Kelly, M. & Alam, M. (2008). The Teaching of Corporate Governance and Sustainable Development, JOAAG, Vol. 3. No. 2

The Teaching of Corporate Governance and Sustainable Development

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Abstract

Corporate governance in many companies is now built on sustainable development principles; it involves the recognition of corporate social responsibilities (CSR), and of stakeholders' legitimate interests in corporate activities. The nature of management decision-making and control has changed. In the new environment, the role of accountants must change as they strive to provide the most useful of information to managers. It is vital that academics respond to current developments in the corporate world in order that students can best be prepared for that world.

Keywords: Education, Sustainable Development, Corporate Social Responsibilities, Corporate Governance

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Introduction

The project investigates the emergent stakeholder view (SHV)[3] of corporate governance (Davis, et al., 1997, Donaldson, et al., 1991, Clarkson, 1995). In the 1980s some people, notably some at the United Nations (UN) recognised that global businesses were becoming more powerful in their effects on the environment than many nations. The UN has published many reports in an attempt to educate people to the need for a change in business practices. In 1987 the UN published the, 'World Commission on Environment and Development', referred to as the Brundtland Report. The report argued the need for a sustainable approach to business developments, where:

> Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs......Development involves a progressive transformation of economy and society.....But physical sustainability cannot be secured unless development policies pay attention to such considerations as changes in access to resources and in the distribution of costs and benefits. Even the narrow notion of physical sustainability implies a concern for social equity between generations, a concern that must logically be extended to equity within each generation (p. 43).

Following this the UN organised the first World Summit on Sustainable Development, to address its concerns, in Rio de Janeiro (1992). At the Earth Summit governments from around the world agreed that education for sustainability is, "...critical for achieving environmental and ethical awareness, values and attitudes, skills and behaviour consistent with sustainable development and for effective public participation in decision making" (PCE, 2004, p. 37).

Following the Earth Summit, the UN continued to argue the need for a shift in the business decision making paradigm and it organised the second World Summit on Sustainable Development (2002) in Johannesburg. For that meeting it provided a publication by Doering et al., (2002), authored by respected scientists, which provided much evidence that the world was heading in to crisis; that a change in operational procedures was necessary. For example:

- Nearly 26,000 plant species, more than 1,100 mammals and 1200 birds, 700 freshwater fish, and hundreds of reptiles and amphibians are threatened with extinction (p. 33).

- The world is 78% poor, 11% middle income and 11% rich (p. 13).

- More than half the world's citizens have never used a telephone, 7% have access to a personal computer and only 4% have access to the Internet (p. 45).

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[3] SHV involves the recognition of corporate stakeholders and their rights. Corporate Social Responsibility (CSR) involves the same recognition. For the purpose of this paper CSR and SHV are considered to be synonymous.

In 2000 the UN commissioned the Millennium Ecosystem Assessment Synthesis Report which was released in 2005. It stated that:

> Approximately 60% (15 out of 24) of the ecosystem services examined during the Millennium Ecosystem Assessment are being degraded or used unsustainably, including fresh water, capture fisheries, air and water purification, and the regulation of regional and local climate, natural hazards, and pests. The full costs of the loss and degradation of these ecosystem services are difficult to measure, but the available evidence demonstrates that they are substantial and growing. Many ecosystem services have been degraded as a consequence of actions taken to increase the supply of other services, such as food. These tradeoffs often shift the costs of degradation from one group of people to another or defer costs to future generations.

Many people accept that education has a key role to play in the advent of a sustainable approach to decision-making in society. The call for education to be a critical part of sustainable development continues to be heard at every international conference on this topic. In 1997, representatives from around the world met at a UNESCO conference and reaffirmed the urgent need for governments to honour their earlier commitments to education for sustainability and the need for a, "rapid and radical change of behaviours and lifestyles, including changing consumption and production patters. For this, appropriate education and public awareness should be recognized as one of the pillars of sustainability" (UNESCO, 1997). The New Zealand Parliamentary Commission for the Environment (PCE, 2004) suggests that the purpose of providing education on sustainability is to empower people from all backgrounds to contribute to a better future. People are encouraged to ask questions, challenge underlying assumptions, and to think for themselves. A search for systemic changes needed to resolve unsustainable practices is encouraged. Education helps people recognize that changes for the better can be made, to achieve a good quality of life for people far into the future.

> Ultimately, education for sustainability requires people to critically think about and reflect on their own values and the values embedded in the institutions that surround them. This can provide a basis for deciding what sorts of values a society (and different groups within it) may wish to pursue, without blindly accepting the current situation. It also requires some conscious individual and collective responsibility for making those decisions... Education for sustainability needs to encourage people to reflect on their own underlying assumptions, as well as those of other people and institutions in society (PCE, 2004, p. 41).

The educational experiences that are required to promote sustainable development properly are what many people may believe to be 'good', and regularly provided, experiences in our schools and universities, but there is evidence to the contrary. According to Elkington (1998), Business is about the creation of economic value, and not about social or ethical values; business leaders have been taught to stay out of politics.

PCE (2004) recognizes the inadequate way that sustainable development is covered in the education system. It suggests that if education for sustainability were adequately examined, it would encourage students to reflect critically on their own values, and dominant values in the world around them. In response to the question of what education for sustainability might involve, Huckle, 1996 (cited in Tilbury, 2002) suggests:

> Education for sustainability invites us to question the assumptions of dominant discourses in education, particularly those objectives, content and teaching methods which favor initiating people into the concepts and skills needed for finding scientific and technological solutions to environmental problems without addressing their root social political and economic causes.

It is against this background of recent developments in thinking about business practices that we argue our case. We believe that the purposes of education need to be clearly and publicly named. Does it sometimes attempt simply to prevent change to existing economic systems?

> ... [the] existing economic system has therefore become based around maintaining and sustaining high levels of materialistic consumption. It is difficult for people to look beyond the system, especially when there are many people's jobs and livelihoods at stake. There are also many vested interests that will resist change by insisting that 'there is no alternative' (PCE, 2004, p. 123).

Reflections on the traditional model of corporate governance

The traditional role of the corporation in society is to provide its owners with financial rewards, in return for the owners risking their investments in the firm (Ratnatunga and Alam, 2007, Ratnatunga and Arif, 200). The managerial hierarchy that evolved, in association with the traditional view, is shown in figure 1. In early businesses the owners/investors, the directors and the managers were often the same small group of people. Over time the business organisation has evolved and large powerful businesses are rarely the sole property of the founder, a family group or any small group of people. Ownership and control have been separated. Large corporations have thousands of shareholders who "own" them. However, the nature of this "ownership" has changed:

> The ownership status of individual shareowners... is largely an artefact. The shareholder cannot actually *do* anything with any part of the corporation... even the ability of individual shareowners to gain information about a company, or to raise questions about the operations, is severely limited..... most large corporations need not (and do not) manage themselves primarily for the benefit of individuals who are in this passive and often indirect ownership role (Post et al., 2002, p. 15).

The traditional model has directors who sit on corporate boards. The directors are chosen by the many investors to look after their common interests. The investors are referred to as shareholders. Today full time managers are employed in large corporations to take care of the everyday management issues in line with directives passed down from the corporate board. The shareholders theoretically appoint the directors, to whom the managers report.

Although the shareholders theoretically appoint the directors, company law gives the existing directors much power over the proxy process. Many shareholders see themselves as investors in companies, rather than owners of companies; when a new director is to be appointed, they are willing to provide the board with the power to vote on their behalf, for the most suitable person. Thus it is often the existing directors who determine who will sit on their boards. Such new directors are beholding to the existing directors. Board members are often happy to collect their fees, trust management to perform reasonably well, and to ask few questions concerning the performance of management. Consequently, the traditional corporate governance model does not function properly (Child and Rodrihuez, 2003, Daily, et al, 2003, Monks and Minow, 2005). The traditional model requires the board of directors to be an effective, potent body representing the interests of the shareholder group in supervising management, but:

> Everyone knows about boards that don't work. At GM, IBM, Westinghouse, K-Mart, Digital Equipment Corporation, and other corporate giants, the board seemed to stand idle as billions of dollars in market value went down the drain. The public failure of those boards triggered widespread cynicism about whether corporate boards could ever be more than rubber stamps (Carroll and Buchholtz, 2000, p. 554).

Further criticism of the system is provided:

> CEOs, who typically recruit board members… buy loyalty with high fees for directors. An example often cited is the case in which the ITT Corporation board doubled the pay of its chairman despite the company's ragged performance. The board members got $51,000 in basic fees that year, plus $40,000 in extras (ibid. p. 556).

Board members typically receive meeting fees, stock options and pensions as well as their basic fees. The traditional model was further strained in the 20th Century because many companies appointed inside directors to serve on their boards. Inside directors are individuals who hold both positions in senior management at the corporation, and sit on the board to which the management is supposed to be responsible. Courtney Brown is an experienced director who served on many boards. He has stated that he, "never saw a subordinate officer serving on a board dissent from the position taken by the CEO" (Carroll and Buchholtz, 2000, p. 556). Although in many companies the number of outside directors has grown in recent years, many of the outside directors are such people as: the company's banker or lawyer, management consultants, or close friends of the CEO. Such people are not well suited to the independent watchdog role demanded of them by the traditional model.

In recent years shareholder groups have started to question the relevance of the traditional model to their world. They have complained of: managers' lack of accountability to them (or anyone), the inefficiency of their boards of directors, and the excessive compensations paid to managers and board members. These shareholder groups believe that management has largely ignored them, and the societies that allow their existence. Political leaders do have some accountability to their electorates but corporate leaders have almost none, despite the fact that they have the power to choose how to employ large chunks of the assets that have accumulated within society over the centuries The film '*The Corporation*' (Copyright 2003 - 2005, Big Picture Media Corporation) in its synopsis states:

> …using …the standard diagnostic tool of psychiatrists and psychologists. The operational principles of the corporation give it a highly anti-social "personality": It is self-interested, inherently amoral, callous and deceitful; it breaches social and legal standards to get its way; it does not suffer from guilt, yet it can mimic the human qualities of empathy, caring and altruism…a disturbing diagnosis is delivered: the

> institutional embodiment of laissez-faire capitalism fully meets the diagnostic criteria of a "psychopath."

Some shareholder groups are demanding changes because the directors have not acted as anticipated under the traditional corporate governance model. Management, and boards of directors, have been preoccupied too often with their own self-interest rather than the interests of their shareholders. The division of ownership into millions of shares has left no party able to exert effective external control over the corporate managers. These events have taken place within the "going concern" model of corporations; this is examined in the following section.

The going-concern model

Accountants are taught to report on companies as "going concerns" and auditors are charged with the responsibility of qualifying the accounts of any company that they are unable to believe is expected to continue as a going concern. Unfortunately, throughout the 20th Century, directors, auditors and investors have generally judged the going concern ability of corporations on reported financial results alone. From that judgement base it is interesting to report that of the top 50 UK companies in the 1984 list, "around a fifth had passed on a decade later… Of the original 30 constituents of the *Financial Times* Ordinary Share Index, launched in 1935, just nine survive… Of the 12 companies making up the Dow Jones Industrial Index in 1900, GE was the only substantial survivor" (Elkington, 1998, p. 248). One of the major failings of the traditional system has been its failure to recognise the difference between immediate, but perhaps unsustainable, profits and sustainable profits supported by wise, long-term investments.

> The worst blind-spot today's business leaders suffer from in this area is the belief that the time scales dictated by Wall Street and other financial centres are "reality." Instead, they are bubble environments, which - as illustrated by the history of spectacular economic crashes around the world - can delude and destroy even the deepest-rooted businesses. Unless companies can balance the short-termism… with a real sense of "long time", they are extremely unlikely to survive the sustainability transition (ibid. p. 12).

In the approach to1987 many companies appeared to be performing exceptionally well on the basis of their published financial results. Many managers were consequently being well rewarded for their 'good' work. However, much of the appearance was an illusion and hundreds of companies collapsed around the world following the 1987 Stock Market crash. The 1987-88 edition of The New Zealand Company Register provides details of around 280 listed companies. Pratt (1993) states that: "Sixty seven [around a quarter of] companies listed on The New Zealand Stock Exchange failed in the four years following the 1987 Stock Exchange crash". The foregoing facts demonstrate that reported short-term profitability is not a reasonable measure of a company's underlying health. However, the emergence of the global economy has further encouraged some companies to focus on their short-term profitability or be recognised as under performers:

> Investment bankers… have gotten very, very adept at spotting under-performers… and finding potential bidders from anywhere in the world… The result is to force companies to adopt the Anglo-Saxon focus on short-term financial results. The result is a form of collective myopia….. Tactics of open-ended downsizing and

> real wage compression are ultimately recipes for industrial extinction (Elkington, 1998, p. 105).

The Anglo-American focus on short term profitability has been on the ascendancy throughout the 20th Century in the Western world but this may not be the best of developments, as Carroll and Buchholtz (2000) explain:

> The traditional American and British view, wherein a public company has the overriding goal of maximizing shareholder returns [contrasts] with the view held by the Japanese and much of continental Europe, wherein firms accept broader obligations that seek to balance the interests of shareholders with those of other stakeholders, notably employees, suppliers, customers, and the wider "community (p. 64).

The role of business in society needs to be revisited. What should be the driving force(s) that determine how businesses should be run? Which stakeholders should have a right to influence business decisions? What balance should be struck between economic, social and environmental concerns? The path to effective corporate governance is often a difficult path for contemporary managers to negotiate.

Many managers have no wish to search for a societally beneficial system of governance because they have profited personally from the traditional system, and they hope for it to continue. However, the actions, practices, policies and ethics of managers have become more transparent in the global electronic age and hopefully the need for change must be recognised. In the next section we examine further why a sustainable development approach to business decision making is necessary.

The need for Sustainable Development

Managers must accept that businesses are a societal construction and that managers have an obligation to create benefits for members of their society (Carroll, 1984, Gray et, at, (1996). Corporations that are managed selfishly to benefit a limited number of individuals may become illegitimate institutions in the emerging 21st Century environment. Corporations exist only because society has given them the right to do so. That right could be revoked. Some managers (and academics and students), who have their visions fixed on short-term financial profitability, do not appreciate that corporations rights to exist are determined by society (Warhurst, 2001, Galbraeth, 2006). Corporations must be responsive to society's expectations over the long-term if they are to survive in their present form:

> The corporation cannot – and should not – survive if it does not take responsibility for the welfare of all of its constituents, and for the well being of the larger society within which it operates. The contractual agreements and government regulations it must follow are not always enough (Post et al., 2002, pp. 16/17).

A business operating environment is evolving wherein managers' responsibilities to society will exceed their responsibility to the shareholders. Managers require a new paradigm to facilitate the making of better decisions in this environment:

> Increasingly the paradigm of progress is being challenged by that of transformation: the conviction that we are still 'on track' to a better future by the conviction that we are now straying ever further off it; the view that economic, social and environmental problems are 'gliches' we can iron out of the system by the view that the problems are systemic and require whole-system change (Eckersley, 1998, p. 5).

This further responsibility is recognised in the Corporate Social Responsibility approach to corporate governance (CSR). In many countries throughout the world, some individuals are adopting business practices based on sustainable development in order to discharge their CSR:

Some [business] people have been driven by personal values and concern about the impact of business activities on people and the world around them. Others have been influenced by the 'business case' for sustainable development. This emphasises the need to look for opportunities (such as saving costs by using resources more efficiently) and challenges (such as damage to a valuable brand from being exposed with a poor environmental record (PCE, 2004, p. 85).

The business processes employed in the management of 20th Century businesses were responsible for many economic and financial successes. However, the performances of managers in some scandals of the 1980s and 1990s provide cause for concern, not only in the economic sphere but also in matters of the environment and social justice[4]. Some managers of large corporations were criticised heavily for their poor performances. There were demands from many in society for closer scrutiny of management decisions and for more accountability from managers for their actions. Increasingly less tolerant shareholders started to ask managers to explain: high executive compensation packages, plant closures, golden parachute agreements, environmental issues and similar perceived abuses of power. Other groups that are associated with large corporations, such as employees, customers, suppliers and NGOs[5] also started to demand explanations from the senior managers and boards:

> As the public learns of corporate directors who claim to have no knowledge of admitted bribes, unlawful political contributions, and other chicanery, the question being raised... is "Who governs the corporation?" ..."Is corporate management really responsible to anyone except itself?"... "Who governs the giant corporation, and for whom is it governed? The shareholders? The management group? The directors? Other stakeholders? The government?" (Carroll and Buchholtz, 2000, p. 550).

The questioning environment that has evolved around the large business corporations heralds a new age in corporate governance (Enderle, 2004, Dawkins and Lewis, 2003, Carroll, 2004, Adams, 2004). Senior managers are under pressure to demonstrate that their companies are socially responsible corporate citizens. There is a demand from

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[4]For example, "There is a deep irony in the news that tobacco companies hope to fund the payments [to claimants in US courts] they now expect to make, and which will likely run into hundreds of billions of dollars, by selling more cigarettes in emerging markets like China (Elkington, 1998, p. 199).

[5] Some environmental NGOs are encouraging people to think about deeper, underlying issues such as the flow-on effects of free trade on the environment and society (PCE, 2004, p. 82).

members of society for corporate managers to exhibit corporate social responsibility when making decisions that will affect society; that is most corporate decisions. According to Carroll and Buchholtz (2000), CSR involves four accountabilities: Economic, Legal, Ethical and Philanthropic, furthermore:

> Only a few businesspeople and academics argue against the fundamental notion of CSR today. The debate among business people more often centers on the kinds and degrees of CSR... Among academics, economists are... [most strongly] against the pursuit of corporate social goals. But even some economists no longer resist CSR on the grounds of economic theory (ibid., p. 39).

There are now many large organisations with huge influence over much of the world.

Powerful corporations have taken profits from parts of the globe that could not properly afford to provide them. Governments have appeared unable to prevent terrible environmental developments, and tragic human developments. Enderwick (1999) reports that New Zealand has a GDP that ranks at forty-eighth in size, in nations of the world. It shows that there are 25 companies with annual revenues larger than New Zealand's GDP. The power to shape society is moving from politicians to the business community.

Post et al., (2002) comments, "The contemporary large, professionally managed corporation – often with global scope and sales greater than the total output of some nation states – cannot be viewed as a microscopic enterprise at the mercy of market forces and government policies" (p. 230). Enron (Vallette and Wysham, 2002) provides an example where those in business have appeared able to manipulate decision-making in small countries, through control of economic and political processes, to their own short-term advantage. In the following section, we consider whether the business community is evolving quickly enough to fill its new role in society.

Is business ready for its new role in society?

> On the use of market mechanisms... to deliver improved performance against environmental and broader sustainability targets... the center of gravity [is shifting] from the world of government to the world of business... Are business leaders and major corporations ready for the impending challenge? (Elkinton, 1998, p. 100).

Many may respond "no". "As we move into the third millennium, we are embarking on a global cultural revolution. Business, much more than governments or non-government organizations, will be in the driving seat" (Elkington, p. 3). The largest problem with this is the extant belief that:

> Business is about the creation of economic value, and not about social or ethical values. This is not particularly surprising: a full generation of business leaders *have been taught* to stay out of politics and that they meddle in the affairs of governments (even oppressive regimes) at their peril... Managing these trends and counter-trends will involve working with both individuals and groups to help them change their mindsets and, even more importantly, to transform the corporate culture (ibid. p. 7 emphasis added).

Since its inception, the marketplace has done a reasonable job of deciding what goods and services are produced, but it has not ensured that businesspeople always act fairly and ethically.

In the 19th Century, a number of corporations gained national status and power in the Western world. In the 20th Century some corporations obtained international power, and in the latter part of the 20th Century they introduced a global dimension to business decision-making. However, many business people and academics continued to view the business world, and society in general, from a perspective that was perhaps better suited to the understanding of a bygone world. The world has changed enormously since the time of Adam Smith's writings (Kelly and Oliver, 2003). One wonders if the educational systems that are nurturing the next generation of business leaders are yet equal to their challenge.

> Looking at universities in particular, knowledge has traditionally been disciplined into many different fields or 'languages'... This has enabled people to develop in-depth knowledge in separate areas of expertise. The downside of this approach is that it is often very difficult to bring together valuable insights and understandings from different strands of thought. Many people do not recognise the limits of any academic language for understanding everything about the world. Students also find it difficult to develop knowledge of issues from a variety of different perspectives... Many academics overseas have also highlighted how sustainability cannot simply be integrated into existing curricula. It requires a transformation agenda that would require changes in education practices, addressing the way knowledge is sliced up into disciplines, as well as making structural changes in institutions (PCE, 2004, pp. 75/76).

Let us next examine what the sustainable development approach to corporate governance involves, before reflecting on how universities might act in order best to develop graduates for the new business environment.

Sustainable Development and the CSR approach to Corporate Governance

CSR broadens the relevant range of corporate performance criteria beyond short-term profitability and growth to include the long-term interests of multiple stakeholders that are recognised as being critical to a corporation's success (Davis, et al., 1997, Donaldson, et al., 1991). An increasing number of corporations are recognising a need to be responsive to individuals and groups that they once viewed as powerless and unable to make claims on them. Once the relevance of the stakeholders to the success of a corporation has been recognised, it follows that the inter-relationships with the stakeholders must be managed.

Stakeholder management requires senior corporate managers to obtain an understanding of the concerns and goals of all relevant stakeholders. These matters must then receive knowledgeable and respectful consideration by corporate management. Effective stakeholder management involves organisation-wide core commitments to humanistic values, continuous learning, and adaptive behaviour. To allow this, corporations must develop: an appropriate organizational structure, relevant strategies, and appropriate practices[6]. There must be a corporate acceptance of the integrity of other organizations and interests, and of the general public's rights.

Although senior managers must understand and respect the concerns and requests of all stakeholders, it must be recognised that not every stakeholder wish can be granted. Reasonable attempts of various groups of stakeholders to exert force on the corporation have to be recognised as legitimate, even when the actions requested are not conceded to.

> Stakeholder-oriented firms often seem to be motivated by normative considerations that underlie a pervasive organizational commitment to humanistic values for their own sake. Both the rhetoric and the actual practices of these firms reflect recognition and respect for the integrity and intrinsic merit of the individuals and groups with which they come into contact (Post et al., 2002, p. 79).

In the early 21st Century environment some managers continue to observe business life through the traditional corporate governance model. To think in terms of CSR increases the complexity of decision-making. It is difficult for some managers to decide which stakeholders' claims should be given priority in a given situation, and which should be declined. "Despite its complexity, however, the stakeholder management view is most consistent with the environment that business faces today" (Carroll and Buchholtz, 2000, p. 86). "In actual practice, however, many managers have not yet come to appreciate the need for the stakeholders view" (ibid. p. 66).

In today's society corporations are linked economically and socially, voluntarily and involuntarily with numerous stakeholders. The stakeholders may contribute to, or be impacted by, the corporations' successes or failures. CSR recognises these reciprocal interdependencies. In the 21st Century, all large corporations are networked into society. The creation and preservation of organizational wealth in the modern economy depends on the development and maintenance of favourable relationships within these networks. "The commitment to creating organizational wealth in a manner that is economically, technologically, and socially sustainable challenges conventional thinking about the nature and sources of corporate success" (Post et al., p. 241).

The CSR challenge is to identify correctly and comprehensively the corporation's stakeholders and recognise those stakeholders who have the most power to influence the long-term viability of the corporation. These stakeholders can be recognised as primary stakeholders. Management must ensure that the concerns of the firm's primary stakeholders are addressed and resolved as completely as possible, while other stakeholders are dealt with ethically and are, whenever possible, also satisfied.

Without economic viability, all other stakeholder interests that may have been recognised by alert managers must be denied any further support from the failed corporation. This axiom is sometimes used to illustrate the omnipotence of the economic model, but it is not valid for that purpose. Managers should recognise the possibility that corporations which are economically successful in the medium term, may temporarily remain so by creating localised living conditions that are inhumane for environmental and/or societal

[6] In 1991 the World Business Council for Sustainable Development (WBCSD) was formed, to help companies respond to these challenges. It now has a membership of 170 international companies drawn from more than 35 countries.(see http//www.wbcsd.ch).

reasons[7]; this could result in the fall of Western society, and perhaps leave no habitat in which contemporary economic theories have any merit:

> Capitalism now faces a fundamental challenge to the legitimacy of the largest corporations and to the way rewards are distributed in the free enterprise system..... growing numbers of people are wondering whether we can rely on capitalism to deliver anything approaching a sustainable future (Elkington, 1998, pp. 26/27).

CSR is not to be encouraged as an alternative approach to the economic view. Rather CSR is a balanced approach that requires the satisfaction of corporate economic, environmental and social responsibilities before, perhaps, philanthropic actions are contemplated for the purpose of achieving long-term advantages in society or simply for altruistic reasons. Any corporation that opted to pursue altruistic programmes in preference to economically sound programmes would probably not survive for long. However, Post et al., (2002) state that, "Recognition of the impact of humanistic values is not only critical for the long-term success of the individual firm; it is even more important for the survival of the corporate system as a whole" (p. 255). Nevertheless Post et al recognise that, "Many experts still deny that the interests of other critical stakeholders, beyond those of the shareowners, contribute to corporate success over the long term [although] there is considerable evidence to the contrary" (p. 243). Let us look at that evidence.

Evidence to support the acceptance of CSR

> We do not claim statistically reliable evidence to show that stakeholder management is positively associated with profitability, growth, stability, or other economic performance indicators. Still, there is every reason to believe this is the case; and many case studies and extensive executive testimony support this belief. Recognition of the importance of favorable stakeholder relationships by corporations is reflected increasing public commitment to broad societal objectives, as in the case of Shell's[8] commitment to the "triple bottom line" of economic, environmental, and community impacts (p. 242).

Unfortunately, the evidence is not conclusive; perhaps partly because CSR is an embryonic approach to corporate governance and it has not had time to demonstrate its strength. Post et al. provides some preliminary evidence that supports the proposition that corporations which choose CSR may outperform those that continue to embrace a more traditional management perspective:

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[7] Problems... range from global warming, ozone depletion, and the collapse of some ocean fisheries to social problems such as the deaths of 37,000 children under the age of five every day (mostly from diseases from which there are inexpensive cures) and the death of some 585,000 pregnant women and mothers every year (Elkington, 1998, p. 20).

[7] Shell now recognises itself (and all businesses) as a part of society, rather than an entity in competition with society, "The distinction between 'business' and 'society' is artificial. Business and corporations are social entities, created in the context of larger interdependent cultural, political and sociological systems" (Shell 1998, p. 15).

> [A study] focusing on the 500 largest public corporations found that those that mentioned their commitment to stakeholder interests and codes of conduct in their annual reports (more than 100 firms) reported superior financial performance to those that did not (Verschoor, 1998). Another study... indicates that managerial attention to employee and customer stakeholders is associated with favourable financial performance (Berman, Wicks, Kotha, and Jones, 1999), (p. 28).

Carroll and Buchholtz (2000) also provide some evidence to support CSR:

> [Is there] a demonstrable relationship between a firm's social responsibility or performance and its financial performance? Unfortunately, attempts to measure this relationship are typically hampered by measurement problems... Lee Preston and Douglas O'Bannon examined data from 67 large U.S. corporations... and concluded that, "there is a positive association between social and financial performance in large U.S. corporations" (p. 53).
>
> Covenant Investment Management... found that 200 companies ranking highest on Covenant's overall social responsibility scale had outperformed the Standard & Poor's 500-stock index during the 5 years (1988-1992) (p. 54).

In recent years a number of organisations have evolved to provide information on socially responsible investing[9]. They give advice not only to private investors, but also to the investment managers of some mutual funds, pension funds and church groups. The influence of the suppliers of socially responsible investing information is therefore substantial in world markets, and growing. Carroll and Buchholtz (2000) suggests that:

> Criticisms of business and cries for corporate social responsibility have been the consequences of the changes in the business/society relationship. The stakeholder management approach... has become one needed response. To do less is to refuse to accept the realities of business's plight in the modern world and to fail to see the kinds of adaptations that are essential if businesses are to prosper in the present and in the future (p. 86).

However, the evidence that is available to support CSR does not provide convincing evidence of any cause/effect relationship. It might be that those corporations that are performing well financially become more willing to allocate more of their discretionary spending to social causes, than companies that are struggling financially. Thus financial performance may drive the societal performance rather than vice-versa.

The degree, to which the CSR is accepted within those companies that do profess some acceptance of it, is also variable. In some companies CSR may become part of the Mission Statement; it then requires no further justification. Others may accept CSR as a Goal (ambition), and may refer to it often when considering their decision parameters. Yet others may take on CSR as a strategic manoeuvre because they believe it to be the best route to achieve their 'higher' (economic) goals. Management teams that adopt CSR within a strategic approach may view stakeholders as impediments to be taken into

[9] An example of such an organisation is ETHIBEL, It was established in 1992 and is based in Brussels (www.ethibel.org).

consideration, and managed, while they attempt to maximise profits for their shareholders. The success of this ploy will then be judged in terms of profitability.

Governments may be very powerful but have little interest in a particular corporation at a given time. NGO's may appear to have little power but may become very powerful if urgent prerogatives that they generate are not satisfactorily dealt with, and they mobilise public opinion against the corporation. If CSR is adopted then considerable effort must be spent in managing the stakeholder relationships for the benefit of all concerned. The accountants must continue to recognise their responsibility to provide relevant information for economic decision-making, but they must also determine what additional data they should produce to enable managers to be proactive in the CSR environment. Let us now examine the role of education in this new world.

Conclusion

Although the traditional corporate governance model is still adopted by many academics and business people today, it has been abandoned by some large companies in favour of the CSR model that demands a different role for business in contemporary society. The CSR model incorporates economic considerations but additionally requires managers to consider their companies' social responsibilities. Managers must recognise that their stakeholders may sometimes value, to some extent, lack of environmental damage and/or highly ethical societal behaviour, ahead of profitability.

Some contemporary managers have realised that the traditional corporate governance and financial reporting models are neither ethically, or pragmatically, suitable for maintaining the long-term health of their companies. Managers adopting CSR must require additional information to enable them to consider the additional issues that arise. It follows that the role of accountants must change also, if the necessary additional information is to be provided by them. Accountants must redefine their role in the emergent business environment, if the profession is to survive. There are many questions to research and answer in order to allow tomorrow's managers to be provided with the 'right' information for their decision-making purposes. Academics must help managers with this task. Furthermore they must prepare students for effective life in the business world that the students will now be graduating into.

Managers, investors and all concerned must accept that in the contemporary world, the wealth of a corporation is not merely the property it owns, the financial resources it accumulates, or even the intellectual property it develops. Above all, managers must work to ensure that their companies are welcomed as legitimate institutions in the societies where they choose to do business. Such positions, if earned, will provide companies with the best chance of obtaining sustainable existence in our changing world.

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