<u>Whose responsibility?</u>

<u>Aligning economic viability with ethics and ecological sustainability</u>

Al Gore and the UN's Intergovernmental Panel on Climate Change recently won the much coveted Nobel Price for Peace. Considering the importance of investments in the Tasmanian mining and pulp manufacturing industry for example, it could not be more timely. To what extent is the debate on ecological sustainability and ethical fairness based on a reasonable dialogue or rather driven by political postures and emotional vested interest?

Much power has been shifted to the corporate world today without a strong call for accountability or without clear goals or expectations of what constitutes success. Corporations emphasize short term profitability and some form of operational continuity. Admittedly, the risks of corporate abuse have been heightened in the last couple of years and it can be expected that some more stringent tools – either mandatory or voluntary – are needed to manage and monitor these risks. Indeed, good governance has become a necessity, not a luxury.

More and more corporations are moving towards publicly underwriting the creation of *societal value* or *long-term wealth* as a form of enlightened shareholder value, aligning short-term accounting profit and long term economic *viability* with ethical and environmental *sustainability*. The strategy guru Michael Porter and his associate Michael Kramer convincingly argued in the December 2006 Harvard Business Review that societal goals only make business sense if they can be fully integrated or incorporated in a business strategy. According to a recent study by The Centre for Corporate Public Affairs & the Allen Consulting Group, an overwhelming majority of Australian publicly listed companies have embedded some form of corporate social responsible activity into their business policies and strategies. That 44% were specifically integrating corporate community investment in their business strategy confirms the traditional business-case assessment of corporate social behavior. Interestingly, however, is that the mounting pressure by community expectations, the obligation of business as a citizen, and gaining a good corporate reputation were cited as important additional "incentives" by top management for getting Australian listed corporations involved with corporate social investment.

The distinction between socially responsible investing and the mainstream financial return on investment will blur in the longer term, as will the subtle lines between "corporate social responsibility" and the responsible management of a corporation. Empirical research indicates that short-term economic viability does not need to be contradictory to longer term sustainability. On the contrary, engaged and mindful companies taking their stakeholders seriously seem to consistently outperform the S&P 500 over a longer period. Paradoxically, visionary companies seem, indeed, to make more money than the more purely profit-driven companies. Moreover, corporations with an excellent *reputation* who pay attention to ethical values and employ compliance initiatives to interiorize core values build greater customer loyalty, attract and retain superior and more productive employees and achieve lower cost of capital through greater investor and creditor confidence.

In the not too distant future, relevant stakeholders will need to take their *response-ability* to corporations as is expected from corporations to its stakeholders. Investing in corporations with long term sustainable goals, consuming appropriate green products and services, and working in an environment that respect those ethical and ecological objectives will hopefully become the norm.

The envisaged $2 billion Gunns paper and pulp mill in Tasmania has become a point of contention. A huge number of people in Tasmania oppose the mill. Local and federal government face the paradoxical situation to create a marketplace that steers corporations towards an expected public good without direct government control, ensuring that potential costs in the form of damaging pollution or deforestation of pristine native forest are not externalized onto (present and future) society. Maybe no toxic dioxin at all should be allowed in the bleaching process, in line with the high Swedish yardsticks or any "world best practice". Investors and creditors will need to consciously take their respective responsibility in either backing up the mill provided the highest ecological standards are applied, or bucking off if environmental costs would out weigh socio-economic benefits.

The Global Reporting Initiatives (GRI) Guidelines or international acknowledged CERES principles for example could be a useful tool for those companies to commit to stakeholders' engagement that could be publicly reported accordingly. Consequently, corporations may then comply with the highest ecological and ethical standards, while at the same time aiming to become a more efficient and effective manufacturer or service provider. They not only gain high esteem and good reputation for their integrity to take global responsibility, they simultaneously may create some global competitiveness.

The question is thus not just whether corporations are heartless and immoral machines driven to seek profit in the most effective and efficient manner, but rather to what extent do we all allow corporations to undermine the ecological sustainability. Quite rightfully, one should not favor governmental heavy-handedness in terms of imposing strict restrictions on corporations since merely relying on more regulations usually do not solve ecological and ethical problems. We need to adhere to some core common values through an open dialogue, not driven by emotional selfish interests but based on mutual obligations and intrinsic respect.

Moreover, ethical and environmental responsibilities should not only be bestowed upon the efficiency-driven profit-seeking organization, but to all of us, investors, employees, creditors, consumers and governing bodies who are all willing to share that responsibility. It should be noted though that the greatest challenge for detecting ethics and compliance-related violations is that employees for example are not comfortable at all reporting incidents: almost 40% of all corporations believe their employees fear retaliation despite the presence of protecting whistle blowing procedures. *Moral muteness* may be one of the major stumbling blocks to exercise our responsibility.

Integrating long term wealth creation in business operations does not automatically guarantee rewards in the marketplace. Business leaders will need to be market savvy in creating or grasping distinctive business opportunities, constrained by sensible legal regulations, while acknowledging the importance of ethical integrity and environmental sustainability. Not promised but actual ethical behavior is where the rubber meets the road.

When will politicians, governing bodies, investors, creditors, corporations, consumers and citizens at large take their ethical and socio-ecological responsibilities seriously? It is everyone's task to live one's values, not just to talk about them or to become a cynical commentator. The envisaged long term wealth is the result of sustainable businesses that engage in viable production processes and services that are human, respectful, dignified beyond the gratification of mere accounting profit and intrinsically satisfying. At the moment, it may only be a dream and an inspiring goal, but one that is worth pursuing!

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