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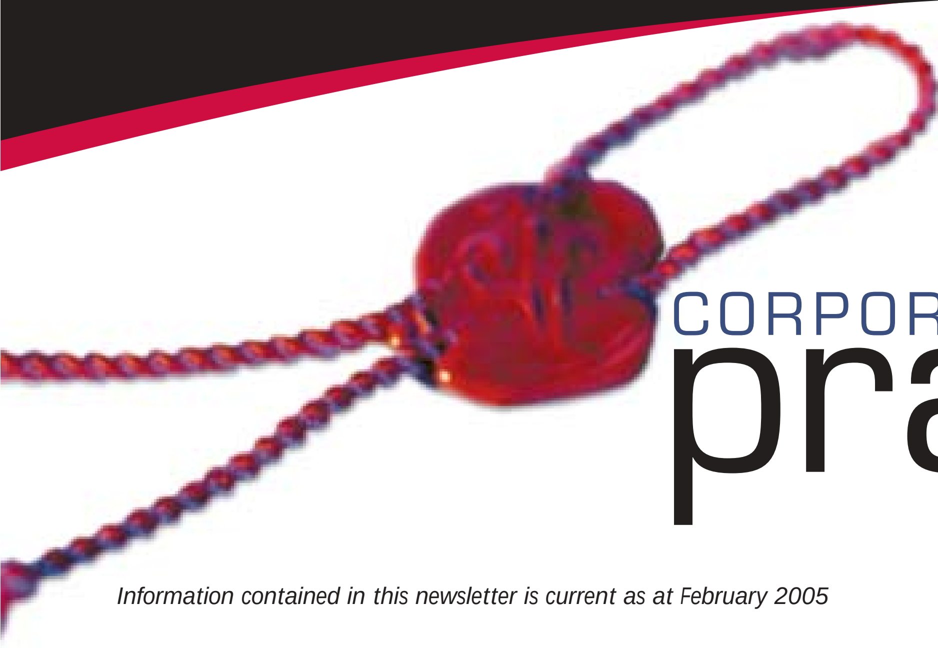

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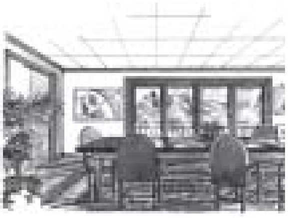

board matters

Corporate philanthropy — another boardroom challenge

Lynn Ralph
CAMERON RALPH PTY LTD

Consulting Editor

Paul Brown
Partner,
Corrs Chambers Westgarth

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The Asian tsunami disaster on 26 December 2004 has prompted an outpouring of corporate giving unprecedented in this country.

On the one hand, we have seen CEOs appearing on telethons with oversized cheques challenging others to match their giving, league tables of which company gave how much published daily in the media, and pressure from staff looking to their employers to match their own personal donations.

On the other hand, we have seen a reaction from shareholders, with the Australian Shareholders Association (ASA) clarifying its support (after an initial rejection) of giving to tsunami relief. The ASA bowed to public pressure with the following statement:

> The ASA is not opposed to corporations making donations to assist the victims of the tsunami. It is in everyone's interest that the affected communities and economies recover as soon as possible. Obviously, as with individuals, it is a matter for corporations to determine the extent of the assistance that will be provided. As these donations are a distribution of shareholders' funds, the companies should publicly disclose the amount and recipients so shareholders are kept informed.[1]

This is an interesting position given that the ASA's policy on donations to political parties is based on a premise in direct conflict with corporate philanthropy:

> For companies to contribute funds to political entities, and thereby reduce the profits available for distribution to shareholders, is to allow company management or directors to intrude upon the prerogatives of shareholders.[2]

With the tragic event happening over the usual summer hiatus for boards, one wonders how many of the decisions to donate involved the whole board in anything other than a quick circular resolution, and what the debate around the board table would have been like if a meeting had been held to make the decision.

As observed in (2004) 2(2) Corp Prac 18, 'the perspective and judgment of … non-executive directors' is seen as highly influential in a company's approach to corporate social responsibility.

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Perhaps if the meeting had been held some of the following views would have been put.

There would be some directors who would take the pure Milton Friedman view — that the corporation's sole means of benefiting society is through the maximisation of its profits, and that the decision of where to allocate those profits should be left to shareholders.

Other directors might have argued for making the donations on one of the following three bases.

The first and probably the most simple reason is 'communal obligation' — that is, being a good citizen and neighbour.

The second is to build goodwill — many Australian companies have existing or potential business activities throughout the affected countries, not to mention the goodwill which would be built with staff and the local community.

The third and perhaps most compelling reason is strategic giving — that is, directing the giving to those causes which build context and capability for the company. This is best described by Michael Porter and Mark Kramer[3] in their 2002 *Harvard Business Review* article, where they defend strategic giving on the grounds that it can create value for the corporation. In fact, they conclude by saying: 'There is no inherent conflict between improving competitive context and making a sincere commitment to bettering society.' Indeed, the closer and more effective a company's contributions are to improving its context, the better the result that may be achieved for society.

Many might argue that philanthropy should not be 'tainted' by any motive other than compassion. But a corporation does not have 'feelings' and directors must base their decisions on criteria that contribute to the best interests of the company, not merely on the desire to make everyone 'feel good'.

No doubt, had our imaginary board meeting been held, given the highly charged emotional atmosphere post Boxing Day, the chair would have had a difficult task to keep the discussion on a rational and emotion free basis, and to assist the board to find useful, mutually agreed criteria for deciding whether and how much to give.

And while it would have been a difficult decision for some boards, in the end it is just another example of the complex and difficult judgments that boards are called upon to make, and how a good board can make a real difference to the robustness of the outcomes. ●

Lynn Ralph, Managing Director, Cameron Ralph Pty Ltd, a private business which assists boards to improve their effectiveness: <www.cameronralph.com.au>.

Endnotes

1. ASA media release 7/1/2005.
2. ASA Position Paper: 04/05/20 on Political Donations.
3. Porter M and Kramer M 'The competitive advantage of corporate philanthropy' *Harvard Business Review* December 2002.

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