

CORPORATE SOCIAL REPORTING - GETTING TO THE 'OTHER' BOTTOM LINE

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Abstract

It is implied, either implicitly or explicitly, in much of the writing and discussion in the area of corporate social reporting, that social reporting is linked to social responsibility. This paper will explore the possible relationships between corporate social reporting and corporate social responsibility. Initially corporate social responsibility will be considered. Stakeholder theory and its implications for the corporate governance will be detailed. Next THE nature of corporate social performance measurement and reporting will be addressed. Possible reasons for corporate social reporting will be considered. It is proposed that, under current corporate social reporting practice, social reporting may be negatively related to social responsibility.

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CORPORATE SOCIAL REPORTING - GETTING TO THE 'OTHER' BOTTOM LINE

It is implied, either implicitly or explicitly, in much of the writing and discussion in the area of corporate social reporting, that social reporting is somehow linked to social responsibility. Indeed, commentators adopt an “almost evangelical tone” in promoting socially responsible management together with reporting practices (Owen and Swift, 2001a: 4). The nature of this relationship, however, is under investigated and under theorised. According to Owen and Swift (2001a: 4-5), “vacuous consultant-speak with meaningless phraseology and jargon (threatens) to displace necessary in-depth analysis of the tensions and problems encountered in holding powerful economic organisations accountable.” This paper will explore the possible relationships between corporate social reporting (hereafter reporting) and corporate social responsibility (hereafter responsibility). Initially corporate social responsibility will be considered. Stakeholder theory and its implications for the corporate governance will be detailed. It will be argued that for stakeholders to be taken seriously in a moral sense, that corporate governance structures, which ensure stakeholder involvement in decision making, must be established. Next corporate social reporting will be addressed. Recently developed standards for reporting and the principles and assumptions underlying these practices will be explored. Possible reasons for corporate social reporting will be considered. It will be contended that if companies are true to the principles of social reporting, and wish to engage stakeholders, then they need to involve stakeholders at all stages of the accountability process. Finally the relationship between reporting and responsibility will be considered. The possibility that, rather than being positively related, reporting and responsibility are not related, or even negatively related, will be explored. It is proposed that, under current corporate social reporting practice, social reporting may be negatively related to social responsibility.

CORPORATE SOCIAL RESPONSIBILITY

For many, the belief that the purpose of the corporation is to make a profit for stockholders is beyond debate. However, in both corporate and academic circles, stakeholder terminology has become very fashionable. The concepts of stakeholders and stakeholder management are referred to frequently and without discrimination. In order to address the question of social responsibility of the corporation both the stockholder and stakeholder models of the firm, and their theoretical derivatives, will be outlined.

The classic view of corporate responsibility was espoused by Friedman (1970) as the pursuit of individual self-interest in an unrestrained market. This view assumes a narrow definition of the purpose of the corporation, that being to maximise the wealth of stockholders, subject to some moral or social constraint. The justification for owner wealth maximisation is based on the claims of owners' property rights and/or on the notion that leads it to the greatest good¹. Any expenditure that is not related to profit maximisation is seen as a tax levied on the shareholders. Any manager undertaking a social responsibility is seen as taking on a government function for which they are neither trained nor appointed. Measuring and reporting financial activity is a mandatory responsibility of management. Non-financial activity measurement and internal reporting is also considered an allowable, indeed often essential, management responsibility. Any non-financial activity considered to be 'social performance', and the reporting of any such performance, would only be allowable if it served as the economic interests of the shareholders.

In contrast, the stakeholder view holds that the purpose of the firm is “to serve as a vehicle for co-ordinating stakeholders interests” (Evan and Freeman, 1993: 82). As noted by Goodpaster (1991) this can be interpreted in one of two ways. The corporation can attend to the needs of the stakeholders in order to fulfil their moral obligations to these stakeholders, that is, to treat stakeholders in an ethical manner. Alternatively, the corporation can attend to the needs of stakeholders order to further the interests of the corporation, that is, they can use stakeholders in an instrumental manner. These two perspectives, hereafter referred to as moral stakeholder theory and strategic stakeholder theory, are fundamentally different, though this distinction is not made clear in the literature.

Moral stakeholder theory is based on two principles that balance the rights of the claimants on the corporation with the consequences of the corporate form. The principle of corporate effects states that “the corporation and its managers are responsible for the effects of their actions on others²” (Evan and Freeman,

1993: 79). Therefore, a corporation is seen as responsible for its impact in all areas that would necessarily include its social impact. The principle of corporate rights states that “the corporation and its managers may not violate the legitimate rights of others to determine their own future”³ (Evan and Freeman, 1993: 79). The implication is that the corporation must treat its stakeholders as rational beings with a right to pursue their own interests without undue interference. The role of management is to balance multiple claims of conflicting stakeholders. Stakeholder theory does not give primacy to one stakeholder over another, though it is acknowledged that at times one group may benefit at the expense of another. Thus, a guiding principle for stakeholder management is that, as the corporation is managed for the benefits of its stakeholders, the rights of stakeholders must be ensured through their participation in decisions that substantially affect their welfare (Evan and Freeman, 1993: 82). A second principle is that, as the managers bear a fiduciary duty to the stakeholders as well as the corporation, management must act in the interests of the stakeholders as their agents (Evan and Freeman, 1993: 82). The implication of these principles, with respect to organisational decision-making and corporate governance, are significant and will be addressed further as they relate to social reporting.

The suggestion that considering the needs of stakeholders, or stakeholder analysis, is an inherently ethical action is fallacious. Stakeholder analysis involves the identification of parties affected and the determination of positive and negative impacts on these parties. For what purpose this analysis is taken cannot be assumed. Goodpaster (1991: 57) correctly states that decision making involving strategic analysis can be “for different underlying reasons, not always having to do with ethics”. Thus stakeholder analysis, in and of itself, is moral neutral and should not be seen automatically as ethical thinking. Management may be careful to consider positive and negative stakeholder effects in order to minimise potential stakeholder resistance or retaliation. This is precisely what is meant by the often-banded term ‘stakeholder management’. Rather than being driven by ethical concern for stakeholders, management may be concerned about potential aids or impediments to the achievement of strategic objectives. Hence, this model of stakeholder decision making is referred to as ‘strategic’ (Goodpaster, 1991: 57). Thus, the strategic stakeholder model holds, in common with the classical view, the belief that the purpose of the corporation is to serve its stakeholders. The process by which this outcome is achieved may differ. Friedman firmly believed that any direct concern for stakeholders is unnecessary, redundant and inefficient (Goodpaster, 1991: 61) nevertheless the ultimate goal is the same.

There is however the concern that strategic management of stakeholder does not remain a *non-moral* practice but becomes an *immoral* practice. Friedman (1970) was quick to note what he saw as potential fraud on behalf of the company:

there is a strong temptation to rationalize actions as an exercise of ‘social responsibility’... for a corporation to generate good-will as a by-product of expenditures that are entirely justified in its own self-interest...I can express admiration for those (corporations) who disdain such tactics as approaching fraud.

In purporting to care for the interests of all stakeholders, with the true intent of furthering the interests of only one stakeholder group (owners), management risks acting in a deceitful and manipulative manner. Such action would violate the basic principles on which stakeholder theory has been developed: the right of the stakeholder to pursue their own interests and; the responsibility of the corporation to ensure that the outcomes of corporate action benefit the stakeholders. Thus, the strategic stakeholder model is at best an amoral stance, but at worst may represent immoral treatment of stakeholders.

THE NATURE OF CORPORATE SOCIAL REPORTING

Social reporting, unlike financial reporting, is not heavily regulated by legislation. A limited amount of general information regarding governance and company operations is required under the Corporations Act (2001)⁴. There has been an attempt to introduce more extensive legislation⁵ into the Australian Federal Parliament, though its adoption is considered unlikely. Some companies choose to report the minimum required in these areas whilst others choose to report more extensively (see for example stand alone reports

by Westpac (2002) and Western Mining (WMC, 2001)). Thus, the quality, quantity and type of information reported by different corporations vary significantly.

In a bid to bring some level of quality and consistency to voluntary social reporting, international agencies have begun to develop standards and guidelines. The most comprehensive of all extant standards are AA1000 and GRI (Owen, 2001b]. AA1000 (soon AA2000) is developed by the Institute for Social and Ethical Accountability (ISEA) and Global Reporting Initiative (GRI) is convened by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Programme (UNEP). The basic principles underlying these standards correspond with requirements for good social reporting put forward by Gray (2001a: 14]; clarity of objectives, a systematic approach, quality of evidence, completeness, integrity and independence. According to GRI (2002: 21), collectively these principles define a compact between the reporting organisation and the report user, ensuring that both parties share a common understanding. The principles will “ensure a true and fair account, facilitate comparison over time and across organisations and credibly address issues of concern to stakeholders” (GRI, 2002).

Contained within such principles are a number of implicit unacknowledged assumptions regarding social disclosure. It is assumed that the company has social performance to report, that the performance can be measured in order to be reported, and that the report users have rights to such reports. The first assumption, that the corporation has social performance, ie acts in such a manner as to have a social impact, is readily established. The power of corporations has been detailed over decades by highly respected commentators such as Nader (Nader and Green, 1977), Chomsky (1994), Pilger (1998) and Klein (2000). Indeed, many of the arguments for increased corporate social responsibility surrounds the observed increased power of the corporate form in Western societies. The other two assumptions will be dealt with in turn.

THE CHALLENGE OF MEASURING SOCIAL PERFORMANCE

The difficulties in identifying and operationalising suitable metrics to measure social performance are quite great though rarely acknowledged by writers in the area of social reporting. There are two broad types of measures in the social performance field. The first category of measures focuses on the ‘outcome’ of corporate activity. The second category focuses on the ‘quality’ of the relationship that exists between a company and its stakeholders. Common ‘outcome’ indicators include employee occupational health and safety data, employee retention and turnover, reports of compliance or violation of environmental standards, and money given to charities or community groups. These indicators have the advantage of being observable and verifiable. They have the disadvantage, however, of being retrospective and not necessarily true to the goal. It is difficult to find ‘outcome’ measures that provide a meaningful indication of abstract and macro notions such as social impact and social capital. In the words of Eva Cox (2000: 15): “one of the problems with most current social indicators, is that they are not very effective in describing how to translate data (outcome performance measures) into assessments of how well the community, group or society is actually travelling.”

‘Quality of relationship’ measures that focus upstream on the performance input (as opposed to output) are well accepted in marketing and human resource management. They have the potential to be truer indicators of more complex phenomena. There is a move towards these ‘quality’ measures in social performance measurement and reporting. The World Business Council for Sustainable Development (WBCSD, 2000) have identified the quality of stakeholder relationships as an important and developing area of social performance measurement. The new GRI reporting system relies heavily on the use of the existence of policies and procedure as indicators of social performance. For example, the GRI core indicator in the area of community is “existence and description of Community Impact Policy, and extent to which this policy is visibly stated and applied, as well as description of procedures/programs to address this issue including monitoring systems and results of monitoring” (GRI, 2002: 55). The ISEA based social and ethical audit process is based on the perception of stakeholders as opposed to any direct indicators. For example, a “best practice” reporter reports the percentage of employees who believe particular groups are under-represented or over-represented in their workforce as the indicator of workforce diversity (TBS, 2001: 8).

Thus, current social performance indicators tend to be secondary or indirect measures such as the existence of policy or procedures in a company or the perception of the stakeholders. As such, these measures are only a proxy for actual performance. The GRI indicate concern in fairly cautious terms when they state that:

- social reporting enjoys less consensus than environmental reporting from the standpoint of indicator selection,
- social performance indicators differ in nature considerably from other economic and environmental performance indications, and
- many of the social issues that are subject of performance measurement are not easily quantifiable, so the social indicators provide qualitative information about...policies, procedures and management practices (GRI, 2002: 49-50).

Social performance measures are in the process of developing and that the field of social performance measurement is still maturing (GRI, 2002: 50). They are more subjective and less measurable than ‘outcome’ measures and, therefore, more difficult to verify and open to misrepresentation and biased reporting.

WHY REPORT: STAKEHOLDER MANAGEMENT OR STAKEHOLDER ENGAGEMENT?

The rights of organisational stakeholders to corporate information via social disclosures seem to be taken for granted. A striking common feature of current reporting practice lies in a purported aim to address the information need and concerns of organisational stakeholders (Owen, 2001b: 265]. Indeed, both GRI and ISEA place major emphasis on stakeholder involvement in the reporting process. Yet, despite the popular use terms such as stakeholder engagement and stakeholder accountability, it is not clear that the key players within the field share the same understanding, or even operate with similar aims and objectives in mind (Owen, 2001b: 268].

The objectives of social reporting traditionally are considered under three categories; those that are market driven, those that relate to an organisations legitimacy or reputation and those based on the notion of a social contract (Mathews, 1995). The market-related argument suggests that management, as part of their responsibilities to shareholders, provide information regarding company social performance as such information may influence share price and returns⁶ (Mathews, 1995). Alternatively, management may provide voluntary disclosures because they want to establish or enhance the legitimacy or reputation of the organisation with specific groups or the public in general. The market-related and legitimacy reasons for disclosure share a fundamental precept, that the ultimate goal of social performance disclosure is to further the interests of the organisation on behalf of the shareholders.

To this effect, a market-driven corporation is likely to adopt an orientation⁷ towards its stakeholders that would involve minimal engagement. They would be ‘compliant’ (Wheeler et al., 2001), that is comply with legislation and avoid doing harm (see Figure 1). If criticised, they would adopt a reactionary “trust me” attitude, expecting the public to accept their justifications for the necessity of their actions (Kaptein and Wempe, 1998). If driven by legitimacy or reputational reasons they may move towards a ‘responsive’ stance (Wheeler et al., 2001), that is meet the expectations of more powerful or legitimate stakeholders (these dimension have been established by (Mitchell et al., 1997)). The message to the public would be “we recognise your interests and are doing everything we can to account for them” or a “show me” attitude (Kaptein and Wempe, 1998).

Figure 1 about here

The market-related arguments clearly fit within the rubric of the classical view of social responsibility. Likewise, the organisational legitimacy and reputational arguments fit with strategic stakeholder theory. In that both the organisational legitimacy and market-related arguments for disclosure represent management advancing the interests of their organisations on behalf of investors, Mathews (1995) concludes that they are

morally neutral. This is in contrast with the social contract arguments for social disclosure. The argument is that, as a modern corporation operates in society by virtue of a social contract, either expressed or implied, it is required to provide socially desirable ends and to benefit groups from which it derives its power. As such, there is a need to a company to disclose their social performance to enable society to evaluate the company's fulfilment of the contract. In order to achieve this accountability companies need to 'engage' (Wheeler et al., 2001) their stakeholders at all stages of the reporting process (see Figure 1). According to Kaptein and Wempe (1998), under this "join us" attitude, the stakeholders are invited to contribute their thoughts and bear their own responsibility in the dilemmas confronting the company. Mathews (1995) concludes that the social contract arguments are readily identifiable as based on ethical concern. Indeed, at face value, there is great congruence between these ideas and moral stakeholder theory.

STAKEHOLDER ENGAGEMENT OR STAKEHOLDER MANIPULATION?

The rigorous demands placed on the company by moral stakeholder theory have been identified. Management must act in the interests of the stakeholders as their agents and the rights of stakeholders must be ensured through their participation in decisions that substantially affect their welfare (Evan and Freeman, 1993). This suggests that for the company to fulfil its responsibility, with respect to social performance reporting, the company must not only act in what they perceive to be the best interests of the stakeholders, but must involve the stakeholders in every stage of the accountability process. Evan and Freeman hold that for the stakeholder management conception to be operationalised significant structural mechanisms must be put in place:

- corporations would need to establish stakeholder boards of directors and;
- corporations law would need to be changed to recognise that the purpose of the company is to be managed for its stakeholders (Evan and Freeman, 1993).

This is congruent with the true meaning of stakeholder engagement. Unlike many writers in the field, Owen (2001b) has recognised that "stakeholder engagement, and related notions of stakeholder accountability, present a fundamental about-turn in the way in which business has traditionally conducted its affairs". Friedman was right! Social responsibility is a "fundamentally subversive doctrine" (Friedman, 1970) and should be recognised as such. Hence, morally responsible treatment of stakeholders must be redefined along the lines of stakeholder empowerment. Drawing from an historic model of citizen participation (Arnstein, 1969), the 'top end' of the morally responsible scale has been extended (see figure 2). The term stakeholder empowerment has been introduced to include notions of delegated power or even stakeholder control in order to satisfy the moral requirements of stakeholder theory.

Figure 2 about here

Likewise, the 'bottom end' of the scale must be reconsidered (see figure 2). It has been established earlier that strategic management of stakeholders is at best amoral. The possibility that stakeholders can be managed in an immoral manner has been raised. Gray (2001a) and Owen (2001b) have attributed less benign objectives for social disclosure to management. Owen and Swift state that they are "unable to discern within the burgeoning social and accounting literature any meaningful intention to transfer real decision-making to stakeholder groups" (Owen and Swift, 2001a: 6). In their own research they found evidence that "stakeholder management has displaced any meaningful moves towards expanding corporate accountability towards stakeholders" (Owen, 2001b: 275]. There is evidence in the United Kingdom of "huge discrepancies between what some of the leading reporting companies say vs (*sic*) what they actually do. Some are guilty of excluding relevant information, whilst others can be accused of outright corporate lies (NEF, 2000: 2]". In Australia, research has shown that some companies use of social reporting to distract attention away from socially irresponsible behaviour (Deegan and Rankin, 1996]. Hence, the conclusion from a number of commentators that much current social reporting practice amounts to little more than empty rhetoric, managerial capture and corporate spin. On this basis the possibility the social reporting may represent corporate manipulation and therefore immoral treatment of stakeholders is proposed.

GETTING TO THE 'OTHER' BOTTOM LINE

The notion that there is a positive relationship between reporting and responsibility is prevalent in the literature (Kaptein and Wempe, 1998) (Sillanpaa, 1998][Zadek, 1998]. In most cases, this assumption is not made explicit nor is the nature of this relationship detailed. From the discussion to date, it is clear that such a tenet cannot be merely assumed. Competing propositions such as that there is no direct relationship between reporting and responsibility, or indeed that there may be a negative relationship between the two, have been suggested.

This paper has argued that the requirements for moral treatment of stakeholders are rigorous. If a company undertakes social and ethical accounting auditing and reporting for the purpose of accountability to organisational stakeholders, it must empower stakeholder through their involvement in the accountability process and their participation in decisions that substantially affect their welfare. It is suggested that companies may not have this as their objective when undertaking social reporting. They may be merely responding to market forces or trying to enhance their reputation. Alternatively, their motives may be more insidious. They may be attempting to mislead stakeholders by purporting to act in the stakeholders interest as a means of gaining control over their stakeholders. The possibility of a negative relationship between social reporting and social responsibility is clearly worthy of further investigation. Hence, it is proposed that, without stakeholder empowerment, corporate social reporting and corporate social responsibility will tend to be inversely, rather than directly, related.

In the words of Rob Gray (Gray, 2001: 6) "trivial social reporting wrapped around a bland concept of social responsibility can only lead to corporations successfully, although entirely inappropriately, capturing the high moral ground of social justice and responsibility".

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Figure 1: Traditional view of corporate response to stakeholder (based on Wheeler et al., 2001)

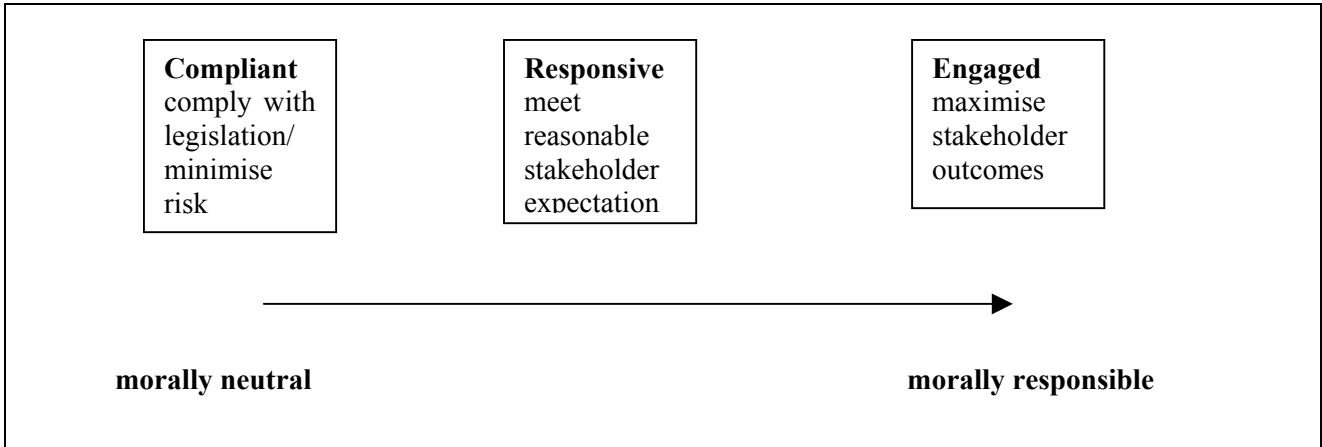
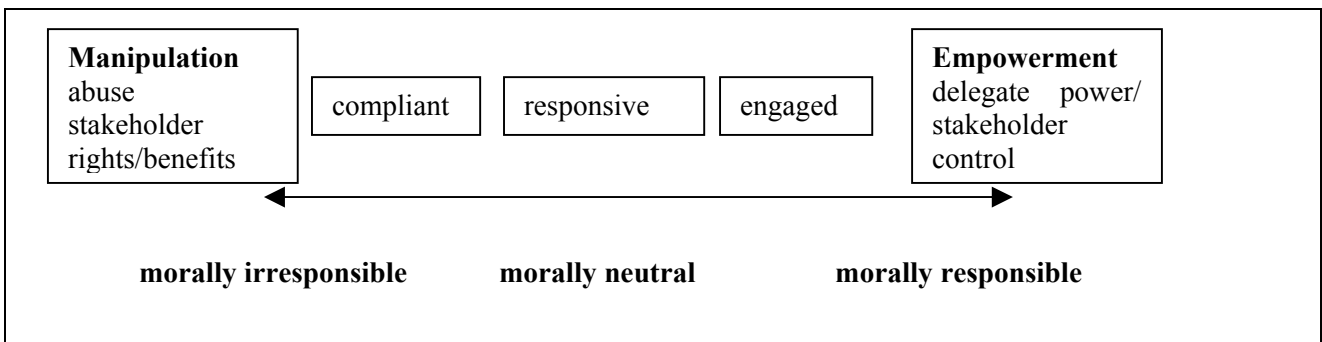


Figure 2: An alternative view of corporate response to stakeholders



ENDNOTES

- ¹ This argument is drawn from Adam Smith's notion of the invisible hand that an individual in pursuing his own interest is "led by an invisible hand to promote an end which was no part of his intention.... By pursuing his own interest, he frequently promotes that of society more effectually than when he really intends to promote it" Smith, A. (1776/1880).
- ² This principle is consciously drawn from the modern moral theory of utilitarianism. Utilitarianism is based on the writings of Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873). Utilitarian theories hold that moral worth of actions or practices is determined solely by their consequences. Utilitarianism is committed to the maximisation of the good and the minimisation of harm and evil (Beauchamp and Bowie, 1993 :21-22).
- ³ From the ethical theory of Immanuel Kant (1724-1804) based on the respect-for-persons principle that persons should be treated as ends and never only as means. Respect for human beings is demanded because human beings possess a moral dignity and therefore cannot be treated as if they merely have conditional value. "Respect for persons" has sometimes been expressed in corporate contexts as "respect for the individual". (Beauchamp and Bowie, 1993)
- ⁴ The Australian Federal Corporations Act 2001 (section 299) requires companies to provide in their annual report "a review of operations during the year of the entity reported on and the results of those operations. The Australian Stock exchange provides guidance (see Guidance notes 9 and 10) related to this requirement of the act. They advise disclosure on issues related to risk management (other than treasury policies) may include: legal and regulatory compliance; availability of staff and other resources; occupational health and safety; changes in technology and other operational risks; environmental issues; and product liability ASX (2001) . They also advise disclosure of "the nature of the company's corporate governance policies and practices" and suggest that "this review does not attempt to cover the whole field of corporate governance and reference should be made to best practice from time to time" ASX (2001) .
- ⁵ The Democrats introduced a private members bill entitled "The Corporate Code of Conduct 2000" which requires Australian corporations operating in a foreign country to report on their compliance with environmental, employment, health and safety and human rights standards. The Bill was reviewed by the Joint Standing Corporations and Securities Committee (now Corporations and Financial Services). As a result of their Report, Democrats Senator Vicki Bourne intends to alter the Bill where appropriate, and re-submit it to the Senate before June 2002. Even The Democrats consider it unlikely to be passed but they believe nevertheless that it "will stand as a constant symbol of where we need to go with our Corporations Law" (Murray, 2002).
- ⁶ A recent phenomenon in the investment markets, that of socially responsible investment (SRI), has extended and formalised this practice. Investment analysts now seek information from companies regarding their social and environmental performance on behalf of investors (both institutional and personal) who choose to commit monies based on these factors. In 1999 \$1billion was invested in SRI in Australia (Greene, 2001: 23].
- ⁷ For a more complete discussion of stakeholder orientation see Greenwood (2001).