Episode 9: Good Corporate Citizens

Hello this is Radio Australia; I'm Barry Clarke and welcome to 'Smart Societies'. This program, 'Good Corporate Citizens', explores triple bottom line accounting, which includes social and environmental reporting.

GEORG KELL: We saw in the 90s that markets have gone global but governments largely have remained local, that means that corporations have been quite smart in advancing business activities everywhere, but social and environmental priorities did not get the same attention.
BARRY CLARKE: Georg Kell from the United Nations.
GEORG KELL: At the same time civil society and non-government organisations recognising that there's a void, that there's a disconnect in a sense between economic expansion and the relative neglect of social and environmental issues. And NGOs have 15 years ago already started basically targeting markets such as global rules but also individual companies opportunistically and strategically, saying: listen, we will basically demand from you that you also do something on the other side. So in many ways the 'Global Compact' tries to bring these forces together and make out of confrontation cooperation in trying to find practical solutions.
CLARKE: The UN's 'Global Compact' is an initiative of Kofi Anan. It is in effect a social contract to encourage global corporations to build social and environmental issues into their corporate objectives. So how does the UN go about encouraging corporations to be good global citizens?
GEORG KELL: First of all the model which we use is a leadership model. We expect the CEO, if possible backed by the board, to make a very strong commitment for the compact and its principles, and to do so in public so they can be challenged in public. Secondly all participants in the Global Compact - and we talk of participants not of members - are expected to communicate progress on the implementation in their own financial or/and other public documents, and by doing so they basically expose themselves to public scrutiny. And then the public at large, the shareholders and the stakeholders, then can take up this and so through the dialogue improvements are being brought about.

Initially this was a big hurdle for companies because who wants to step into the ring if the competitor is not doing so? So initially we had a real problem in getting companies onboard. There are several forces out there which support us of course. On the one hand consumers in many countries are more and more sensitive on these issues. Secondly financial markets are waking up to it. Why? Because it's also a risk issue. In the long run sustainable business enterprises in today's world cannot avoid anymore ignoring these issues. There are huge liabilities possibly being built up there by ignoring social or environmental concerns, and companies are much wiser in handling these issues in a proactive manner, rather than sitting on a fence and claiming basically well, it's not our doing, if governments fail what can we do?
CLARKE: Georg Kell is the Executive Head of the UN's 'Global Compact', which was launched in 2000.

In the early 1990s one CEO realised that corporations had a responsibility that went beyond making money. At the time, Tachi Kiuchi was CEO of Mitsubishi Electric America. An economics graduate,

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he told an Australian audience how he came to question whether the financial bottom line should be the primary focus of corporations.
TACHI KIUCHI: Conventional wisdom is that the highest mission of a corporation is to maximise profit, maximise return to shareholders, but that is a myth. It has never been true, profit is just money, money just a medium of exchange, you always trade it for something else. Profits are a means to an end. My philosophy is this, we do not run our companies to earn profits; we earn profits to run our companies. Our companies have meaning and purpose, a reason to be here. Until now we always thought that the next generation would have a better society, but now we question about that. We have to make more investment to protect nature, protect life, and honestly I think we must think about what makes us happy.
CLARKE: When he was a CEO he was used to rubbing shoulders with other executives whose businesses were included in the Fortune 500 list, which ranks the biggest companies in the US. These days he rubs shoulders with CEOs who've joined Future 500. Sue Slamen spoke to Tachi Kiuchi when he visited Australia.
SUE SLAMEN: Mr Kiuchi I wonder if you could share with us how you came to launch what you called the Future 500, not to be confused with Fortune 500?
TACHI KIUCHI: Well I've been in business for many years, almost 40 years, and always we've been talking about Fortune 500, which means the bigger the better. But about 12 years ago our organisation in North America was confronted with what you call Rainforest Action Network, they are against one of Mitsubishi's companies doing business out of rainforest. I went to Sarawak, Costa Rica, and Peru and talked to people who are doing business there, and I found out a couple of things. First that rainforest itself is 100 per cent sustainable, and unless people interrupt at the one time.

After having so many study group sessions, seminars and so on and so forth people from Motorola told me that, hey we've learned so much to protect nature and life, but let's share our expertise, technology with other people and try to leave good community to our next generations. Then we said, hey instead of Fortune 500, let's have Future 500, and maybe we can make some contribution to leave good society to the next generations. So there we are, Future 500.
SUE SLAMEN: So yours was not a lone voice in the corporate world? Are there other members of the Fortune 500 part of your group?
TACHI KIUCHI: Yes, yes very much so. Now we have 300 some groups, some companies that are members of Future 500 in the States, like Nike, Shell Oil, Hewlett Packard. A few years ago we got a substantial endowment from the Ford motor companies. So we have about 300 some companies as members. And then I myself with my family moved to Japan a few years after that and we launched the Future 500 Japan in 1999. And every year we have our symposium where we have at least 350-400 people, and we share not only expertise or technologies, we share our ideas and we share our experiences with other members. We are coming along and you watch, I think three years from now, five years from now I think we'll be a factor to change this corporate community.
CLARKE: Tachi Kiuchi is the Chair of Future 500. Meanwhile, the UN believes its 'Global Compact' is encouraging corporations to move into those developing countries that previously had trouble attracting foreign investment. Georg Kell again:
GEORG KELL: We have inspired several fairly big initiatives. One is growing sustainable business in least developed countries where we could convince about 20 large global companies to

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have a second look at the poorest countries and to do something together to invest into long term business with local enterprises. It's happening currently in six sub-Saharan African countries. Under the heading of Business in Zones of Conflicts, concrete guidelines have been worked out in a multi-stakeholder setting - business labour, civil society, which for the first time companies are using now on the ground in 30-plus countries where domestic conflicts are very, very acute and a real serious issue. [They are] assessing their own investments, not only how conflict impacts on their financial bottom line but vice versa - how their activities feed on conflict situations either positively or negatively.
ABC ARCHIVES: Another new window into the banks opened up today when Westpac released a different kind of report on itself. It's not just about profit and loss this time - the social impact report assesses the banks performance against 70 indicators ranging from corporate governance to customer complaints and carbon dioxide emissions. They call it triple bottom line reporting, and consumer groups say this type of reporting will become the norm.
CLARKE: An ABC report in July 2002, but the term triple bottom line reporting came into existence in the mid 1990s in response to consumer backlash against those corporations they believed weren't paying enough attention to environmental and social concerns. Craig Deegan is Professor of Accounting at RMIT University and has written widely on corporate reporting.
CRAIG DEEGAN: It's probably a bit confusing when you do start talking about bottom lines because then everyone starts thinking about numbers, and when you think about a triple bottom line you're thinking about maybe converging social, environmental and economic into one number at the bottom. It just doesn't work like that so you can certainly talk about financial bottom lines, but when it comes to social impacts to try and quantify something like that it's pretty difficult and probably not even that necessary. And the same when it comes to the environment, to try and quantify how much damage you're doing to the environment is quite difficult. So although there is this term triple bottom line reporting, a lot of the reporting is more, in the social environmental areas, more qualitative.
CLARKE: So, is triple bottom line reporting a good thing?
CRAIG DEEGAN: I think it's a good thing. Again it gets back to the notion of what's accounting, so within a university you teach students to do accounting. What is interesting is a lot of universities don't teach accountability. So really this whole notion of triple bottom line or sustainability reporting as it's becoming known is really providing information about the things which probably we all agree organisations should be responsible for.

So if we accept that an organisation has a responsibility for its social performance then we should provide social performance information. If we believe it has a responsibility for environmental performance, we should provide environmental performance information. If we just believe that a company has responsibility solely to its shareholders and solely for its financial performance, then we'll do what we've commonly done and just put out annual reports to shareholders that are full of financial information and quite commonly nothing else.
CLARKE: Since it's a relatively new concept has it been adopted as a standard now by all sectors of industry?
CRAIG DEEGAN: No it hasn't. The mining industry fairly well led the whole area since the mid 90s; initially it was doing a lot more environmental reporting than social reporting. Again why the

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mining industry? The mining industry was under a lot of criticism worldwide for impacts, environmental impacts, and then more so recently in terms of social impacts. So they've responded where there's been what we call legitimacy threats. So they have responded as an industry and within Australia we have the Minerals Industry Code for environmental management, and all the big companies are signed up to that. And one of the requirements of that code is that you must put out a standalone environmental performance report.

The electricity industry is certainly onboard with a lot of this stuff. The chemical industry to a lesser extent, but then you find things like the banking industry, which is one of the big, obviously the drivers that provide funding for all sorts of stuff that's going on, it took until 2002 for Westpac to put out a what they call a form of triple bottom line report, and they were the first bank to do it. The other banks haven't followed yet. Now there are some industries that are very silent on it, the manufacturing industries don't do a hell of a lot of it. So certainly there is certain industry seems to do it, other industries don't.
CLARKE: And what sort of pressure is being brought to bear on these other industries that are not reporting in this way?
CRAIG DEEGAN: Probably the pressure now is coming from the whole ethical investment funds, they're pushing it, I guess that's one of the big drivers. But it's getting commonly acknowledged now that there's a direct linkage between environmental performance and business risk. So you're finding that a number of fund managers now are pushing for it. So it's certainly coming and what is interesting reading a lot of the literature coming out of Europe, the biggest risk facing business now according to a lot of people in Europe is climate change. So there's a lot of push for companies, particularly in Europe and it's sort of coming here that we really need to know how your policies are responding to climate change issues.
CLARKE: Craig Deegan.

One conglomerate in India that has built in environmental and social cost benefits into their operation is the Tata Group. Anant Nadkarni is the general manager of the Tata Council for Community Initiatives.
ANANT NADKARNI: Instead of giving back out of a profit that is made we try to see how these costs can be estimated in advance and built into the cost structure like any other cost. Cost of material, cost of employee wages, cost of any other even tax is a cost that we take into the cost of venture. So we take this is a venture cost.

So what you create as profit is green profit, and I'm not just talking about social expenditure for sundry charity here and there. I'm also talking about capital regeneration so that your equipment and facilities are environmentally friendly, where there's a lot of money going every year, all this is internalised as development cost. And then what profit you create is available for business opportunity, and that way the stakeholders and the shareholders feel that this is very consistent and responsible behaviour, rather than trying to look as if you are the guarantee. And there's a sense of power in that. Here there is no sense of power, it's a system trying to look in and sustain itself.
CLARKE: Tachi Kiuchi believes that companies traditionally don't fully consider social and environmental concerns because their thinking is often short term.

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TACHI KIUCHI: Unfortunately corporate executives or even government people are rather short-sighted. When you think about you yourself, each individual, we take more long range look when you build houses or you do this for the family or so on and so forth, we talk about what will happen. We do this because in 15 years, 20 years we need this and that, that's why we do this. I think NGO, NPO have the same mindset. We take more long-range long-term look, and that is important, because the corporate world it's very short-sighted: this month, this year, and longest may be two, three years. But that's not good.
CLARKE: This is a view shared by Anant Nadkarni from Tata.
ANANT NADKARNI: Vision comprises of all the three, the short-term, the mid-term and the long-term aspects of a business. And that's what the triple bottom line is about. So companies don't have single goal of making profit, they have multiple goals and they need not be all the time money. You may have to have measures to develop and know what is the return on such investments.
CLARKE: Given that Tata is such a significant contributor in this way, what sort of a role model are you for other Indian companies and other multinationals?
ANANT NADKARNI: Corporate social responsibility is an evolving phenomenon. I don't think we have arrived anywhere or anybody has really arrived to say that one is a role model for the other. But honestly since we have a tradition of doing certain things people look to us as a learning sort of start so that they don't have to reinvent the wheel. Even from our mistakes people can learn, you know not only from our achievements. So I think that's the position we have so far as the comparative status we have with others.

But seriously I must tell you we are learning more and more that development is a two-way learning process, it's not only from other corporates, but we learn a hell of a lot from our own communities, however underprivileged or whatever be their images of despair, one can't take it for granted that they don't know. It's because of a certain circumstance they can't, doesn't mean they don't know. So knowing has happened from different quarters.
CLARKE: This is Smart Societies on Radio Australia and this program, 'Good Corporate Citizens'.
SERENA LILLYWHITE: In 2000 the Brotherhood of St. Lawrence received a gift, and that gift was quite unusual in that it was a company, a small family business called Mod Style. Mod Style has historically been one of Australia's largest importers of optical frames.
CLARKE: The Brotherhood of St. Lawrence in Australia has traditionally been a social welfare organisation. Serena Lillywhite is the manager of ethical business for the Brotherhood.
SERENA LILLYWHITE: This really created a very interesting ethical dilemma for the board of the Brotherhood of St. Lawrence, in that Mod Style was very much a going concern at the time - it had annual profits of in excess of a million dollars, which of course would make a significant difference to the services we provide in aged care and early childhood and employment and so on.

And the dilemma really arose as a result of the due diligence process that we went through, at which point we discovered that the majority of the optical frames that Mod Style is importing into Australia were in fact being made in mainland China, in southern China. So the dilemma for us was around how does this really sit with an organisation like the Brotherhood that has a commitment to social justice and an Australia free of poverty, how does it really sit if we're in fact earning considerable

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profits from products that are being sourced in China under what could possibly be seen as sweatshop labour conditions?

CLARKE: The Brotherhood set out to see for themselves what the conditions were like in China.

SERENA LILLYWHITE: What we were pleasantly surprised about is the factories that we visited were for the most part large, clean, they were well lit, they were well ventilated, there was good heating, there was good cooling, there were quite sophisticated fire emergency plans, none of the factories had bars on the windows, the dormitories were located in separate buildings from the manufacturing facilities. So from a purely physical point of view the conditions were better than what we anticipated.

Often there is this assumption that China is just one huge sweatshop. And interestingly before I went on the initial visit I was very keen to find out about, for example, electro-plating processes, which are an important process in the production of a spectacle frame. So I visited numerous inner city electro-plating facilities in Melbourne, and was really quite shocked by the conditions that I saw there, you know sort of large vats oozing I'm not quite sure what, but they looked like something really quite Dickensian in many ways.

And by way of contrast the electro-plating facilities in the optical factories that we're involved with were very high-tech, they were very modern, they were very clean. It's a good example that the issue is far more complex with regards to labour rights in developing countries and you do need to be quite wary of stereotypes with regards to labour rights in China.

CLARKE: While the physical conditions in the factories she visited are good, Serena Lillywhite points out that it's often difficult to establish if China's national labour laws are being upheld at the local level.

SERENA LILLYWHITE: For anybody who is committed to really understanding corporate social responsibility in a global context you need to recognise that these very modern factories can at times mask quite serious issues with regards to compliance with local labour laws. In particular we have concerns about whether or not the minimum wage is being paid, whether or not workers are receiving all their entitlements with regards to overtime payments. Hours of work are often in excess of what's stipulated in Chinese labour law.

There are some very complex issues around workers being able to access their social security entitlements and their pension entitlements, and this is really exacerbated by the fact that these workers are predominantly migrant women aged somewhere between 16 and 25 years of age who have left quite poor regions of China to move to these large industrial zones in the hope of earning significant amounts of money and then being able to return to their home province.

CLARKE: While China accounts for the production of most of the world's spectacle frames, the company run by the Brotherhood buys only a tiny fraction of their output. So as a small player can they exert any influence on issues such as labour rights?

SERENA LILLYWHITE: There is clout that you can have, it's something that cannot be achieved alone, and what the Brotherhood of St. Lawrence is really interested in doing is contributing to social dialogue around corporate social responsibility, really looking into what does impact on and contribute to a good corporate citizen.

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And we are in a very unique position in that because we are a customer it does give us access to the factory, and so we're in this, as I said, unique position of being a non-government organisation that's committed to social justice and labour rights in global societies, and at the same time we happen to be a customer in this particular industry. And that puts us in a very unusual position but allows us to gain access to the factories very easily, and to develop a very clear understanding of what's going on, and then to explain that to others, whether they be other members of corporate Australia, or whether it be governments, both host governments and also the Australian government, and also to participate in international policy framework mechanisms such as the OECD guidelines for multinational enterprises.
CLARKE: Serena Lillywhite and the Brotherhood's story on how a social welfare organisation is trying to be a good global corporate citizen.

While the Tata Group have been proactive in incorporating social and environmental factors into their bottom line, they've also been world leaders in corporate philanthropy and social investment. They're a huge conglomerate, employing over 250,000 people in their 85 companies. And according to Anant Nadkarni, these activities not only benefit local communities but the company as well.
ANANT NADKARNI: What we really are good at perhaps giving to society is in terms of good competencies - our skills, our expertise, technology per se, that can strengthen social initiatives and can help people to develop themselves. So in terms of technology to the poor I can give you one very good example. The Tata Consultancy Services is an IT company. They do more of computer programming, but they have extended their skills into functional literacy, so that it helps even an aged person say between 55 and 65, a completely illiterate person to start reading a newspaper in 40 hours.

Another company, Tata Chemicals, is using digitisation of farm data to inform and empower poor farmers who don't have access to information and who could be manipulated by middlemen. That's a great economic advantage to the deprived. Another one is we have a company called Tata Automation Limited, which is into welding and so many other kinds of technologies, but they have developed an artificial limb. Hundreds of soldiers who have lost their legs because of say a mine or whatever, or accidents or many patients in the disability sector, are enormously benefited by this very low cost and perhaps the best in the world today in terms of design and features and facilities. Now this is the kind of impact we want to make.
CLARKE: Anant Nadkarni from the Tata Group. Our next program in the series is 'Historical Memory'. Jaya Suprana from Indonesia:
JAYA SUPRANA: If we do not have historical memory we cannot face the future. We must know our identity, and we must know where we came from, because the contemporary people, they do not remember the past because now we have our freedom. We must now use our freedom correctly to integrate it into history in the right way.

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