited 8.6 million people in Australia to buy shares (see Wettenhall, 1998 & Moone, 1999), not least of which is the oft-repeated maxim that Australia has the highest shareowning population in the world. In America, for example, nearly half of all households now own shares, either directly or through mutual funds plans or directly managed plans; in Britain it is approximately one quarter of households, with the number of shareholders in Germany now exceeding the number of trade union members (see *The Economist*, 2001). But does this actually tell us very much?

According to *The Economist* it suggests the triumph of capitalism in the post-cold-war era, with much greater attention now being paid to shareholder value, and with more and more people's savings tied to equity markets, a greater attention being paid to the rise and fall of stock markets. While this may well be the case, particularly given the emphasis of the 1997 Humphry Report in Australia on adding shareholder value in government business enterprises (Humphry, 1997), the issue that must then be faced is the extent to which this 'successful' capitalism is actually sustainable and not simply a preoccupation with economic growth. The Australian Stock Exchange conducts an annual Australian share ownership survey, with the last one conducted in November 2000 with a random (but representative) sample of 1200 respondents. The survey demonstrated that shareownership levels in Australia remained reasonably constant during the 12-month period prior to November 2000. Of the 52% of Australian adults who own shares (i.e. 7.4 million adults over 18) 40% are direct shareowners and 60% indirect, and most direct owners obtain their shares through major floats. Ownership of shares by women is increasing (47% of direct shareholders are women) and ownership of shares in the under 35 years age group is decreasing, and that a fifth of the Australian population over 18 has entered, directly or indirectly, the share market since 1997. All well and good, but what do we actually know about the way these shareowners think, and the sorts of actions they are likely to take as shareowners which might perhaps contribute to an increase of shareowner power in the coming years – for or against the development of sustainable capitalism?

One thing we do know is that approximately 50% of shareowners are passive investors not having traded at all for 12 months or more, and that over 60% have only one or two stocks in their portfolio (ASX, 2001). We also know from a KPMG-Resnik survey on socially responsible investing conducted in 2000, that 73% of Australian shareowners are investors through their superannuation funds, and from a March 2001 report by the Investment and Financial Services Association in a survey of its members, that 96% of all shares owned institutionally are subject to some form of shareholder activism, mainly through direct contact by the Fund with management or Board of the company, and that a more effective and preferred means of proactive institutional shareholder activism is to have direct contact with a company, rather than relying on the more reactive practice of voting preferences.

We also know from a 1998 PriceWaterHouseCoopers survey of analysts and investors on shareholder value, that current corporate external reporting does not satisfy the capital markets' information requirements, with institutional investors calling for a more effective and transparent form of disclosure. But with this in mind, we also know that Australian governments have moved more and more in recent years to a philosophy and practice of economic rationalism which has positioned privatisation

(partial or otherwise) very firmly on the economic agenda, and which has, in turn, seen government 'pursuing narrowly defined financial returns for...its private or public shareholders.' (Quiggin, 1999:55), often, it is thought by some, at the expense of more broadly based moral and social goals, eroding, not building, greater social cohesion (Suter, 1999:143). What constitutes the moral and social goals and the extent, to which particular goals can be driven institutionally, by business in particular, is central to many of the individual concerns about future sustainability, expressed, in Australia and worldwide, today. The tensions that currently exist between individual aspirations for change and institutional ability to change are key imperatives in holding back sustainable growth in a new economy. It is worth looking at this in a little more detail.

Social Responsibility: Individual Aspiration and Institutional Change

In May 1999 Environics International Ltd, in cooperation with the Prince of Wales Business Leaders Forum (UK) and The Conference Board, Canada conducted a survey involving 1,000 citizens in each of thirty-three countries the results of which were published as, *The Millennium Poll on Corporate Social Responsibility*. Two in three respondents wanted companies to go beyond their historical role of making a profit, paying taxes, employing people and obeying all laws wanting companies to contribute to broader social and environmental goals as well. Business actively contributing to charities and community projects was not considered sufficient as an expression of corporate social responsibility.

This poll underlines what has been a growing awareness in many countries in recent years, which is that 'ordinary' citizens are increasingly insisting that the corporate world plays a more active, and strategic, role in contributing to the social and environmental, as well as the economic agendas of the societies in which they operate. Respondents were asked in particular to decide which of the following they preferred to see a company doing:

- Making a profit, paying taxes, employing people and obeying all laws (position 1)
- Exceeding all laws at a higher ethical standard than required or (position 2)
or
- helping to build a better society for all, (position 3)

In Australia 8% accepted the first proposition that a company should make a profit, pay taxes, create jobs and obey all laws, with 43% arguing that a company should operate somewhere between position 1 and 2 with a further 45% arguing that companies should set higher ethical standards and help build a better society.

Overall the main findings were that business should:

- Demonstrate their commitment to society's values and their contribution to society's social, environmental and economic goals through actions.

- Fully insulate society from the negative impacts of company operations of its products and services,
- Share the benefits of company benefits with key stakeholders as well as the shareholders and demonstrate that the company can make more money by doing the right thing, in some cases by reinventing its business strategy.

The challenge, of course, is how to translate these individual concerns into real and effective institutional change. NGO advocacy has been one of the routes taken, sometimes successfully, but mostly not. Another, more effective route, which many are now exploring, is the building of Business/NGO partnerships, based on mutual benefit and not simply antagonistic relations as has often been in the past (see Birch, 2001a). Another is to better understand the thinking of shareowners and to consider those ways in which that thinking can translate into the sort of power relationship which can see effective change take place in business – not simply for short term economic gain, but for the long term building of more sustainable and socially cohesive societies, especially as shareholders, ‘even when they own a majority of the shares; do not always have the opportunity to direct boardroom behaviour.’ (Bottomley, 1994).

We have some reasonably clear information on how people in general view these issues. The 2000 ‘Eye on Australia’ survey demonstrated, for example, as did the various surveys in the 1996 pre-millennium ASTEC foresight exercise (ASTEC, 1996) that there is a level of pessimism amongst consumers about the role of business in society, with many believing that business is simply run for shareholders only, and so therefore they call upon business to act as more responsible corporate citizens than currently they are perceived to be doing. But we have, surprising though it may sound, very little information about how individual and institutional shareowners think. In 1995, Ryan & Gist studied the values of shareholders in America by actually surveying, in what is generally considered to be a pioneering move, individual shareowners themselves. Given that most studies have actually ‘ascribed opinions and values’ to individual shareowners, which are ‘derived from experts who do not own any stock’ (Agle & Caldwell, 1999) actually asking individual shareowners they found that shareholders valued not only short term financial performance, but also long-term financial health, and the firm’s performance with regard to other stakeholders.’ (Ryan & Gist, 1995) - important findings given the oft-repeated maxim that shareowners are only interested in short-term financial gain, and that managers and directors act in the best interests of shareholders (cf. Jacoby, 2001). The Shareholders’ Project in Australia, was also interested in asking individual shareowners, as well as institutional investors and funds managers, what they think, and so it was with this in mind that the two surveys were developed (Shareholders’ Project Survey. 2001b & 2001c) beginning by asking a simple set of key questions (see Shareholders’ Project, 2001a):

- *What do shareholders consider to be the benefits, costs or other implications of a corporation in which they invest adopting socially and environmentally practices? How does this relate to financial returns on investment?*

and

- *Under what circumstance would shareholders more actively exercise their rights (for example voting rights) and perhaps responsibilities in relation to the corporations in which they invest?*

These were then developed as a series of more specific questions for a survey of 1000 shareholders in Australia, randomly sampled, and interviewed by telephone (see Shareholders' Project, 2001b), and as a set of questions on attitudes to investment related issues in a separate survey of superannuation trustees and general financial investment managers (see Shareholders' Project, 2001c). Both of these surveys were commissioned by the Shareholders' Project, and conducted by Irving Saulwick & Associates.

When individual direct shareowners were asked, for example, about the decisions they make (or don't make) in buying shares, in the words of the report:

most considered increase in share value and the risks attached as of more significance than the kind of business a company was in, though an overwhelming majority did say that they would take into account a Company's activities before making an investment decision. We know, for example, from this survey that nearly two thirds of those surveyed say there are companies they would not invest in because they do not approve of what the companies do, for example tobacco, gambling, wood chipping and uranium-mining. There is clearly a moral dimension to what people say will affect their decision-making, but there are tensions too, inherent in developing a very clear-cut morality born mostly from recent environmental and sustainability debates, and the less tangible moral issues about share value, especially for indirect shareholders who, for the most part, leave decisions to their superannuation funds and trusts.

It is here that an understanding of the way that institutional thinking in shareholder-corporate relations becomes increasingly important, and why the Shareholders' Project conducted a series of sixty semi-structured qualitative interviews: thirty-nine with Trustees of superannuation funds, industry funds, public sector funds, and corporate funds and twenty-one interviews with Investment Fund Managers at major investment houses and stockbrokers. The main findings as reported in the survey were that:

- *Large superannuation funds and investment houses say they can exert influence on the policies and operations of individual companies in which they hold shares, but small ones feel impotent to do so. Other issues on which large funds or investment houses had been moved to intervene included composition of a company's board, remuneration for a managing director, and the strategic direction of the company.*
- *Sometimes funds were moved to act with other funds, sometimes they acted alone. Collective action appears to be slowly gaining ground, especially among smaller funds.*
- *In the case of superannuation funds, these initiatives were usually taken by the fund managers and then reported to the Board, although sometimes they were initiated by the Board and then carried out by the managers. It is most*

unusual for a fund to consult its members before deciding to intervene. Most say it is logistically impossible and anyway trustees are put there to make that kind of decision.

It is not easy, but we have started to ask some relevant questions in order to better understand some of the directions we might be able to take in the future towards what some might even consider a new moral economy, where issues of sustainability, corporate citizenship, ethical and social responsibility, greater transparency, accountability and inclusivity, and a more developed interaction with stakeholders and community becomes the norm rather than an ideal.

A Moral Economy?

In a 1999 survey of Business School students in Australia, USA, Taiwan and Israel, for example, the students – our future managers - all agreed that ‘the main interests of shareholders is getting a maximum return on their investment and that the business world has its own rules and ways of doing things, but, they did reject the idea that a person who is doing well in business does not have to worry about moral issues. (Lin 1999). The challenge facing these students – facing all of us – is how we connect our individual moral concerns and beliefs with seemingly intractable and unchangeable institutional economic maxims. It is in this nexus between individual and institutional; between private and public; where all the signs point to the need for some new economic thinking so that shifts in influence – from individual to institutional – can effect socio-economic change. That is the crux of the issue in any understanding of the development of shareowner power in the future, and is perhaps where we need a much better understanding of the way that individual shareowners are thinking, relative to some of the big institutional issues that are gaining increasing attention on the world stage – like sustainability, better corporate governance, increased accountability and transparency and more inclusive approaches to building social capital and growing social cohesion.

We know, for example, from the Shareholder Project surveys that most of the indirect shareholders hadn’t actually heard of ethical investment, and even though most of the direct shareholders had, and they said that they would be prepared to accept a lower dividend or share price in return for being able to invest ethically, only a small proportion had actually made that step. We know too that even though there are clear synergies between the expectations of most respondents in something like the Millennium Poll, that investors want to know where their money is being invested, and that if given a choice, a large proportion of them (69% according to the KPMG-Resnik survey) would consider investing in a socially responsible investment fund. 80% would not, however, want to see a lower return on their investment because of this choice, but if a company could be demonstrated to be ethically/socially/environmentally responsible, 58% would be prepared to invest in that company, and 80% indicate that if offered a choice by the superannuation fund they would opt for an ethical stream.

It is becoming clearer, both from studies of individual shareowners and from institutional investors, as the surveys from the Shareholders’ Project have

demonstrated, that there is a change taking place in the investment market. It shows, in the words of the Shareholder Survey (2001c) *'a tendency to pay more attention to the ethical and socially responsible dimensions of investment decisions. Among superannuation funds, this change is led by trustees; fund managers tend to be more cautious about it. The change is careful, tentative, at times uncertain, yet vigorous in some quarters and apparently gaining momentum. It is linked to changes in wider community values, particularly concern for the environment and for the decent treatment of people, as well as to increased demands for transparency and accountability. However, there is a deep divide over this within the investment community. Many – particularly among superannuation fund managers and those making decisions at large investment houses – remain sceptical about the integrity and workability of ethical or socially responsible investment. They take their responsibilities seriously. They see themselves as having an overriding obligation to do the best they can financially for their members or clients. Many say they implicitly take ethical considerations into account, but that they synthesise these with financial considerations. Some of these people see explicit ethical investment as a fad, a gimmick or a distraction. Others simply see immense difficulties in satisfactorily defining what the term means, saying what is ethical to one person may not be ethical to another.*

On the other side of the divide are those – especially trustees in union-related superannuation funds, and investment managers with a specific mandate to make ethical investments – who are strongly committed to this ideal. For them, certain principles are starting to emerge which allow them to make judgments about whether a company qualifies as an ethical investment. Some people express this as the 'triple bottom line' – concern for profitability, concern for the welfare of the people in the organisation and concern for the effects of the organisation and its products on the environment and on society.

Some people see a way of straddling this divide. These people say that the industrial, environmental and social impact of a company can directly affect its profitability, so that they do take these factors into account when making investment decisions, even though they might not dress up their decision-making in the raiment of ethical investment.

It is not clear from the evidence to date', according to the Shareholder Survey, 'how the potential conflict between maximising profitability and investing ethically will be resolved. Does it require a trade off and, if so, how much is legitimate or acceptable to member investors? Some argue that a trade off is not necessary – that good returns can be secured with a balanced portfolio, which takes into account the need to exclude some companies on ethical grounds.

Definitions are difficult, and tend to be idiosyncratic. Some think that investment in gambling is not ethical; others point to tobacco manufacturing or uranium mining or logging in old growth forests or whaling or to the use of child labour as areas of concern. Others say, yes, but where do you draw the line? Do you invest in the bank that lent money to the casino, or to the manufacturing company that made the cigarette equipment?

Fund managers tend not to adopt explicit ethical investment unless they are instructed to by the fund that retains them – although several are positioning themselves in the market to do so, and have fashioned products accordingly. Investment houses tend not to adopt explicit ethical investment unless mandated to do so.'

We are, therefore, faced with a twofold challenge here. The first is a reasonably clear recognition that we need to rethink attitudes towards certain industries, because of what we have learnt from environmental and to a lesser extent social debates. And the consequences are relatively easy to put in place - like not investing in a casino. The second is much more difficult as it involves having to rethink traditional paradigms of economic thinking, and the often hard-line maxims that go with them (e.g. a company's principal goal should be to maximise shareholder return) in order to be able put onto a wider social agenda less tangible moral issues, like sustainable futures, social well-being and so on. To do that requires an even more difficult exploration of how individuals *access* institutional power, which is probably the only place where real change can effectively take place.

Sustainable Capitalism

The challenge for sustainable capitalism lies in turning aspiration into real action, and we have little evidence so far in Australia to determine whether such sustainable actions are being made. Only 8% of the 46% who had actually heard of ethical investing in this particular survey, for example, had actually supported them. Nevertheless, we do know that there has been a major rise in socially responsible investment funds, and a maze of guidelines, standards and performance indicators for business to follow in order to be considered appropriate for these funds. But we have a long way to go before we can be confident in knowing that social/ethical and environmental issues are seriously embedded into corporate culture and core business (see Birch & Batten, 2001), but at least we are now asking some serious questions about it. The real challenge, however, from what we learn from these sorts of surveys, is not so much what this tells us about contemporary Australia, for example, but much more about how much smarter and more inclusive we need to be in actually using these sorts of questions and the issues they raise to better read the social future to ask questions that challenge us to actually change - to what we used to call *praxis*.

This means that in setting up something like the Shareholder Project, research doesn't simply become an extension of some quasi-scientific notion of objectivity, with the researchers acting as neutral conduits of pre-existing information, which just has to be 'dug out of the ground', but such research actually recognises the importance it can have for bringing about change – not simply because of its results – but much more importantly because of the processes that it puts in place for challenging existing thinking.

We know, for example, from the Shareholder Project survey of individual shareholders that when asked what they considered a company's top priority should be, most saw 'being a fair employer', 'making money for its shareholders', 'having a safe workplace'. 'contributing to community well-being' and 'protecting the environment', *in this order*, as important. But the significant challenge this raises is

how to translate this aspiration into reality in the workplace that, while it may well share these aspirations, tends to operate on much shorter time lines with old economy short-term financial performance targets and indicators generally taking precedence over long-term sustainable issues. There is a considerable tension in place here between a new economics aspiration for how business should perhaps work in more sustainable, more people-oriented ways, and an old economics paradigm that privileges an understanding of economics as mostly financial and which, therefore, often makes it very hard for business to work differently. The challenge is how to translate individual and even institutional aspiration into effective, real-time, sustainable, socio-economic change.

Two related main themes emerge. One, what constitutes sustainable capitalism and two, what should the economics underlying sustainable capitalism look like? We know, for example, and quoting directly from the Shareholders' Project survey (2001c) that *'traditional practices persist: there is pressure put on companies to produce good returns in the short term, rather than to look to the medium or long term. Fund managers, investment managers and trustees alike speak somewhat regretfully about this, but each feels under pressure from his or her constituency or client base, and simply passes the pressure on. A few respondents said there was room for companies to take the long view, but that they needed a credible and well-articulated vision in order to carry it off in the marketplace. There was also a general consensus that companies these days had to be, and had to be seen to be good corporate citizens. If this involved sponsorships or other community-based investment, so be it. However, sponsorship needed to be done with a sense of propriety and in a spirit of genuinely adding to the well-being of the community. Done crassly, it could be damaging. A minority of respondents said that companies had no business spending their shareholders' money in this way: they should pay out their dividends and let individuals decide whether to give to worthy causes.'*

This last view is certainly not a view generally reflected in a recent survey of the top 200 corporates in Australia conducted by the Corporate Citizenship Research Unit, Deakin University, which demonstrated, across most aspects of corporate citizenship thinking, a significant commitment to corporate citizenship related issues, but also a reluctance to engage long-term, especially with corporate-community relations (see Birch & Batten, 2001). Nevertheless, the Shareholders' Project survey demonstrated that in general, companies were seen to be communicating somewhat better with their major shareholders than in the past. Whether they were communicating more adequately with their ordinary shareholders was not a question that many of the respondents felt able to answer. However, importantly, many of those who did respond said that in general companies did not communicate as well to ordinary shareholders as they did to institutional shareholders.

Business as a Public Culture

Communication is key, because adequate communication flows for growing a business (and society) in sustainable and synergistic ways is becoming more and more important. Not simply as a means of passing on information, but as a significant way of enabling a growing number of stakeholders, including direct and indirect shareholders, to actually *engage* in meaningful ways with a company – and just as

importantly, for the company to engage with those stakeholders. Recognition of this engagement marks the difference between business as a private culture in old economic thinking to the beginnings of a company understanding itself as a public culture in new economics thinking (see Birch & Glazebrook, 2000 & Birch, 2001).

Charles Handy, in the *Harvard Business Review* made the important observation that ‘A public corporation should now be regarded not as a piece of property but as a community - although a community created by common purpose rather than by common place. No one’, he rightly points out, ‘owns a community.’ (Handy, 1997:26). Understanding business as community, (after all ‘company’ means community) in this way effectively inverts more traditional ways of thinking about a company as property and, in turn, inverts thinking about the ownership of that property. This then requires quite different ways of thinking about the ways in which the business as community is governed. Handy puts it like this: ‘It requires a clearer definition of the bond between individual and organization - something that could be called the *citizen* contract - as well as of the relationships with the other stakeholders, particularly the providers of capital, who must receive their due rewards.’ (Handy, 1997:27).

Easier said than done, of course, but increasingly in Australia, as elsewhere in the developed world at least, individuals, business and community organisations (and to a lesser extent government) are engaging with these issues in a way which would suggest that they are not going to go away, and that it is hoped that sustainability, of society and business, as related entities, become increasingly enmeshed. This is certainly indicated in the Shareholders’ Project surveys. The challenge is how to put individual aspiration into institutional action.

What is clear, then, is that achieving sustainable success is an organic, risky, process, requiring more than just a few nips and tucks to the strategic plan of an organisation. Such a commitment, if made, accepts the view that long-term benefits (not just financial) will accrue to the business, and to the community as well. This is the base of ‘sustainable capitalism’. Sustainable capitalism needs to be at the heart of New Economics – it is about investing in the long term.

Conclusion: The Cultural Politics of Change

If there is a message, then, louder than many of the others within this debate, it is the need for serious sustained and significant cultural change to take place within corporate Government and community sectors. This change is not simply to satisfy some call from left field to make business more accountable, nor is to satisfy some new ageist whim for more environmentally and socially responsible companies. This change is designed to increase the rewards for all, including financial profit, in a world that must seek sustainable success for more and more people if less and less people are to be disadvantaged and marginalised.

The challenge is to find, and act upon, serious new economics business case catalysts for change; to recognise that not all stakeholders, especially indirect shareholders, have, or are able to gain, a voice, as easily as others; that they are not always equal, and yet companies do have to prioritise stakeholder needs often at the expense of

other needs. This desire for change presents challenges for business in how it manages stakeholder and shareholder priorities, while at the same time finding ways of speaking on behalf of disempowered stakeholders. Furthermore, the desire for change presents challenges in how we encourage the corporate world to disengage with those it is currently aligned with when it sees exploitation and unethical practices; presents challenges to have in place overt codes of practice; presents challenges to form partnerships only with those who match those codes of practice; presents challenges to change the culture so that the principles of corporate change and the imperatives of New Economic thinking inform every decision from every member of the organisation at every level, irrespective of the role they perform, and everyone who, in any way whatsoever, comes into contact with the organisation.

Peter Schwartz and Blair Gibb, in *When Good Companies Do Bad Things - Responsibility and Risk in an Age of Globalisation* argue that a company's goal has to be 'in the end, not discovery of a model of social responsibility, but development of a process that will create its own living understanding of its place in the wider world.' (Schwartz & Gibb, 1999:82). But as Neil Chamberlain pointed out in 1982, '...to pretend that social purpose can simply be grafted onto the existing corporate organisation is an illusion and an evasion.' (Chamberlain, 1982:12), it requires systemic, holistic, cultural change. Activating that change requires trust, commitment and cooperation, across many sectors of stakeholder and shareholder engagement. UK commentator, Will Hutton talks of the moral economy, arguing that what is needed to redress some of the imbalances is 'a recognition that firms are formed by human beings with human as well as contractual claims upon each other and behind this social world lies the moral domain.' (Hutton, 1995:23). These are variables, still uncomfortable to many in business, which lie at the heart of a public culture approach to growing business and society in sustainable ways. British academic Richard Welford suggests the following ways of organisations – specifically business, but applicable to all - moving forward in this:

- Shift from objects to relationships;
- Shift from parts to the whole;
- Shift from domination to partnership;
- Shift from structures to processes;
- Shift from individualism to integration;
- Shift from growth to sustainability (Welford, 1995:117)

Peter Senge has made similar points arguing that business is disabling itself if it continues to:

- Think in terms of individual jobs rather than in terms of the whole organisation.
- Blame problems on people or things that are outside the organisation.
- Believe that organisations can always solve their problems by taking aggressive action against whatever external force they believe is causing problems.
- Become fixated on specific sudden events.
- Be unable to perceive threats that result from slow gradual processes.
- Believe that they immediately experience the consequences of their decisions;

- Operate under the myth that management teams interact cross functionally to solve problems when in reality these teams often spend tremendous energy defending the self-interests of individual members. (Senge, 1990:142)

It is clear, then, that we have to change the narrow emphasis upon old economy growth if we are to be sustainable in the future, and the moves, preliminary though they may be, towards socially responsible/ethical investing; increased stakeholder and shareholder engagement and greater transparency, accountability and inclusivity in business, government and civil society overall, signalled as significant in the Shareholders' Project surveys, are going to become increasingly important in the future. As Handy suggests, trapped though we may be in the rhetoric of an older modernist economics, 'there is a hunger for something else which might be more enduring and more worthwhile.' (Handy, 1997:73).

PostScript

What that 'something else' might look like, with respect to investment and the shareowning public, will be interesting to both watch and to determine. It is certainly very likely to involve a heightened shareholder activism, manifested in a variety of ways – benign and otherwise. It will certainly involve a more developed networking of institutional investors – particularly the smaller ones - coming together to build alliances and social capital, which would see them having a greater say than perhaps they do now (see Ryan, 2000). Women are more likely to gain a greater voice, more accurately representing their current shareownership profiles, and special interest groups will very likely seek a more prominent voice as they begin to recognise the potential for influence and change. Co-ordinated institutional governance activism has been seen to work (see Opler & Sokobin, 1998) and as a consequence institutional and company-specific shareholder activism groups are likely to increase, both in number and influence, and considerably greater attention will be paid to educating both direct and indirect shareowners on what it means to own shares, and in particular greater attention is likely to be paid to youth education programs in this area.

The rise of socially responsible investing will bring with it a sharper focus upon both company behaviour, transparency, accountability and social and environmental responsibility, and with that an increased demand for more shareowner and stakeholder inclusivity. As well as the more developed umbrella organizations like the US Council of Institutional Investors, the Interfaith Center for Corporate Responsibility and the Coalition for Environmentally Responsible Economies (CERES), and the Australian Investment Managers' Group (AIMG), company-specific ethical shareholder's groups will probably increase, following the pattern of groups currently in existence in Australia like BHP Shareholders for Social Responsibility; Boral Green Shareholders; North Ethical Shareholders Group; PaperlinX Ethical Shareholders Group; Shareholders of Telstra; Wesfarmers Investors and Shareholders for the Environment (WISE), the Coalition of Rio Tinto Shareholders and the more generic Australian Shareholders Association Ltd (not afraid to support class actions brought against companies like GIO Insurance for example) with Internet based networks, like the Ethical and Green Shareholders Groups, creating portals and points of contact for and groups alike (see <http://www.ethical.shares.green.net.au>), taking on board the sorts of shareholder

activism developed by groups like the US Shareholder Action Network which sees ‘shareholder activism as a way that shareholders can claim their power as company owners to influence behaviour.’ (see http://I-d-a.com.au/share_shareholders.html).

Dedicated shareholder activism websites under headings like ‘Shareholder Activity as a Tool for Corporate Transparency & Democracy’ (<http://www.foe.org/international/shareholder/toolsfordemocracy.html>) and ‘Shareholder Nation’ from the ABC in Australia (<http://www.abc.net.au/triplej/morning/shareholdernation/activism>) will also develop along the lines of giving detailed advice on shareholder activism and issue campaigns as well as guidelines for community-investor relations and the drafting and defending of shareholder resolutions, proxies and proxy solicitation (see Dasgupta & Nanda, 1997), while Internet based watchdogs like Corporate Watch will continue to expand (see for example www.corpwatch.org), and as a consequence, groups like the Australian Institute of Company Directors will continue to develop activities like its Corporate Governance Committee, which brings together leading company experts to engage, amongst other things, with the rise of shareholder activism, in all of its various forms.

As the Shareholders’ Project makes very clear, ‘The education of shareholders and the role of corporations in Australia is a key issue facing the community. Shareholders are becoming increasingly active in respect of their shares and the activities of the companies in which they invest. Corporations’, the Shareholders’ Project makes clear, ‘are managing the sometimes conflicting pressures of providing a maximum return on shareholder investment with emerging expectations about social and environmental investment screening and the corporation’s reputation as a good employer and community citizen. It is timely to look closely at these competing pressures and analyse the real preferences of shareholders and the different ways in which corporations could respond, or even take the initiative. What’, the Shareholders’ Project asks, ‘do shareholders in Australia want?’ (Shareholders’ Project, 2001a).

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