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Governance, employees and CSR: Integration is the key to unlocking value

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Corporate governance has gained increasing importance in the last decade as organisations have been involved in bankruptcies and frauds alongside decreases in organisational value and jobs. Researchers have signalled a need for new perspectives and models of governance, especially one that clearly identifies and embeds employees as part of the system. This article explores the importance of human resources as a key component of the governance system. It discusses whether organisational rhetoric in relation to stakeholders and social responsibility incorporates employees and in doing so it delves into the concept of labour as a key stakeholder. The article examines publicly available reports of two resource-based firms and two finance-sector firms: Rio Tinto, Shell Australia, Westpac and ANZ Bank to explore the position of labour. It concludes that the position of labour as a stakeholder is problematic, with a divergence between espoused statements on CSR and how they are operationalised throughout the organisation. The emphasis seems to be on environmental and financial sustainability with lesser importance placed on dimensions of workplace management and accompanying employee relations approaches.

Keywords: corporate social responsibility, governance, labour, stakeholders

Although human capital is recognised as the most important asset of any firm, and there are compelling analytical as well as policy reasons to care about how boardroom decisions affect employees, and how employees can affect corporate governance, the role of employees has mostly been treated as a labour issue and not as a central concern of corporate governance (Blair and Roe 1999). Moreover while organisations have increasingly espoused statements of social and environmental responsibility, adopted corporate social responsibility statements, and in practice reported on triple bottom line and balanced scorecard approaches, in contrast their human resource and industrial relations practices have often become unitarist and individualistic in approach. As Blair (1999, 58) observed:

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> to a casual observer the relationship between a firm and its employees would seem to be a central perhaps defining feature of the firm itself. Yet the tendency among economists and legal theorists has been to study the nature of the firm, as well as the property rights and governance structures associated with it, separately from the structure and terms of relationships with and among the employees of the firm. The main exception has been a sub-set of employees, managers, in the context of agency relationships.

Aguilera and Jackson (2003) hypothesise that the reason for this omission could be the weak employee participation in Anglo governance systems, such as the USA, compared to relationship-based systems as in Germany or Japan, and the assumption that shareholders are the only bearers of ex post residual risk, with the result that employee interests were viewed as an exogenous parameter. With the integration of employees into corporate decision-making, Japanese firms have been viewed as a unified body of employees and the stake of employees is seen to be important enough to them being considered as a de facto controlling group of the firm (Nam 2003).

This gap in the corporate governance literature compels one to adapt Blair and Roe's (1999, 2) question, 'Do corporations adapt their governance structures to the type of human capital found among their employees?' to 'When will corporations adapt their governance structures to include their employees?'.

This question obviously needs to be addressed very quickly. Corporate governance has gained increasing importance in the last decade as organisations have been involved in bankruptcies and frauds alongside decreases in organisational value and jobs. However, the focus on agency approaches, with its emphasis on regulation, control devices and professional codes has left a gap in linking governance and organisational value by way of stakeholder engagement. Indeed, researchers have signalled a need for new perspectives and models of governance, especially one that clearly identifies and embeds employees as a significant part of the firm's internal and external systems (Young and Thyil 2007, 2008). As Kochan and Dyer (1992, 1) stated, 'researchers will need a more powerful model for interpreting this transformational process – one which embeds innovations in human resource practices in a deeper theory of organizational governance'.

This article through a review of the literature and a selection of formal company policies explores the importance of employees as key components of the governance system. First it highlights the important role of employees in governance. And second it discusses whether organisational rhetoric in relation to stakeholders and corporate social responsibility (CSR) incorporates employees, and in doing so it delves into the concept of labour as a key stakeholder. It is argued that when divergence occurs between rhetoric, systems and practice, there is a failure of governance.

Why focus on the role of employees?

The brief introduction reveals that discussions to include employees within the corporate governance mechanisms are not new; they have just been neglected. As Becht, Bolton and Roell (2003, 7) in their discussion 'Whom should corporate governance represent?' observed, 'some of the main issues over which the early writers have been debating remain central today', such as an enhanced focus on stakeholders, the role of employees in corporate governance, and the role of corporate governance in increasing firm value. They cite Dodd (1932, 1162) who argued that the interests of employees and consumers come before managers and owners in that:

> business is private property only in the qualified sense, and society may properly demand that it be carried on in such a way as to safeguard the interests of those who deal with it either as employees or consumers even if the proprietary rights of its owners are thereby curtailed.

Osterloh and Frey (2003) argued that the decision-making process of firms must strengthen participation and self-governance of employees as a part of corporate governance, stating that the traditional model of a monitoring and sanctioning management would make governance problems worse by creating a governance structure for crooks by reinforcing selfish extrinsic motivation and crowding out intrinsic motivation to behave honestly. They cited Argyris (1964) who suggested that strict control has a paradoxical effect leading to a neverending and continuously expanding need to increase control, affecting the loyalty of employees to their firms. Similarly, Aguilera and Jackson (2003, 461) cautioned that 'managerial accountability is not a zero-sum relationship', and when the interests of capital (shareholders) and labour diverge too sharply, coalitions between labour and committed block holders in actively monitoring management may break down and give management increasing autonomy to pursue its own agenda and thereby damage accountability.

In this regard, Nam (2003) argued that industrial relations approaches and labour unions provide a critical environment for a potential governance role for employees as they affect mode, agenda, and effectiveness of various practices of employee participation. Nam pointed out that, as major stakeholders, employees need to be given a governance role and a voice on the issues such as job design, work organisation, technology choices and compensation, usually regarded as managerial prerogatives. Employees' role in corporate governance is reflected in their ability to influence corporate decision-making and to control a firm's resources. Indeed, despite the formal legal equality of employers and employees in the labour contract, the substantive asymmetries in power have led to persistent conflicts over legitimate managerial authority (Aguilera and Jackson 2003).

Review of CSR rhetoric, systems and practice

The position of employees as key stakeholders has its supporters within the corporate social responsibility (CSR) paradigm, with proponents believing that corporations have a variety of broad social obligations as stakeholders exist both internally (and include employees, managers and the board), and externally (and include customers, government and community). Galbreath (2006) citing previous work in the literature suggests that CSR is an area of corporate concern that cannot be overlooked and is essential to a firm's overall strategy. The author added that although some strongly oppose any responsibility of the firm beyond the economic, research does suggest that CSR 'pays' and has a positive financial benefit to firms. Not just academics, but top management is also very vocal about CSR and its positive impact on firm value. Chris Goodyear CEO of BHP Billton states:

> The benefits BHP Billiton gets from achieving a high standard of corporate social responsibility are indisputable. Without our reputation as a corporate citizen contributing positively to our communities, there is no doubt our profitability would be hampered and shareholder value destroyed … It's a powerful competitive differentiator. It has the potential to establish us as the company of choice, giving us better access to markets, natural resources and the best and brightest employees. By doing so, we can maximize profits for our shareholders (keeping the Friedman adherents happy) while also ensuring we do the right thing by those who are impacted by our business. (Goodyear 2006)

Simmons (2004, 604) argues 'that responsible organisations are those that recognise relationships with a range of internal and external stakeholder groups, and establish systems to facilitate fair discourse with and between them on strategy initiatives they consider to undertake'. He contends that the responsibilities extend to environmental and social sustainability, incorporating human resource practices and organisational justice, and argues for an ethical governance system that incorporates the needs of a wide variety of diverse stakeholder groups.

The governance principles and practices adopted differ depending on the acceptance of the corporation's view of their social responsibility obligations. Important dimensions to be considered in putting in place a social responsibility framework include internal policies in areas of human resource and industrial relations, strategy, leadership, values and culture. External dimensions to be considered include how customer needs are met and hence, indirectly encompasses product quality and financial viability; and environmental, social and community activities. The variety of CSR dimensions is highlighted in the Australia Reputation Measurement which for the years 2000–02 collected data on socially responsible practices by Australia's Top 100 firms within the categories of corporate governance, employee management, environmental performance, social impact management and market and financial performance (Galbreath, 2006). Since then, the Corporate Responsibility Index which originated in the UK has been extended to Australia and benchmarks corporate responsibility strategy and implementation. It does so through measuring the organisation's interaction, policies and practices in relation to community, environment, marketplace and workplace. In addition the ten principles of the UN Global Compact are categorised into four broad segments: human rights, labour standards, the environment and anti-corruption. In particular four principles relate to labour and state that businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; they should act to eliminate all forms of forced and compulsory labour; act to abolish child labour; and to eliminate discrimination in respect of employment and occupation (UN Global Compact, nd).

Ethics and codes of conduct are also an important dimension that overlaps with CSR and the management of human resources. For instance, Francis and Armstrong (2003) discuss ethics and its relationships with values, strategy, stakeholders and social responsibility. They define ethics as being 'concerned with moral philosophy, values and norms of behaviour that guide a corporation's behaviour within society' (376). Along with values, they add links to strategy when they argue that successful corporate performance depends on the competitive advantage obtained from managing issues that affect various stakeholders – from employees and customers to government departments and communities – and changing societal expectations of business arising from mutual obligation and corporate social responsibility. They conclude that such an approach contributes to stakeholders' quality of life and leads to increasing profits, reducing fraud, avoiding litigation and ensuring a healthy and safe working environment. As Svensson and Wood (2005, 139) state: 'being ethical requires one to embrace a belief in incorporating social responsibility into one's corporate thinking and planning'.

But there seems to be a divergence between rhetoric and reality or between contentions about what should occur and the practice of what does occur. Leung and Cooper (2003) argue that the rise in economic rationalism and the related increase in materialism of the public, and company directors and managers have fed corporate excesses. Wealth transfer to cliques of rich shareholders alongside transfers of power has allowed them to appoint directors, managers and auditors whom they can control. Moreover, in Australia CEOs have awarded themselves unprecedented pay rises with a growing gap between highest and lowest paid employees (Leung and Cooper 2003). Cutting and Kouzmin (2000) also argue that corporate boards are failing to serve their companies effectively and cite De Geus (1997, 9) who states that 'managers focus on the economic activity of producing goods and services and forget that their organization's true nature is that of a community of humans'. We have also witnessed an increasing individualisation and unitary approach to employment relations in more recent years (Young and Thyil 2007).

In response, Phillips (2006) argues that corporate managers are seeking not just more corporate governance words but a reason for taking this philosophy into day-to-day management. Although organisations have a range of stakeholders he cites Friedman and Miles (2002) in arguing that in practice some seem to be more significant than others. Indeed Galbreath (2006) found that firms do prioritise investment in stakeholder groups which is based on their respective power, with investment in internal stakeholders being a priority. Hence, relationships with staff are seen as one part of good corporate governance which leads to organisational success. Human resource management also impacts on corporate reputation, alongside brand equity, ethical leadership, corporate citizenship and management quality (Phillips 2006). Indeed authors (Pettijohn et al. 2001; Thorpe and Homan 2000) suggest that the quality and acceptability of decision-making in stakeholder-accountable organisations are enhanced by incorporating employee perspectives. Moreover a newly developed governance model (Young and Thyil 2008) shows clearly the importance of labour to governance. Within this model, labour is a distinctive component and recognised in a number of segments, including human resource management, organisational justice, corporate social responsibility, employment laws, trade unions and employees.

In relation to strategy, a dichotomy exists between those organisations that operate from a low commitment, low cost, and marginal role of employee voice approach to those that operate from a high commitment, high value and employee democratic approach (Deakin et al. 2002). It is not apparent that organisations will adopt the latter even though the evidence points to improved corporate performance. Organisations may choose to adopt the former approach to gain market share through a strategy of cost reduction. As Jacoby (2005, 71) argues: 'Because shareholder companies view workers more like commodities than assets, they have higher employee turnover, invest less in employee training, and are less willing to make long-term financial commitments to employees'. Young and Thyil (2007) categorise organisations along three dimensions based on their integrated approach to governance, CSR and industrial relations. The three categories are:

1 *shareholder cost model* which comprises those organisations which: view labour as a cost to be minimised and not as a key stakeholder; use individual workplace agreements to achieve cost minimisation; and display a lack of employee 'voice';
2 *shareholder strategic model* comprises organisations which view labour as a contributor to profitability which is optimised through focusing on improved trust and commitment. CSR rhetoric is adopted with practices surrounding community involvement and environmental sustainability.
3 *stakeholder integrated model* which comprises organisations that fully integrate CSR, HRM and IR strategies and practices. Unions are accepted as a party to the employment relationship; and labour is regarded as a key

stakeholder, as an investor in the firm, and as a party to engage with on a consultative basis, whether through use of EBAs or other consultative approaches. The organisation in adopting a CSR approach sees its social responsibility to be clearly engaging with labour.

This latter model can be called a partnership system which is apparent in Japan and Germany. Aspects of Japanese governance such as life-long employment and employees on boards of management promote employees as key stakeholders in organisational success. This results in high levels of employee loyalty in exchange for lifetime employment and collaborative decision-making which requires long hours of relationship building outside working hours. Governance is recognised as more 'holistic' than in the west with a strong sense of corporate solidarity and social harmony as an expectation (Monks and Minow 2004). Their stakeholder model is based on social norms of egalitarianism and preference for human capital contributions over equity. A different balance between human capital and monetary capital has extracted high performance from employees who have been motivated to act as if they are residual claimants of the corporation. This is based on their principles of corporate governance such as the efficient management of the corporation, the maximisation of profit for shareholders, the maintenance of employment, and the maintenance of levels of corporate responsibility for social affairs. The continental system of governance as practised in Germany is also based on the stakeholder theory of the firm with employees involved in strategic decision-making through their supervisory board positions and their role in works councils (Monks and Minow 2004, 327).

As Jacoby (2000; 2001, 474–5 as cited in Lewis et al. 2004, 18) states:

> Governance systems that give weight to multiple stakeholders are associated with broader economic rewards. In continental Europe and Japan, there is less wage inequality than in the USA, including a smaller gap between the pay of executives and of front-line workers… the evidence shows that in fact, social equity is associated with higher long-term growth rates. Similarly, at the micro-level, there is evidence that firm performance can be improved by employee participation and representation…

Methodology

An understanding of the position of labour in organisations' governance systems and as key stakeholders is the aim of this paper. A purposive sample highlighting the varying degrees with which employees are incorporated in governance and CSR rhetoric is conducted. The sample consists of two resource-based firms and two finance-sector firms: Rio Tinto, Shell Australia, Westpac and ANZ Bank. According to the good Reputation Index 2002, Rio Tinto was ranked 48th, Shell Australia was ranked 3rd, Westpac was ranked 2nd, and ANZ was ranked 7th overall. According to the Corporate Responsibility Index of 2006 Rio Tinto, Westpac and ANZ all have gold ratings. Publicly available data from these corporations' websites, 2006–08 annual reports, and the most recent corporate governance or CSR or sustainability reports where available, were analysed. Adams and Harte (1998) and Adams and McPhail (2004) support this methodology and argue that corporate annual reports are excellent sources of research as they provide management with an opportunity to report on what they see as appropriate, can be of interest for what they do not report, and as the main focus of communication, are widely available.

Findings and discussion

Rio Tinto

Rio Tinto (2008b) is a leading international mining group, combining Rio Tinto plc, a London listed public company headquartered in the UK, and Rio Tinto Limited, which is listed on the Australian Stock Exchange. The group finds, mines and processes the earth's mineral resources. The group's major products include aluminium, copper, diamonds, energy products, gold, industrial minerals and iron ore. Rio Tinto (2008a) in 2005 employed 32 000 people mainly concentrated in Australia and North America. Wages and salaries paid in 2005 totalled US$2.1 billion (excluding Rio Tinto's proportionate share of joint ventures and associates). In 2007, Rio Tinto directly employed about 39 000 people. Its activities span the world but are strongly represented in Australia and North America with significant businesses in South America, Asia, Europe and southern Africa.

It states on its Business Overview website (2008b):

> Wherever Rio Tinto operates, health and safety is the first priority. Group businesses also put sustainable development at the heart of their operations. They work as closely as possible with host countries and communities, respecting their laws and customs. For Rio Tinto it is important that the environmental effects of its activities are kept to a minimum and that local communities benefit as much as possible from operations.

Rio Tinto is quite explicit in its pronouncements around CSR with its website highlighting sustainability as important and only referring to labour as a beneficiary of enhanced and sustainable performance.

> We believe a sustainable development approach can raise performance standards generally, including improving financial performance and creating additional shareholder value. Respect for the environment together with healthy and constructive relations with communities provides a solid basis for uninterrupted mining and processing operations. This ensures supply to

> consumers and benefits society while securing rewarding jobs for employees. (Rio Tinto 2006)

In regard to social impact, commentators believe that companies such as Rio Tinto do 'have a moral obligation to protect human rights' such as 'its decision in 2002 to shelve its Jabiluka mining project in Kakadu National Park because traditional Mirrar landowners has withheld consent' (Gettler 2002c).

In regard to employment, Rio Tinto clearly states that 'it favours local employment, does not discriminate in its labour practices, prioritises health and safety, undertakes performance management and employee development, expects high standards of behaviour', before concluding with the following paragraph.

> Group business's codes of conduct establish sound conditions of work and disciplinary procedures. The Group implements equitable and transparent remuneration and incentive systems. Rio Tinto recognises everyone's right to choose whether or not they wish to be represented collectively. (Rio Tinto 2008a)

It is interesting that its sustainable development statement specifically includes 'responsibilities to shareholders, environment and communities' and only alludes to benefits to employees from organisational performance. As a signatory to the 2002 GRI/Global Compact, it reports that it meets seven of the eleven labour reporting guidelines fully, two partially and two not at all. Specifically it states (2008a) that it is working on reporting employment creation, turnover and training for 2007; and the percentage of employees represented by trade unions, employee representatives and collective bargaining cannot be reported as it is not legal to request this information in many jurisdictions. Its key indicators in people have included simply the 'number of employees, the fatalities, injuries and illnesses'. In addition in recording the leadership groups in this area, in 2003 there was only one in the area of safety which by 2005 had increased to include sustainable development and climate change. This seems to indicate a narrow stakeholder perspective based on environment with the only inclusion of the contributions of staff to be in the area of safety.

Similar considerations can be seen in their employment relations practices. It is claimed that in the 1990s (Hearn McKinnon 2005), Rio Tinto's implementation of a de-unionisation campaign while promoting the appearance of equalisation through staff employment actually increased the differentiation of power between workers and managers. In rejecting the notion that workers could show dual commitment to both the organisation and the union, they moved to a system where managers would subjectively assess work performance to achieve performance-related pay. Total opposition to objective measures of output occurred, with the result that staff contracts were used to achieve cost reductions.

However in regard to its employment policies Rio Tinto (2008a) does state:

> To optimise business performance we mobilise the whole workforce in pursuit of the same goals. This is achieved by involving employees in the business; giving them explicit business information; seeking their views on the best way to achieve work outcomes, and actively collaborating on the achievement of change.

Shell Australia

Shell Australia is a major energy organisation involved in every stage of the petroleum supply chain, from discovery, production and refining of oil and gas, to the distribution, marketing and retailing of oil, gas and petrochemicals. It has operated in Australia since 1901 and is a wholly owned subsidiary of the Royal Dutch/Shell Group of Companies and hence lists on Amsterdam and London exchanges although not Australia's. Shell's operations in Australia include two refineries, 19 terminals and over 33 depots. It directly employs approximately 3200 people, and 18 000 indirectly through its service station and distributor network (Shell nd a). In 2005/06, Shell businesses in Australia reported $17 647 million in revenue.

Shell Australia makes no mention of employees in its Shell Group vision statement (Shell, nd b) but in its section on *Our people* it introduces its executives with a headline 'People are at the heart of every segment of our business. Their creativity, innovation, energy and motivation are the driving forces of our success' (Shell 2006a). The Shell Code of Conduct (Shell 2007) is intended to help individual employees put the business principles into practice and outlines the behaviour that Shell expects of the employees.

Importantly, Shell explicitly acknowledges employees as a key stakeholder. 'Our employees are important stakeholders in our business. We value their contributions and strive to make Shell in Australia a great place to work' (Shell 2006b).

Shell encourages employee participation and engagement. It reports that it aims to attract and retain employees through three key methods:

> (1) to respect the human rights of our employees and to provide them with good and safe working conditions, and competitive terms and conditions of employment, to promote the development and best use of the talents of our employees; (2) to create an inclusive work environment where every employee has an equal opportunity to develop his or her skills and talents, and to encourage the involvement of employees in the planning and direction of their work; (3) to provide them with channels to report concerns. (Shell 2006c)

Shell states that the Shell Sustainability Report (Shell 2006d), 2006 Annual Report (Shell 2006e) and the website have all been prepared in accordance with the Global Reporting Initiative's new G3 guidelines (Shell nd c). Accordingly, Shell reports employee-related information under 'Social Performance – Workplace – People: Our Business Principles commit us to providing our people with a safe working environment; respecting their human rights; promoting their professional development; and creating an inclusive work environment' (Shell 2006d).

Under inclusiveness the emphasis is on diversity, women in senior management, local people in senior management, staff perceptions, and the Shell People Survey (Shell 2006d). Every two years, Shell surveys all employees on their feelings about Shell and their experiences at work to identify any problems and assess staff morale. It reports that the overall results from the 2006 Survey were generally positive. The key performance indicators related to employees were diversity and inclusiveness, injuries and fatalities (Shell 2006d).

Regarding the industrial relations system, Shell mentions that 'all job applicants and employees are assessed against clear and objective criteria' (Shell 2006d) and that the employees are free to join a union wherever permitted by national law (Shell 2006d). Shell Australia estimates that 12 percent of staff globally are union members in 2006 but does not mention Australia specifically.

The Shell Group website appears to emphasise its preference for unions and thus the collective bargaining approach in comparison to the individualised approach. It states that in regard to unions, Shell's approach is based on partnership, dialogue and building positive relationships and adds that:

> It's become a cliché to say that we are on a long journey with our trade union partners and other stakeholders. But ensuring fundamental human and labour rights in the workplace and supporting the principles of 'decent work' will require year on year progress and hard decisions from all of us. Along the way, we will face real dilemmas, not least in those countries where unions and freedom of association are outlawed. (Shell 2001)

ANZ

ANZ is one of the largest companies in Australia and New Zealand and a major international banking and financial services group. The company's assets total $293 billion. It has more than 30 000 employees globally and is represented throughout Asia, the Pacific, the United Kingdom, Europe and the United States (ANZ 2006b).

ANZ (2006b) specifically states that it has 'embarked on a truly distinctive program to be a leader in corporate responsibility and sustainable value'. It states: 'At the heart of our approach is a commitment to building relationships of trust, respect and integrity with all our stakeholders over the long term.'

It goes on to incorporate the following statements of values:

> Putting customers first; leading and inspiring each other; performing and growing to create value for shareholders; balancing the short-term with the long-term; and focusing on responding to the environmental and social issues inherent in business decisions and operations; earning the trust of the community; challenging old practices and creating and delivering sustainable value over the long-term. (ANZ 2006b)

It is also worth noting that in the development of their Corporate Governance Framework the focus has been on developing a number of charters, with employees being the last to be considered.

> Our Customer, Community and Environment Charters describe our approach to corporate responsibility and the way we behave towards our stakeholders. Each of these Charters was upgraded in 2005. We continue to work with our stakeholders to develop our Shareholder and People Charters. (ANZ 2006a)

But even so, ANZ Bank's corporate social responsibility statement neglects labour as a contributing factor separate from its responsibilities in the area of health and safety. Though labour is referred to it does not seem to be a priority in the organisation's strategy. In their reporting against key indicators the People Indicators include: employee engagement, staff numbers, those engaged in culture change training, e-training, health & safety training, lost time and turnover, unfair dismissals, and male to female executive numbers (ANZ 2006a).

ANZ improved its rating on the Reputation Index throughout the early 2000s and in 2002 it was reported that its diversity and work–family balance policies might have contributed to its improved performance, with its workplace management score coming in at 39 compared with 47 the year before. 'Diversity@Work gave it a solid score on the back of such initiatives as a detailed gender study into a big division of the bank and another focused on increasing the number of women in senior management. The bank has also set up a job-share register and work–life balance workshops' (Gettler 2002b).

By 2006, in reporting against the GRI/Global Compact in relation to workforce management ANZ (2008) states that:

> ANZ policy supports employees' right to freedom of association. Employees are entitled to join, or not join, the associations of their choice. We do not interfere in an employee's decision to associate or not associate, or discriminate against the employee or a representative of the employee.
>
> We recognise the right of our staff to bargain collectively and also acknowledge that our staff have the right to take industrial action, providing these actions conform to the laws of the country in which we are operating. We respect that under relevant workplace relations legislation

> unions have certain rights of entry into the workplace and access to relevant information.

Furthermore, a cultural change project began in 2000 with the aim of 'creating a fundamentally different experience for our people, customers, shareholders and the broader community. This means transforming our culture to one that is values-driven, creates opportunity for our people and fosters high performance' (ANZ 2008). Its values relate to customers, value for shareholders, leadership and inspiration, community trust and being courageous.

Interestingly lacking is its appreciation of employee involvement in this cultural change project, although people are referred to in discussing 'people capital programs' and policies including diversity, flexibility, employee benefits, internal communication, health, safety and wellbeing, talent and graduate programs, learning, performance management and community involvement. In relation to its cultural change ANZ also states:

> We measure our level of engagement and progress towards creating a values-driven culture via our annual Engagement and Culture Survey. When Breakout began in 2000, 'cost reduction' was cited as the top value most evident in our culture. In 2006, 'profit', 'customer focus' and 'community involvement' were the top three values cited. (ANZ 2008)

Westpac Bank

Westpac began trading on 8 April 1817 as the Bank of New South Wales. It now has branches and affiliates throughout Australia, New Zealand and the Pacific region and maintains offices in key financial centres around the world. As at 30 September 2007 the Westpac Group employed approximately 28 000 people (full-time equivalents), with global assets of $375 billion. Westpac is ranked in the top 10 listed companies by market capitalisation on the Australian Securities Exchange Limited (ASX), with a net profit after income tax of $3451 million (Westpac Bank 2008b).

Westpac has consistently been awarded in the top two in the Reputation Index. CEO Dr David Morgan. says it was a 'moment of truth' in 1999 when he had to announce a record profit while 'we never had the community more dissatisfied with us, we never had our customers more dissatisfied and staff morale was never where it should have been' (Gettler 2002a).

It was reported (Gettler 2002a) that Westpac's first decisions were to place a moratorium on rural branch and metropolitan branch closures; introduce fee-free transactions for social security recipients and low-income earners; and tighten up on extending credit card limits for people who were likely to spend beyond their means. In 2002 Westpac Bank was the first Australian financial institution, and one of only five globally, to deliver a triple bottom line report conforming to the standards of the United Nations-sponsored Global Reporting

Initiative. Again in 2002 Westpac was ranked number one in the banking sector on the global Dow Jones Sustainability Index.

In relation to employee issues in 2002 Westpac received a high score from Diversity@Work, the federal government-funded group established to help companies diversify their workforce, after enshrining diversity into its employment policies. Initiatives included a diversity council and breastfeeding in the workplace policy. In 1998 it became the first bank to introduce paid maternity leave and provide for six weeks' paid paternity leave (Gettler 2002b).

Currently Westpac's website reports on various policies: work–life balance; training, learning and development; remuneration; harassment and discrimination; freedom of association; part-time employment and job sharing; redundancy, redeployment and retrenchment; and concern reporting and whistleblowing; with key issues being equal opportunity and diversity and occupational health and safety (Westpac Bank 2008a). It specifically states in the Attracting and Retaining people section that:

> Without our people we have no business. It's an obvious point, but as a services business, we are especially reliant on our employees. Technology and systems matter of course, but for a bank, our success is fundamentally about the talents and energy of the people who choose to work here. It is no surprise that how we treat them feeds through to our customers' experiences, which in turn drives our profitability. This link between our people, customers, and shareholder returns is in fact the core strategic proposition – the service-value chain – on which we base our business and what we believe sets us apart from the competition. Westpac in a nutshell. And, with an ageing population and growing war for talent, attracting and retaining the best people is even more fundamental to our long term prospects.

But even so incorporating rights to collectively bargain has been problematic and it states that in October 2005 negotiations for a new enterprise bargaining agreement ceased for two reasons: 'that we were unlikely to reach agreement with the Finance Sector Union on our offer made in April 2005'; and it would be more appropriate to finalise workplace arrangements under the new Work Choices system. They go on to state that 'its business as usual with Workchoices having only a minor impact for a small number of employees' (Westpac Bank 2006).

In 2008 (Westpac Bank 2008a) Westpac reported against GRI/Global Compact:

> Should they so choose, Westpac employees have the legal right to collective representation and to participate in union matters. Under the Westpac Enterprise Development Agreement and workplace relations legislation the Finance Sector Union has certain rights of entry into the workplace and access to relevant information. Similarly, the EDA provides employees who

> are union representatives with certain rights to devote time to union matters and leave to attend union courses and to carry out union business.

Westpac (2008a) also states that:

> Our commitment to our people is cemented through our endorsement of a number of human rights instruments, including the UN Global Compact, the International Labour Organisation Declaration on Fundamental Principles and Rights at Work and the United Nations Universal Declaration of Human Rights.

Conclusions

CSR is a significant new dimension in organisations' rhetoric. But it is clear that organisations vary in their approach to corporate governance and the extent to which a broad view of social responsibility incorporating labour is integrated into values' statements and organisational policies. The importance of recognising labour as a stakeholder in improving organisational performance has been highlighted by a number of researchers and supported by a range of arguments based on strategy, morals, ethics and relationships. While labour is seen by organisations as a significant component for advancing CSR, in practice, through a review of organisational statements, this research has highlighted that the position of labour as a stakeholder is much more problematic.

Shell Australia and Westpac could be regarded as operating from the stakeholder integrated model although Westpac, despite its awards and ratings, is still lacking in granting full employee democracy and voice to employees as key stakeholders. Shell encourages employee participation and engagement, views employees as core to its success and displays congruence between its IR system and its CSR strategy. Westpac similarly places employees as its first link in its strategic positioning and fully integrates its CSR strategy and its values. In contrast ANZ Bank and Rio Tinto could be categorised as operating from the shareholder strategic model. ANZ sees employees benefiting from organisational success rather than being fully integrated as a core driver and its CSR strategy is based on its priorities around customer, community and environment. Throughout its change process its values have prioritised customer and community. Rio Tinto's focus on environment, community and safety similarly places employees at the end of the value chain with a lack of integration into its CSR framework and its unitarist IR system supports such an approach.

Overall there is divergence between views and statements on CSR and how these are operationalised throughout the organisation. The emphasis seems to be on environmental and financial sustainability with less importance placed on dimensions of workplace management and accompanying employee relations approaches. In particular adhering to the UN Global Compact principle of freedom of association and right to collectively bargain has certainly been problematic in recent times with moves toward de-unionisation and new notions around individualisation. Benchmarks such as the Good Reputation Index also consistently rate organisations lower on workplace management issues than on others such as corporate governance and codes of conduct and social impacts including philanthropy. As Ledwidge (2007, 28) remarked,

> The primary issue, of course, is that many of today's CSR programs are just that, programs – they are not part of the core belief system of people operating within an organization. Until such time that the human and social values that CSR programs profess to hold dear are fully integrated into the strategic and operational fabric of an organization, HR must work with CSR managers and other departments to resolve the conflicts that might arise, and that might ultimately impair the value of the organization.

Effective governance implies that organisations recognise the impact of stakeholders on organisational success and the corresponding responsibilities that they themselves have to the community of stakeholders– internal and external– which they serve. Organisations both depend on and provide sustenance to a wide variety of groups and to not recognise and respect the contribution from each is a failure of governance. Interestingly Jacoby, Nason and Kazuro (2005) conclude from their analysis of the different governance systems of Japan and US that power contests are an important consideration, especially the allocation of power between different stakeholders such as shareholders, customers and employees. Moreover Pendleton and Gospel (2005) argue that managers do exert strategic choice in their labour approach and that they are not passive victims of finance and ownership systems, and can 'determine their labour strategies and seek to win investor support for them' (80). Hence as Nam (2003) argues, questions remain, for instance, how can the employees secure and defend their interests from other stakeholders, particularly shareholders? It is worth asking then in conclusion, in what ways can employees' interests be respected and accommodated in CSR, and how can employees be rightfully recognised as contributors to organisational performance? And in investigating management priorities, what labour practices are being used and to what purpose? It is not enough for firms to simply measure and report on factors such as diversity, occupational health and safety, harassment and equal opportunity which are often governed by legislation, and to not include employee voice and participation, rights to collectively bargain and freedom of association. Employees are key to long-term sustainable operations, as they are a primary stakeholder and vital contributors to profits. Their position in governance must give them voice to operationalise this contribution.

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