

The Social Responsibility of Corporations

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Introduction

One of the fascinating questions of our time is why, when the free enterprise system has obviously proved its superiority over its rivals, there is so much unease about the social and political consequences of free markets. With the major exception of the United States, those who hold the right-of-centre philosophy are almost world wide on the defensive and the global businesses that have flourished in the post-war era of freer trade are under increasing criticism.

Why is this when, with the collapse of communism, they were the obvious winners in the '90s? Is it because people simply want the reassurance of checks and balances? Or has the wealth created over the last decade or so highlighted the division between those who have participated in this wealth creation and those who have not? Or is it that trade and business has become so big and all encompassing that it is seen to be answerable to no one?

Through all of this is a common thread - a demand from a broad spectrum of the community that business exhibit greater social responsibility. In my view, this feeling is so intense that companies which ignore this aspect of doing business will erode their competitiveness. Indeed, unless the business sector reverses the current perception of blinkered behaviour and arrogance it can expect increased regulation and a reduction in the public sanction of many business activities.

Both the Prime Minister and Mr. Joseph Elu, in the preceding lectures of this series, emphasised the public's heightened expectations of business. So, in the course of this lecture I want to do four things.

Firstly, I am going to suggest, very briefly, why many of the current demands made of Australian business are justified. Secondly, I will describe a business case for activities that might once have seemed inappropriate for the private sector. Thirdly, I will give examples from mining, the industry in which I have spent most of my life, of how the Rio 'Pinto Group is attempting to give shape and meaning to the term corporate social responsibility. And, finally, I will suggest that the experience of the global mining companies has lessons for other major Australian enterprises.

With Power Comes Responsibility

One reason that more is expected of business these days is that business - and the economy - has benefited a great deal from micro-economic reform in Australia. The reform process allowed Australia to become internationally competitive, in part by reducing the role of Government. For the first time business values were allowed to take centre stage and the role of many of the institutions and systems that had underpinned the previous protected mixed economy, diminished accordingly.

However, all reforms come at a cost. The previous system resulted in numerous inefficiencies, but the costs of these were widely spread and hard to see. Today we promote transparency and the costs of making Australia a more competitive economy are more easily identified. When the elaborate systems that provided for social ends through the distribution of resources were dismantled, people knew who to blame. So you could say that business is experiencing the consequences of its own success.

While there is no doubt that micro-economic reform has benefited most Australians, there is no denying the social costs. And it is possible that reforms will be rolled back if business does not recognise that it has acquired expanded responsibilities to match its greater capacity to compete.

The Business Case for Social Responsibility

I want to start by simply arguing the business case for socially responsible corporate behaviour. Not, I should add, because the business case is the only - or even the most important - case; but because the debate about corporate social responsibility tends to be dominated by moral and ethical arguments to the point that we can overlook the fact that there is a sound business case as well.

I think it is plain that today socially responsible investment is of increasing concern to portfolio managers, aware that more and more investors want reassurance that their dividends are not obtained at the expense of the environment, indigenous groups or at a hidden cost to future generations.

In North America and Europe there has been a recent surge of interest in developing indices based on environmental, social or ethical criteria against which institutions can measure the market performance of their funds. The Dow Jones has already lent its name to one and the Financial Times and Stock Exchange (FTSE) is about to launch another.

In addition to these examples from the world of finance, similar examples can be found in the legal area, in risk management even in human resources because, all things being equal, the most promising business graduates prefer to work for companies with a record for socially responsible behaviour.

Moreover, I firmly believe that the short term costs of socially responsible behaviour are offset by long term gains. Let me give you some examples to show;

- a) that expressions of good corporate citizenship are not all that new,
- b) that the rewards for socially responsible behaviour may not be immediate but they do happen, and
- c) that in this area, as in others, globalisation allows companies to profit from the transfer of international best practice.

From the start of Rio Tinto's open-cut copper mine at Palabora in South Africa in the late 1950s management went to extraordinary lengths to avoid discriminating against Black employees when apartheid was official Government policy. The company avoided the repugnant official policy of short-term migrant contract labour for Black employees by providing married accommodation for permanent employees. Rio Tinto also pioneered the integration of black and white housing in the Phalaborwa township. This was risky in the political system that existed at that time but as a matter of principle, management felt it was a risk worth taking.

In 1996, Palabora decided to extend the life of the mine by another 20 years by converting the open cut mine to an underground one. We had no problem in seeking this economic gain because Palabora enjoys strong support from the democratically elected Government of South Africa.

Resource companies like Rio Tinto are unique because development is characterised by high up-front exploration and capital costs, well before any cash flow occurs. Thus, to be in this business one has to be a long term thinker. More importantly, because mines can be around for a century or more, today's policies can set the mine culture, and its relationships with its neighbours well into the future. Further, because operations are often established in developing countries, such policies must be far-sighted as well as enlightened. Thus, for our people, there is an acceptance of long-term planning for, and commitment to, neighbouring communities.

The benefits of community support are tangible and quantifiable. The example that comes most readily to mind is the different histories of the Marandoo and the Yandicoogina iron ore mines, both developed and managed by Hamersley Iron in the Pilbara in Western Australia.

When the earlier mine, Marandoo, was commissioned in 1994 its planners and builders were applauded for their innovative engineering which set new benchmarks for projects of its kind. Less well known was the concern felt within the company at the cost of the 18 month delay incurred by Aboriginal opposition to development approval.

Subsequent research concluded that the Aboriginal people with affiliations to the Pilbara iron ore province felt deeply that they had been ignored and forgotten in the dramatic development of their homeland. But, as Hamersley learned, during the last decade of the twentieth century the land rights debate had developed to the point where the traditional

owners of the Pilbara could exert sufficient influence to delay a mining project even in resource-conscious Western Australia.

Marandoo was a chastening experience for a mining company that prided itself on behaving legally, ethically and generously. Moreover, the added costs were an affront to the professionalism of Hamersley's management. Having suffered from a too passive approach to community relations, Hamersley set out to rectify matters by establishing strong bonds with its neighbours.

Those bonds weren't built overnight. Yet by persistence and a willingness to listen and to devote adequate resources to its programs, Hamersley transformed its relationship with the Aboriginal communities of the Pilbara. The proof lies in the speed with which the second mine, Yandicoogina, was developed in the latter half of the '90s, after thorough and painstaking negotiations with all those with interests in the land affected by the new mine and its transport corridor. Yandicoogina was commissioned in January 1999, five months ahead of schedule and well under budget a tribute to a new-found competence in building relationships.

Strategic Corporate Social Responsibility

Let me return to the growing necessity for companies to display a social conscience. Insofar as it is a call for business to obey the moral imperative to behave decently and honourably, I support it wholeheartedly. There are some critics who say that business involvement in community/social mailers detracts from the main aim of creating shareholder value. I very much think the opposite - I believe that it builds shareholder value. But I do not believe that it is in the interests of the community, whether spelt with an upper or a lower case 'c', for business to simply act as a substitute for government. Government's job is the distribution and indeed redistribution of wealth, and business can never do that.

Business must play to its strengths; conscious of the duty it owes to its owners, employees and other stakeholders. Conscious too, that not only are the strengths and capacities of business and government different, but that particular sectors of commerce and industry have characteristic features that ultimately determine their expression of socially responsible behaviour.

In the case of the minerals industry, and based on my knowledge of Rio Tinto's operations, I would say that the broad characteristics that distinguish global mining companies are the self-sufficiency that comes from working in remote areas and their experience with cross cultural communication. Both characteristics are potentially useful in assisting rural and remote communities in Australia or anywhere else in the world. These are the communities where physical isolation or changing economic circumstances have left people without job options and with a corresponding sense of frustration.

Mining in Rural and Remote Australia

It seems to me, therefore, that the minerals and energy sector can serve the nation and its stakeholders by the intelligent expression of corporate social responsibility in rural and remote Australia. In so doing it will help defuse some of that frustration and resentment expressed by the shrinking number of Australians who live outside our cities and major towns. It's a resentment summed up in the journalists expression 'the angry bush'. I must say that I grew up in the bush, and even then, I resented the advantages that the cities enjoyed. And even all those years ago, mining companies were trying to do something about it.

In a thousand towns and villages in rural and remote Australia, the future appears increasingly bleak. Jobs, schools, banks, post offices, country hospitals and footy teams; all are disappearing like water holes in an extended drought. People who once saw themselves as the economic backbone of Australia and the embodiment of Australian virtues such as self reliance and endurance feel their contribution - past, current and potential - is forgotten or unappreciated. They feel betrayed, powerless - and angry.

Traditionally the target of this anger has been Government, a particularly broad target in a federal system such as ours. Privatisation, deregulation, competition policy, petrol taxes, logging bans, native title claims; these are all seen as manifestations of a lack of interest in the fortunes of people once held up as the quintessential Australians.

The political response is predictable. Traditional allegiances of country people are dissolving and votes are being directed to candidates who appear to embrace 'common sense nostrums that will restore the balance between town and country. Those candidates appeal to a past when Australia was less buffeted by international business competition and largely insulated from non-European political and intellectual forces.

Today, however, that insulation has been deliberately dismantled - often with the active encouragement of business. So business, especially so-called big business, has been arraigned with Government, accused of causing poverty and depopulation in the bush. Large corporations are in the dock with mainstream political parties charged with the destruction of rural society.

Manufacturers who shut formerly protected, unprofitable factories in country towns because Australians prefer cheaper, imported products are pilloried. So too are primary producers whose need for export competitiveness results in leaner operations where one employee produces more than two did five years ago.

Globalisation

Why do city dwellers appear to discount the contribution of rural Australia? Why do arguments that primary producers have been among the first to benefit from the removal of tariffs and the opening of new markets fall on deaf ears?

For many country people the answer is simply summed up in a single word - 'globalisation'. To people in an export industry such as mining, 'globalisation' means

opportunity a chance to compete against the best for the biggest prizes. For the producers of minerals and energy, the technical and political advances that have stimulated world trade have been predominantly benign. In many ways the export nature of Australian resource companies made globalisation an easy concept to grasp.

On balance the world is a more comfortable and, I suggest, a safer place because of the interdependence that globalisation encourages between nations. The great ideological confrontation that cast a nuclear shadow over the second half of the twentieth century was not resolved by force of arms. It receded before evidence that economic growth flourished more strongly when markets were open.

None of this is to say that globalisation is necessarily a comfortable phenomena for a small to medium economy such as Australia. The nostalgia felt by many for the 'good old days' of a controlled currency, protected manufacturers, cross subsidisation of infrastructure and services, centralised wage fixing etc. is understandable. Globalisation makes greater demands on us all, just as it promises greater economic and social dividends for those nations which rise to the challenges.

The main thing to realise about globalisation is that nothing we in this country can do will reverse it - there is no opting out. Once that fact is faced squarely, the task then becomes one of understanding and dealing with the inevitable social and cultural consequences of major economic change and ensuring that we as a nation have the conditions in place, economic and social, that allow us to participate fully in the global society. But I think we should expose the globalisation debate for the old fraud it really is. This nation has always been global in its thinking - never isolationist. We have always followed and participated in international events from our very start as a nation. Compared to most, if not all, other nations we have great advantages here in our economic, business and social conditions. We can be confident - must be confident - that we can take our fair share of global growth.

Expectations of Business

Those who fear globalisation argue that it will turn Australia into a 'branch-office economy'. This phenomenon happens when Australian companies move onto the international stage and their centre of gravity shifts overseas because that is where they see their commercial advantage. The public perception is that Australia has lost another industrial or commercial icon and that the nation is, accordingly, in some way diminished. It is, if you like, the predicament of the city and the bush moved up a notch. As decisions are made overseas, those who inhabit the countryside feel that their voices become increasingly faint.

We, all of us, need to take issue with this depressing perception. It hinges on the assumption that international corporations are blind to anything but short-term financial returns. Also it assumes that a decision made overseas will somehow be based on different considerations to one made locally. Let me say that the management of reputable international corporations recognise, often before local companies, that it is not enough to

focus on financial results to the exclusion of environmental and social outcomes. And corporate decisions will be based on what is best for shareholders and not where the head office happens to be.

Nonetheless, the private sector can make a particular contribution to alleviating the problems of the bush. That response can be considerable because the intelligent expression of corporate social responsibility includes knowing when a contribution is both necessary and decisive. Rio Tinto businesses know too that they can maximise their social contribution by collaborating with governments, statutory authorities, NGOs, academic institutions and community organisations in order to make two and two amount to much more than four

New competencies

Developing an intelligent strategy for the expression of corporate responsibility is one thing; being able to effect that strategy efficiently is something else. In 1995 we in Rio Tinto knew that it was imperative to incorporate new competencies into the core of the company's professionalism. New competencies that went beyond the traditional economic and technical professions, to include social and cultural expertise.

Today significant progress has been made. For example, all Rio Tinto operations now produce detailed five-year community plans which contain assessments of the social, economic and cultural characteristics of their host communities. The plans reveal how a particular business consults with local people and set out programs, strategies and goals for community relations. Management scrutinises these plans with the same rigour that is applied to other facets of the business, Achievement of these goals ranks equally with all other more traditional goals in judging management performance.

In their Annual Social and Environmental Reports you will find details of how Rio Tinto businesses seek to build long term relationships. It is our opinion that such relationships do not come just from expressions of good will and good intentions. Long-term community relations are the product of an open-eyed approach that defines the fundamental values and aspirations of both parties. Only when these are clear can a productive relationship occur It is imperative that both sides of a relationship understand the mutual aspect of any expected benefits.

If this seems an excessively pragmatic approach, let me say that it is more than matched by the attitudes of some of Australia's most respected and dynamic indigenous leaders For instance, Noel Pearson and Joseph Elu, both display a similar down-to-earth approach to improving the social and economic conditions of Australia's indigenous communities.

Rio Tinto believes the best way its operations can help correct rural poverty and disadvantage is by building local capacity and by contributing to the creation of a robust regional economy. By robust I mean an economy strong enough to survive the eventual closure of the mining operation that, in all probability, was originally the nucleus and

engine room of that regional economy. That goal is what aligns all our community relations efforts and it dovetails exactly with what we hear expressed by this generation of Aboriginal leaders.

The Marandoo lesson that I referred to earlier was assimilated throughout Rio Tinto. The period since 1995 has seen a transformation in relations between Rio Tinto and the indigenous inhabitants of Australia.

The transformation started when Rio Tinto publicly acknowledged that Aboriginals had a special connection to the land and that; henceforth, all Rio Tinto businesses would act accordingly. That meant that, in the post-Mabo era, Rio Tinto distanced itself from an exclusive focus on the legal uncertainties that followed the formal recognition of native title. Instead the Group resolved to act in the spirit of the new legislation and to seek accommodation rather than confrontation.

In 1995 Rio Tinto published its Aboriginal and Torres Strait Islander policy. The policy was the product of long and searching discussions held throughout the company. Many Aboriginal organisations were approached for advice. Its keystone is Rio Tinto's recognition of, and respect for, Aboriginal and Torres Strait Islanders.

Since then the story is one of giving practical expression to that policy. Its most obvious outcome has been the conclusion of over thirty agreements with Aboriginal communities across Australia. They relate to greenfield and to brownfield operations, and to mineral exploration. In some cases formal Aboriginal title to the area is established, in others it isn't.

Rio Tinto has signed three Memoranda of Understanding with, respectively, ATSIC; the Department of Education, Training and Youth Affairs, and the Department of Employment, Workplace Relations and Small Business. These MOUs cover direct employment, traineeships and apprenticeships, the development of joint ventures and the establishment of indigenous small business operators contracting to the mines.

There is no doubt that Rio Tinto sees its main role as improving the economic circumstances of its Aboriginal neighbours where that is what the community wants.

Each business has targets for increasing indigenous employment and training at all levels. Comalco's Weipa bauxite mining operation has, for example, set a target of 35 per cent indigenous employment by 2010.

I should mention however that Rio Tinto does not devote all its efforts to its own backyard as it were. The Rio Tinto Aboriginal Foundation exists to support more general initiatives, the only requirement is that they enhance the status and welfare of Aboriginal and Torres Strait Islanders.

It is a concern among the inhabitants of mining communities in outback Australia that the population of their towns is contracting as mines become more efficient. People note that

new mines have increasingly been built with a workforce that commutes by air from a capital city on what is known as a 'fly in, fly out' basis (FIFO). The worry is that, if the trend continues, those communities will decline below a certain critical point and trigger a loss of services and amenities akin to that experienced in the rural areas.

FIFO certainly makes economic sense in specific instances, and for shorter lived mines especially. Nevertheless, I have some sympathy with those who say we need to look harder at the social trade offs involved in this practice.

Yet the real answer to shrinking numbers and the threat that this poses to the continued existence of infrastructure and amenities may well lie in the creation of a stronger regional economy. When Aboriginal communities have great numbers bringing in a pay packet then the future of the school, the medical centre, the post office, the bank, the hotel and the general store is assured. When Aboriginal communities increase their participation in mining - either directly or indirectly - I can see those mining towns taking on a new vitality.

Spreading the Message

The Australian minerals industry, because of its export focus and international nature, had a head start over other sectors of the economy in tackling the issues of corporate social responsibility. Our critics too helped us focus on these issues much sooner. In the seventies and eighties many mining companies were at loggerheads with environmentalists and were seen to be the natural opponents of Aboriginal land owners. It took the industry some time to realise that being a pillar of the Australian economy was no longer enough to win public approval for its activities. But learn it did - eventually.

Today I am on the Board of Westpac and banks are experiencing similar criticism. Some in Banking are surprised that public criticism is becoming more intense when, because of deregulation, banks have been able to provide better services than ever before. And I think that you can identify the same sense of surprise in the senior ranks of other businesses such as pulp and paper, telecommunications, gaming and so on.

So I was particularly interested to read Joseph Elu's remarks about the role that financial service institutions play in redressing the disadvantage of indigenous communities in the United States and Canada. I was especially interested in the collaboration between Government and banks in schemes that stimulated local economies and provided employment opportunities. To my knowledge there are no similar schemes in Australia, although Westpac has recently become part of a joint pilot project with Centrelink and DFACS in Alice Springs to assist welfare cheque recipients deal with the technicalities of electronic banking and to provide some financial. and budgeting education.

Of course, bankers are conscious of their social responsibility. At Westpac it is an integral part of the way we do business and we do know that we need to focus on the needs of Australians in regional Australia. We at Westpac believe that unless financial institutions expand their view of what constitutes socially responsible behaviour they will

soon lag global best practice for their industry. We do not intend to lag best practice, if only because to do so invites re-regulation with its associated costs and inefficiencies.

Let me close by reiterating what I said previously about business having acquired greater responsibilities as a result of being given greater freedom. To my mind there is absolutely no doubt about this, it is not going to go away, if anything those responsibilities are going to grow. I don't think that it is sensible for business to trespass on territory more properly occupied by Government, philanthropic or community organisations. But I do think that business can make a considerable difference to the lives of many Australians if it works strategically and in collaboration with existing institutions. Businesses that enter into partnerships with the community, and do so with conviction and professionalism, are going to be seen as modern, responsive and to have a competitive advantage. And investors already know this.