# Corporate Reputations: Whose Measure?

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THE debate about the role of corporations in society has descended into farce. It is fashionable in some quarters to suggest that interest groups should decide these matters. Corporations will be good if they do what interest groups think is good. They will be bad if they do what interest groups think is bad. Is this a sensible way to proceed? Hardly, but it seems to be the view of some media and sundry interest and advocacy groups—NGOs—who have taken it upon themselves to be judge, jury and executioner of the reputation of Australia's corporations.

Corporations are commercially responsible and liable for the goods and services they produce for their customers. They are industrially responsible for and contractually obligated to their employees. They are financially responsible for and legally obligated to their shareholders. There are performance measures that could be applied to these issues. Unfortunately, the sort of measures applied by interest groups to corporations may well undermine the accountability to the people that count the most: shareholders, employees, customers and the community through the law. Measures that give standing to those groups who have none, but who seek to capture the corporation for their own purpose should be recognized for what they are: political tools.

A prime example of an attempt to hijack corporate reputations by assigning measures of reputation was *The Sydney Morning Herald* and *The Age* newspapers which recently published a list of Australia's 'best' 100 corporations. Each was rated on a number of factors, which were combined to form the 'Good Reputation Index'. The Index purported to measure corporate performance on employee management, environmental performance, social impact, ethics, financial performance and market position. The judging was undertaken by 18 'influential' organizations, such as the Ethnic Communities Council, Greenpeace, Amnesty International, the St James Ethics Centre, the Institute of Chartered Accountants and the Public Relations Institute of Australia.

The organizations approached the task in different ways. Some faxed surveys to each corporation, some made direct contact to interview key managers, and others used corporate publications and Websites. Many groups surveyed the opinions of their own members and decided not to contact public relations staff directly. The whole exercise was an attempt to impose a world-view on corporations. The view that 'good' people must be satisfied with their performance, no matter what their legal, financial and fiduciary obligations, no matter what their role as wealth creators. The Index lacked objectivity, discipline, comparability and, in the end, credibility. It was a triumph of belief over reason, gut feel over analysis. Who won and who lost, and why?

To focus the mind, concentrate on the winner, Leighton Holdings, and the corporation that was ranked 70, the Commonwealth Bank. The Commonwealth Bank is a perfect starting point because its financial performance, as rated by the Institute of Chartered Accountants, was number one on return on shareholders' equity, and price/earnings ratio. Why did it slide 69 positions on the Good Reputation Index?

On the section of the Index on the Management of Employees, the Australian Human Resources Institute and the Employers' Federation of NSW ranked nearly all corporations about the same. This meant that the other two judges of this section really determined the rankings. The ACTU ranked Leightons highly and the Commonwealth Bank lowly on the recognition of unions and paying fair and reasonable wages. Lend Lease and Transfield were given high marks by the ACTU on the same criteria. The ANZ, Westpac and AMP were rated lowly. In other words, the rating depended on the industry, not the corporation. In addition, the ACTU has been in dispute with the Commonwealth Bank—a fact that should have been disclosed. On equity and non-discriminatory employment practices, the Ethnic Communities Council scored the Commonwealth Bank, and a handful of other corporations, at zero, the lowest rating. A very large number did not respond to the survey, but were given a rating of 4.5! All others scored a top rating of seven. As the Commonwealth Bank has only recently been privatized, it is likely to have a very solid record on equity matters. The suspicion is that the Commonwealth Bank copped a payback because it no longer plays the game in the manner it had to when it was owned by the Commonwealth Government.

On the Environment Performance section of the Index, Leightons, which may actually make a bit of mess building things, is rated more highly than ▶

the Commonwealth Bank, which does little of environmental consequence. Why was the bank marked down? Because Greenpeace, the Australian Conservation Foundation and The Wilderness Society could barely distinguish the performance of Leightons and the Commonwealth Bank. However, the Victorian EPA scored a zero for the bank on its 'effective communication with the public on its environmental performance'. What would the bank have to communicate about? Leightons won because it *has* to communicate on this criterion, the bank loses because it does not!

Further, on the Environmental section, Greenpeace, the Australian Conservation Foundation and The Wilderness Society ranked Visy Industries number one, most probably because it is a recycler. They ranked IBM Australia number two, probably because it produces (non-polluting) computers. They ranked Queensland Rail three, because it is a public transport company. Companies such as Wesfarmers, BHP and North, that actually made things, including the hardware that Visy, IBM and QR use, were marked down. The clear inference is that producers are bad and consumers are good. More fundamentally disconcerting, the Australian Conservation Foundation rated Southcorp well, but did not disclose the fact that it has a commercial relationship with Southcorp.

On the Social Impact section of the Index, Amnesty International rated all corporations—except Rio Tinto, Comalco, Western Mining and Shell—at zero, because they did not have a publicly stated commitment to the Universal Declaration of Human Rights. The named corporations work in regions where indigenous issues, in Australia and abroad, have some impact on their operations. The rarefied instrument of the Declaration may have some marginal relevance to their work. Where does that leave the other 96 corporations? In terms of the Index, badly off because they do not promulgate an instrument that is irrelevant to their operations. Both Leightons and the Commonwealth Bank are damned because they have not publicly stated their commitment to the Universal Declaration of Human Rights!

The inability to distinguish the vast bulk of corporations using the human rights criterion leaves this section, by default, to other judges and other criteria. For example, Leightons slips behind the Commonwealth Bank because the Australian Business Arts Foundation says that Leightons does not 'recognise Australian society and culture as important' whereas the bank does. However, on the Foundation's remaining criterion—company performance in actually putting its hand in its pocket to help the arts—they both score well. Stranger still, Leightons scores five to the Commonwealth Bank's four on the National Farmers' Federation criterion, 'demonstrated continuous supply of goods and services to regional Australia'. The Commonwealth scored the same as Westpac, NAB and ANZ. This minor variation in ranking was sufficient to place Leightons ahead in this section overall. Clearly, the banks were on a hiding to nothing on the issue of the withdrawal of their services to the bush, but the rankings do not indicate such disparity in the scores.

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The Ethical performance section of the Index is the really decisive factor. Leightons gets a perfect score from the St James Ethics Centre. Why was Leightons assessed number one on ethics? Perhaps, because St James has advised Leightons, and 38 other companies in the survey, on ethics? St James simply cannot credibly judge the companies for whom it has worked. It is not ethical! The St James Ethics Centre should have disclosed its relationship with the firms in the survey, or disqualified itself from acting as a judge. On another tack, CSR has an ethics committee, but does not score on the other three criteria that St James specifies. The Commonwealth Bank did not respond to the survey and yet outscores CSR on the ethical performance section of the survey!

On the Market Position section, the Australian Marketing Institute rates Leightons higher than the Commonwealth Bank, because the bank's 'organisational structure does not sufficiently reflect a commitment to marketing' nor are its 'plans and strategies driven by the marketing model'. This is self-professing nonsense. Surely, the measure of a company's devotion to marketing is a reflection of its own assessment of its need for marketing. Further, Leightons beats the Commonwealth Bank on the Consumers' Federation of Australia criterion, because Leightons has a charter that recognizes the rights of consumers and the bank does not. However, the bank has 'an effective complaints resolution service', but Leightons did not answer this question. Its score for a non-answer was mid-range, which placed it not far behind the Commonwealth Bank.

More generally, corporations that produce or sell consumer goods and services are rated on the same scale as those that do not. The likes of Ansett, Ford, Nestlé and Telstra are highly rated on marketing. They also deal directly with consumers who are private citizens, so they have to market themselves. The likes of Rio Tinto, Smorgon Steel, Wesfarmers and Brambles deal with corporations. No wonder they were rated lowly. This result is contrary to the Leightons and Commonwealth comparison, but the section nevertheless suffers from the problem of comparing unlike industries and using completely self-serving criteria.

One of the claims of the Index is that reputation is 'much more difficult to achieve than it was 20 years ago because it is a product of so many conflicting agendas.' The Index did not 'find' this at all. It simply gathered the opinions of those who have an interest in gaining some leverage over activities of corporations, but who have no direct interest in their operations. The Good Reputation Index has proved to be opinion dressed up as fact. It has more to do with setting up advocacy groups as opinion-makers than with a desire to evaluate the performance of corporations. It has precious little to do with actual performance of tasks that corporations need to undertake in order to fulfil their obligations to their customers, shareholders and workforce and to society through their legal obligations.

An alternative ethical audit would ask, does the corporation comply with the law? Does it fulfil product claims? How does a corporation handle the bad times, like customer complaints, product recall, employee compensation, product liability and so on? Is there sufficient information available about its operations to make informed consumption and investment decisions? Good information is the lifeblood of the marketplace—so why constrain that information by some predetermined, 'tick the box' audit of someone's imposed values? There is a place for an objective set of measures of the performance of companies. It seems that the art of establishing a public reputation has more to do with some people's view of the corporate world than any relevant assessment of corporate performance. Perhaps there should be a Reputation Index for NGOs and interest groups. How would they rate?

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# How to Build Your Own White Elephant

JIM HOGGETT

THOUGH widely and enthusiastically reported in the South Australian and Northern Territory media, the national media gave little prominence to the announcement of the go ahead for Australia's favourite development proposal—the Darwin to Alice Springs railway.

This is strange given the massive financial commitment it involves.

The north–south link was mentioned in the Governor-General's speech to the first Federal Parliament in 1901. Now, a century and two World Wars later, the time is apparently ripe to complete the link.

The construction cost will be $1.23 billion:

- $480 million of government grants—$165 million each from the Federal and Northern Territory governments and $150 million from South Australia.
- $750 million yet to be raised privately.

On top of the $1.23 billion there will be:

- Commonwealth handover, at no cost, of the existing Tarcoola to Alice line which links with the trans-Australia line from Perth to Adelaide.
- An unspecified amount (but probably tens of millions of dollars) to provide rolling stock.

Aside from the issue of whether the construction will come in on budget, which is on the far side of improbability, the governments involved have abandoned any serious attempt to justify the project on economic grounds. The Prime Minister has rejected the 'nostrums' of 'pure economic rationalism' in assessing the project and has defended it on the grounds of nation-building.

This is politically expedient because no respectable cost–benefit appraisal has ever been able to justify the project on public interest grounds. It also explains the large government grant element which is designed to make it commercially attractive to a private consortium.

No economic justification for the project is possible because there is simply no prospect that there will ever be sufficient demand for rail services along the route.

We are not talking here about a railway between great cities across fertile prairies such as from Quebec City to Vancouver or New York to San Francisco. We are talking about a line of 3,000 kilometres, mainly across desert, that goes from a slow-growing, moderate-sized city (Adelaide) through one static, small town (Alice) and a few other very small towns to a slow-growing, large town (Darwin). To give an indication of the existing potential of the link, the total population on the line between Adelaide and Darwin is smaller than that of the ACT. The most recent ABS population figures show that even this small population is declining in most of the areas between Adelaide and Darwin.