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Corporate Governance Practices from the Ethics of Care Perspective

This chapter discusses corporate governance practices from the ethics of care perspective. The literature reviewed was selected based on several aspects, outlined as follows:

1. A review of previous studies that investigated, theoretically or empirically, corporate governance using the ethics of care. These include the discussion of the shareholder or stakeholder model, which best describes corporate governance from the ethics of care perspective.
2. A review of previous research that studied the risk management, enabling the possibility to undertake an analysis from an ethics of care perspective.
3. The interpretation of corporate governance practices from the feminist ethics of care perspective was applied in developing a financial planning model. Therefore, previous studies that have discussed accounting and financial reporting using the ethics of care were also reviewed. This is because the financial projection required accounting data from the financial reports as inputs for the model.

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3.1 The Ethics of Care and Corporate Governance Aspects

The separation of ownership and control between owners and managers creates the principal-agent problem which naturally comes into existence (as predicted by the agency theory) and causes agency costs. These costs are incurred when: (1) managers as agents make decisions that will hamper value-maximising objectives; and (2) owners or principals incur costs to monitor managers and influence their decisions (Brealey et al. 2000).

Corporate governance is a tool to minimise conflicts of interest between managers, owners and other parties involved in a firm (such as conflicts between managers and directors, creditors and shareholders, and shareholders and other stakeholders) by exercising control over managerial decisions. Rezaee (2009) highlighted the shareholder and stakeholder aspects of corporate governance. This was to acknowledge the evolution of the corporate governance role from reducing agency costs to creating long-term shareholder value and, more recently, to increasing value for all stakeholders.

The stakeholder model of corporate governance views the company from a broader perspective as the nexus of contracts between all corporate participants with the common goal of creating value. While the alignment of management interests with those of shareholders as investors is the focus of the shareholder aspect, the stakeholder model emphasises the value maximisation for all stakeholders, including contractual participants and social constituents. The stakeholders' value maximisation objective is achieved through several policies, such as minimising cost and waste while improving product quality, enhancing employees' skills and satisfaction and contributing to the development of the community.

Even though the objective of maximising the shareholders' wealth is believed not to be neglecting the interests of other stakeholders, it is contended in this research that the explicit statement of a company's objective to maximise the stakeholders' interest will be better able to guarantee the consideration of business impacts on stakeholders in the decision-making process. According to Bird et al. (2007) and Godfrey (2005), the stakeholder-maximisation objective will also not jeopardise the interests of shareholders. Bird et al. (2007) analysed the relationship between six corporate social responsibility (CSR) activities, namely, contributions to community, employment diversity policies, employee relations, environment protection, high product quality, and future stock returns that represent market valuation. Using a statistical regression method, the author found a positive relationship, which suggests that there is no conflict between various CSR activities and the shareholders' interest. In line with this, Godfrey (2005) presented theoretical explanations for the relationships between corporate philanthropy and shareholders' wealth. He argued that philanthropic activity generates positive moral capital among communities and stakeholders, which contributes to shareholders' wealth. However, Bird et al. (2007) highlighted a particular concern that management pursuing the objective of maximising shareholders' wealth may not have the incentive to be proactive in environmental policy. It is suggested that government should play an active role in ensuring that companies meet the legitimate concerns of stakeholders.

Increasing profits requires the acceptance and contribution from other stakeholders with different and often contradictory interests. In the end, if we relate the objective of the firm with the corporate governance mosaic then we find that 'protecting the rights of shareholders and preserving important long-term relationships with external stakeholders are important fundamentals to good governance practice', as stated by Dallas (2004, p. 83). This really resonates with the problem of determining the objective of a firm due to the controversy between shareholders and other stakeholders about the primacy of the company's objective.

The importance of adopting stakeholder interests as a company objective was also recognised in the wake of several corporate collapses around the world. These called for better corporate governance structures to ensure that managers act not only to satisfy shareholders' interests but also that of other stakeholders 'as each of the stakeholders has a legitimate or moral right to claim on the value created by the firm' (Alam 2006, p. 218). Several theories, including social contract theory and institutional theory, support the stakeholder claim. In social contract theory, an organisation can gain legitimacy if its activities are in line with social expectations. Within institutional theory, a broader perspective is adopted to include the internal and external organisational contexts. The claim is protected by several companies' legislation and other legal

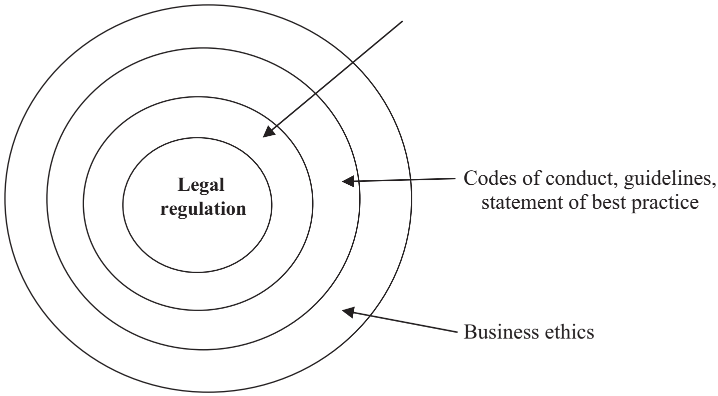

Fig. 3.1 The structure of corporate governance
Source: Farrar (2001).

controls to build control and accountability systems within companies. Farrar (2001) depicts the relationship as 'The structure of corporate governance', which is illustrated in Fig. 3.1.

Another consideration before adopting the stakeholder model of corporate governance is to ensure that the interests of women are taken into account in corporate decisions. In the shareholder paradigm, the interests of women as workers, small creditors, mothers and small investors tend to be ignored (Sarra 2002). The importance of considering women's voices and experiences is the focus of this study as the ethics of care is used to explain further the interrelationship between corporate governance and business ethics. As Francis (2000, p. 32) stated, 'remoteness of relationship makes it easier to behave unethically', and thus such interrelationship is manifested in this research.

Feminist corporate governance 'recognises a multiplicity of actual and potential relationships with varying degrees of asymmetry of power distribution, within which there is an obligation of care' (Machold et al. 2008, p. 673). The proposed feminist governance model is presented in Fig. 3.2. In the model, governance is not about abstract relationships between anonymous and homogeneous stakeholder groups but healthy and contextual relationships between concrete individuals in one or several stakeholder groups.

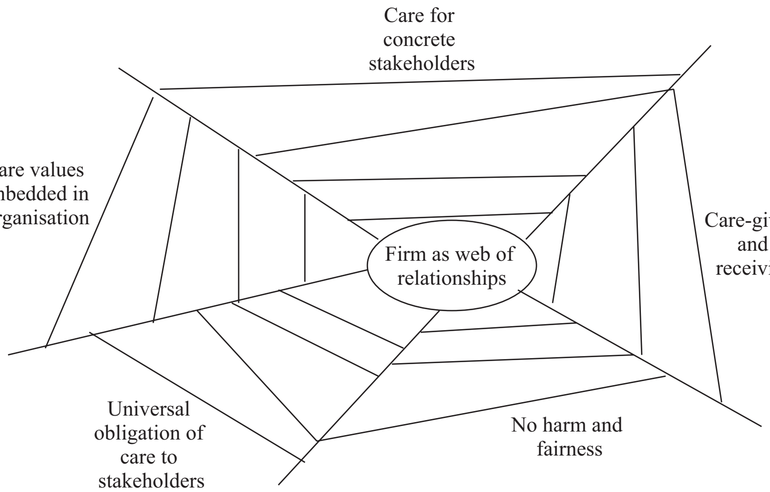

Fig. 3.2 A feminist governance model
Source: Machold et al. (2008).

As feminist corporate governance emphasises the importance of relationships among different parties, it has many points of contact with stakeholder theory. Stakeholder theory, as inherent in Freeman's definition (1984), positions the firm as *contractually* related to any number of stakeholders. The contractual notion means that approaches to management are focused on the legalistic, contractual, masculine side of human existence (Burton and Dunn 1996).

Differing from the 'contractual approach', the feminist perspective has a broader view of a firm's responsibility. It recognises the importance of protecting stakeholders who do not have a contractual relationship. Clarke (1998) discussed the distinction between contractual and community stakeholders. The contractual stakeholders are shareholders, employees, customers, distributors, suppliers and lenders; while the community stakeholders are regulators, government, pressure groups and local communities. The stakeholders have their own interests and expectations of a company. The interests of some of the stakeholders were summarised by Woodward et al. (1996), as presented in Table 3.1.

An example of dealing with community stakeholders is when a company avoids the practice of bribery in developing countries, even

Table 3.1 Stakeholders' interests

Stakeholder	Expectations of stakeholder from a company	Nature of accountability by a company
Employees	Remuneration, employment security, conditions, training	Company reports, employment news, bargaining information
Owners	Dividends and share price appreciation	Annual report and accounts, merger and takeover information
Customers	Quality, service, safety, value for money	Sales literature, advertising, servicing
Bankers	Liquidity and solvency of company, value of security, cash generation	Cover ratios, collateral, cash forecasts
Suppliers	Stable and enduring relationship	Payment according to terms
Government	Compliance with law, jobs, competitiveness, accurate data	Reports to official bodies, press releases
General public	Safety of operations, contribution to the community	Safety reports, press reports
Environment	Benign operations, substitution of non-renewable resources	Environmental reports, compliance reports

Source: Woodward et al. (1996).

though law enforcement in those countries is still lax. Another example might be avoiding polluting even when there is no sanction or government rule against it. In this sense, the acts in favour of the interests of stakeholders become the broad mission of management, bringing the consequence of sharing control with stakeholders. It is argued in this study that such commitment to non-contractual stakeholders by paying attention to their interests is a corporate governance concept from the caring approach perspective.

Wicks et al. (1994) argue that 'normal' stakeholder theory has retained certain 'masculinist' assumptions that limit its usefulness. They then suggest the reinterpretation of the theory using feminist thinking, for two underlying reasons:

1. A moral concern: the stakeholder concept was not simply a strategy to increase profits, but an attempt to articulate the responsibility of a corporation to inside and outside parties.
2. Some masculine metaphors should be transformed to improve the responsiveness and adaptability of a firm.

This does not mean that all masculinist concepts should be abolished, as both justice and care perspectives are needed to shape moral perceptions.

The masculine and feminist readings of the stakeholder concept are summarised in Table 3.2.

Stakeholder theory from the feminist ethics of care perspective is built around relationships rather than just formal structures with clear demarcation lines. The values for stakeholders are created through caring for them and maintaining the web of cooperation to get people to work together to create value. Another key point from the Wicks et al. (1994) identification of masculine and feminine views of the stakeholder concept lies in the process of decision-making; good corporate governance can be achieved when the rights and responsibilities of stakeholders are reflected in corporate decision-making. As presented previously, the 'normal' stakeholder theory suggests the view of corporations as a set of relationships. However, these relationships are based on rights and power, on contractual, legalistic relationships. The feminist theory grounds the decision-making in a stakeholder model, using not only the legalistic approach but also taking into account a moral emphasis.

On this specific point of decision-making, Burton and Dunn (1996) identified another contribution that feminist ethics of care could bring to the stakeholder theory, complementing the arguments of Wicks et al. (1994). The latter proposed a rule of consensus and understanding according to the ethics of care. First, they suggested finding win-win solutions to resolve issues confronting a firm and its stakeholders. If this was not possible, communication was urged to encourage an understanding of others' positions and eventual acceptance of a 'second best' result. However, this approach would only work if all involved stakeholders adopted a caring approach to their interactions.

Table 3.2 Masculine vs. feminine metaphors in the stakeholder concept

Masculine concepts	Feminist concepts
Corporations should be thought of as 'autonomous' entities, separated from the external environment. *'Stakeholders are all parties who effect or are affected by the corporation, but they are not integral to its basic identity.'*	Corporations represent webs of relationships among stakeholders. *'The corporation is constituted by the network of relationships which it is involved in with the employees, customers, suppliers, communities, businesses and other groups who interact with and give meaning and definition to the corporation.'*
Corporations can and should enact or control their external environment. *'Change and uncertainty are threats that should be controlled. Failure to exercise control can result in lost opportunities, unfavourable market conditions, government restrictions, decreased profits etc. that threaten the survival of a company.'*	Corporations should thrive on chaos and environmental change. *'Harmonious relationships with the fluctuating and dynamic business environment should be created, nurtured, and sustained, rather than conquered or controlled. Interdependence with other parties can emerge in patterns of cooperation, joint ventures or global alliances.'*
The language of competition and conflict best describes the character of managing a firm. *'Conflict among various stakeholders' interests is resolved by competition to determine the weightier or more compelling interest.'*	Replace conflict and competition with communication and collective action. *'Better to find win-win situations where what initially appear to be conflict of interest among stakeholders can be turned into forms of collaboration and effective communication to resolve conflicts. Encouraging participation and collective action also helps validate decision making.'*
The mode of thinking in generating strategy should be 'objective'. *'Objectivity through facts collection and empirical investigation pushes decision makers to be distant from their leanings, senses and interpretations. It means the stakeholders are silenced and their identities, emotions, needs, and perceptions should not be considered in the objective mode of thinking.'*	Strategy as solidarity. *'Where strategy as objectivity seeks to describe decision as dictated by the numbers or as business decisions, the feminist view of solidarity requires that managers make choices based on the responsibilities and relationships it has with specific stakeholders. Starting with solidarity requires that the use of scientific data be done in service of specific wants, that it not impede the ability to talk in terms of particular persons and their needs, and that the numbers or facts it produces can never dictate decisions.'*

Table 3.2 (continued)

Masculine concepts	Feminist concepts
Corporations should structure power and authority within strict hierarchies. *'Hierarchies or organizational structure tend to exclude the voice of stakeholders and erode the effort to operate in terms of the needs and interests of stakeholders, and to recognize the validity of stakeholder concerns.'*	Replace hierarchy with radical decentralisation and empowerment. *'Company structure and division of labour are not completely abolished, but are put in the service of humanising work practices and increasing employee involvement and responsibility. By pushing for more decentralisation, the firm not only nurtures communication and interdependence among stakeholders, it is able to draw more fully on the latent abilities and creativity of all. The worker benefits from more control and involvement in work, while the firm as a whole is better able to serve the interests of all stakeholders.'*

Source: Modified from Wicks et al. (1994), including the quotations.

Burton and Dunn (1996) further claimed that any theory based on the feminist stakeholder concept would run into problems when 'two stakeholders have opposite views of a decision and will be affected adversely if the decision goes against them' (Burton and Dunn 1996, p. 141). In this case, the difficulty is to try to answer the questions: Who should be given priority when a decision must be made? Whose contract should be broken? Burton and Dunn (1996) recommended adopting a caring principle, that is, special attention should be given to the least advantaged members of the moral community. The suggested principle would then become, 'Care enough for the least advantaged stakeholders that they not be harmed; insofar as they are not harmed, privilege those stakeholders with whom you have a close relationship' (Burton and Dunn 1996, p. 144). This principle adds to the understanding of the web of relationships, as discussed by Gilligan (1982). While she envisaged the web of relationships as involving all human beings and not only one's circle of acquaintances, it is not clear in her writing as to how the extension to all persons is to be accomplished (Blum 1993). Burton and Dunn's principle thus translates Gilligan's web concept into a more practical understanding that could be applied in business settings.

Wicks (1996) later commented on Burton and Dunn's (1996) principle. He resisted the particular direction Burton and Dunn appeared to take because the care approach is much more contextual and intuitive, resisting abstract, universal and generalisable formulations. Relevance is created not through the more detailed application of general principles and the creation of decision rules, but through finding ways of embodying various traits, characteristics or virtues.

However, in this study, Wicks' (1996) comments have not been accepted while Burton and Dunn's approach has. This is based on the practicality needed in operationalising the ethics of care concept into company decision-making processes. The universal decision rules are necessary to provide decision-makers with principles to follow. The results of decision-making will depend on the context and situation, as the least advantaged stakeholders as well as the immediately close ones could be different in various contexts.

The principle introduced by Burton and Dunn (1996) has several implications, as follows:

(i) this approach may not eliminate harm but it at least limits harm to the most vulnerable parties;
(ii) the caring principle should be applied by the company board and employees and be reflected in the company's ethics principles; and
(iii) a firm must perform a stakeholder analysis in order to recognise which stakeholders have power and which have a stake in decisions and, most importantly, to understand which stakeholders are most vulnerable to the action. This means that the determination of whether a specific stakeholder needs more care than another will be company-specific rather than a general criterion.

However, for the purposes of this study, the Clarkson (1995) model of stakeholder ranking was applied. This ranking consists of primary and secondary stakeholders. Primary stakeholders are prioritised as they contribute vital support for the survival of a company. Such primary stakeholders comprise shareholders, employees, customers, suppliers and lenders, as well as government and community. Secondary stakeholders are those who are not considered to be critical for the survival of an organisation; they include environmentalists, media and consumer advocates. Companies must build strong relationships with all key stakeholders to be competitive.

Clarkson's (1995) model of stakeholder ranking resembles the circles of caring relationships seen by Noddings (1984). The first is the inner circle of loved ones, primarily family, where the most intense and sustained caring relationship can be found. The second circle is for parties whose interactions occur on a regular basis or depend on the contexts where the caring relationship is needed. The first and second circles are like primary stakeholders in Clarkson's (1995) model. The third circle is vast, comprising the rest of the world, where only general and sporadic caring behaviours can occur. However, individuals may find opportunities to engage more in specific charitable and/or volunteer activities that represent the caring relationship in the last circle.

Even though Clarkson (1995) does not include the natural environment as a stakeholder, due to the lack of an appropriate political 'voice', it is assumed in this study that the natural environment qualifies as a stakeholder since it affects and is affected by a company's operations. Even if it does not qualify as a stakeholder, according to Phillips (2003) there are at least two reasons why the natural environment should be taken into account in company decision-making:

1. The natural environment may retain moral significance regardless of stakeholder status.
2. The obligations owed to other stakeholders will likely dictate managerial diligence regarding the natural environment. (Phillips 2003, p. 144)

Haigh and Griffiths (2009) suggested that the natural environment could be easily identified as a stakeholder when climate change is brought into consideration. The dynamics of the natural environment can affect competitors, suppliers and customers. For instance, the paths of severe storms associated with sea temperatures will affect the areas where operations, suppliers, competitors or markets are located. The heavy floods associated with climate change which occurred in Jakarta, Indonesia in 2013 also impacted the supply chain. Therefore, companies should develop strategic approaches in regard to the natural environment as one of their stakeholders.

Another interpretation added in this study is that feminist corporate governance will implicitly pay more attention to the interests of women who present as a proportion of the stakeholder groups. This can be translated into any policies that are 'women friendly', such as work–life balance policies for employees, flexible working hours, child-care facilities and the empowerment of women in the community. The notion of women as stakeholders has been proposed by Grosser (2009). While Grosser's study focused on women as employees, the principles can be applied to other stakeholder groups. Ultimately, this means that there is a longer list of stakeholders in the feminist corporate governance structure, as each group is further subdivided based on gender. A company that only applies the 'normal' or 'masculine' type of stakeholder model may have a large portion of women in its stakeholder cohort (such as employees, shareholders and community groups) but this fact is not automatically translated into 'women friendly' company policies. Hence, paying more attention to women's interests through a feminist ethics of care perspective can enrich the literature on corporate governance.

Providing more chances for highly qualified women to participate in top management is also a factor of the feminist ethics of care in corporate governance practices. Research by Carter and Wagner (2011) suggested that companies in the USA that achieve gender diversity and manage it well attain better financial results, on average, than other companies. This study was conducted in the period of 2004–2008 using three measures to examine financial performance: return on sales (ROS), return on invested capital (ROIC), and return on equity (ROE). The findings suggested that:

1. Companies with the most women board directors (WBD) outperform those with the least on ROS by 16%.
2. Companies with the most WBD outperform those with the least on ROIC by 26%.
3. Companies with sustained high representation of WBD, defined as those with three or more WBD in at least four of five years, signifi-

cantly outperformed those with sustained low representation by 84% on ROS, by 60% on ROIC, and by 46% on ROE.

Other than enhancing financial performance, gender diversity can also enhance corporate governance by generating new ideas and approaches to decision-making and corporate activity, as well as monitoring and eliminating all forms of discrimination and sexual harassment and evaluating managerial performance using the lens of diversity (Sarra 2002). However, cracking the glass ceiling still has to be done to bring women into corporate decision-making positions (Rosenblum 2009). Some barriers to participation include sex discrimination arising from institutional factors. In this respect, companies are slow to remove impediments for women due to their family responsibilities, sex-based differences in competencies and experience (as women usually lack experience in senior management roles), sex-based preferences in terms of employment conditions (as women tend to be reluctant to be in a top corporate position), and women's lack of access to valuable social and financial networks and mentoring (Nelson and Levesque 2007). To overcome these barriers, paying more attention to female employees' interests, as interpreted through feminist corporate governance, is necessary. One example is to provide work–family balance programmes to reduce the high turnover of women and give women opportunities to advance to more senior positions (O'Connor 2005).

As has been presented previously, the ethics of care perspective on corporate governance affects the stakeholder perspective. From this point of view, stakeholder theory appears as the theory of organisational management and ethics, because good corporate governance will enhance stakeholder value, company morale and productivity as all members of the firm, from the board and management team to the production workers, have a positive and important role to play (Francis 2000). Freeman and Velamuri (2008) went further, saying that the willingness to satisfy key stakeholders must be based on the idea of voluntarism by the company itself rather than being imposed by government agencies or courts.

The challenge for a company applying the stakeholder approach is more than simply maximising shareholders' wealth. However, this notion does not mean that all stakeholders must be treated equally: 'Corporations should attempt to distribute the benefits of their activities as equitably as possible among stakeholders, *in light of their respective contributions, costs, and risks*' (Sloan Colloquy in Phillips 2003, p. 27).

Beside the fulfilment of stakeholders' interests, another challenge faced by companies adopting the stakeholder principle is the relationship between social responsibility and corporate economic performance. This relationship is crucial to maintaining the sustainable operation of a business. Conceptually, Freeman and Velamuri (2008) stated that the stakeholder approach to business can integrate business, ethics and societal considerations. Technically, Ullmann (1985) found an inverted U-shaped correlation between social and economic performance. To an optimal level, they are positively related. Conversely, beyond that level, the social activities will negatively affect the economic performance. This issue is discussed further in the next section about the ethics of care and sustainability reporting.

The feminist view on the stakeholder aspect will also lead to a broader view of risk management as a component of the stakeholder corporate governance model. Francis and Armstrong (2003) stressed the relationship between good ethical practices and risk management in that an essential risk management strategy is a commitment to ethics in an organisation or company. As the ethics of care is applied in this study, it is argued that the risk aversion approach is better to prevent a company incurring huge losses in investment and other activities. This approach can be traced to women's attitudes to risk, with several researchers claiming that females are more risk averse than males (see for example Powell and Ansic 1997; Smith 1999). From the feminist ethics of care perspective, the risk aversion approach is also aimed at protecting the stakeholders from any harm resulting from corporate collapses. According to Clarke (2010), the failure to adopt a risk aversion approach has led to recurring crises. For instance, the spectacular risks with extremely leveraged positions on many securities and derivatives that have been taken by investment banks and other financial institutions have led to the systemic crises in international financial markets commencing in 2007.

Another interpretation of the feminist attitude towards risk is related to social and environmental risk. This is due to the roles of nurturer and care-giver that are usually attributed to women and are associated with general issues of health and safety and social and environmental risks (Gustafson 1998). This type of risk arises when a company's behaviour or the actions of others in the operating environment create vulnerabilities. Kytle and Ruggie (2005) suggested that companies manage their social risks by fully embedding them in corporate strategy, particularly through CSR activities.

3.2 The Ethics of Care and Sustainability Activities, Accounting and Reporting

Sustainability activities or CSR have been debated and practised in various forms for more than 4,000 years. Visser (2010, p. 312) states:

> The ancient *Vedic* and *Sutra* texts of Hinduism and the *Jatakas* of Buddhism include ethical admonitions on usury (the charging of excessive interest), and Islam has long advocated the use of *zakat*, or a wealth tax.

Sustainability in doing business creates challenges for companies in making decisions that simultaneously improve the economy, the community and the environment. The benefits of engaging in sustainability include but are not limited to: reducing energy consumption; reducing waste and cost; creating innovative new products or processes; attracting and retaining best employees; and improving companies' images with shareholders and other stakeholders (Hitchcock and Willard 2009).

Stahl and Grigsby (1997) defined three levels of CSR as follows:

1. Minimum legal compliance: companies conduct activities in compliance with the minimum social requirements of the law.
2. Enlightened self-interest: companies use CSR programs as a strategic tool to send signals to the market that they are better than competitors and, hence, long-term profitability is expected from this position.
3. Pro-active change: companies take positions far beyond the requirements of the law by utilising their assets effectively to improve society, regardless of the direct benefit to the firm.

McWilliams and Siegel (2001) provide some examples of 'beyond legal requirements' activities. These include the adoption of progressive human resource management programmes (which can involve flexible work schedules, work-at-home programmes, reimbursement of child-care costs and health-care packages to lower-wage bracket employees); the development of non-animal testing procedures; support for local businesses; and product attachment to social attributes or characteristics.

In order to push the agenda of sustainability in doing business, organisations must move from a mechanistic, patriarchal system of governance to one that is systems-based and views all stakeholders as important parts of an interdependent system. From this point of view, there is a close relationship between corporate governance from a feminist perspective and the sustainability agenda, forming so-called 'sustainable governance'. The sustainability agenda or CSR is 'an extended model of corporate governance', that governs the relationship between the board, management, employees and other stakeholders based on fiduciary duties owed to all the firm's stakeholders.

The relationship between CSR and profitability remains inconclusive as the results of empirical studies report positive, negative and neutral results (McWilliams and Siegel 2000). Often CSR programs burden the company with higher costs. For example, Clegg (2011) identifies the following costs associated with taking a sustainable approach:

(a) more expensive sustainable raw materials;
(b) initial up-front capital cost of new plants and buildings, and others;
(c) additional maintenance costs over an 'only fix it if it breaks' approach to keep operations sustainable;
(d) more effort in the design of processes and products;
(e) extra product costs from production to packaging and disposal; and
(f) additional human resource costs such as paying a living wage.

All of these identified costs are expected to generate benefits through reduced waste, reduced energy use, better productivity and improved image and sales. Weber (2008) presented a business case for a company to evaluate monetary and non-monetary CSR benefits. The values added from CSR activities are calculated by comparing the primary and secondary value drivers of each CSR benefit and costs.

The high up-front costs to become sustainable drive the necessity of financial analysis and planning to ensure that a company remains economically viable, avoiding bankruptcy while continuing to be socially and environmentally responsible. Regardless of the inconclusiveness of empirical results, it must be concluded that sustainability decisions come at a cost to profitability.

The notion of being simultaneously profitable and socially responsible was acknowledged by Carroll (1979) who proposed the following four-part definition of CSR:

1. *Economic responsibilities*. This is the fundamental assumption of business social responsibility to produce goods and services that society wants and needs and that make a profit.
2. *Legal responsibilities*. This requires business to comply with laws and regulations in conducting their economic mission.
3. *Ethical responsibilities*. These represent society's expectations of business to behave ethically and above legal requirements by respecting people's moral rights and avoiding harm or social injury.
4. *Discretionary responsibilities*. Discretionary or philanthropic responsibilities require business to make voluntary contributions based on desire, not because they are mandated or required by law. Examples of voluntary activities include making philanthropic contributions, being active in pollution abatement or providing child-care service centres for working parents. Feminist ethics centre on the importance of relationship maintenance that goes beyond rules and regulations and maintains good relationships with stakeholders.

Balancing economic, social and environmental factors is necessary; a company that becomes too charitable may sacrifice its financial viability, meaning that the economic benefit will be less than the increased costs and the business may become unsustainable. However, considering the financial aspect does not mean conflict with the ethics of care perspective. The corporate governance practices from the feminist perspective suggest that the relationships with stakeholders be maintained in order to create long-term value and achieve business sustainability. The maintenance of such relationships can be done through CSR activities. At the practical level, the amount spent on CSR activities has to be considered in the context of the company's financial position.

The extent to which a firm can follow pro-CSR policies should be determined at managements' discretion and be treated as any other investment. The optimum level that balances the need for maximising the benefit ('profit from CSR') and the 'demand for CSR' from multiple stakeholders can be resolved by performing a cost–benefit analysis (McWilliams and Siegel 2001) and by implementing 'stakeholder dialogue and assessment of their expectations and, consequently, by translation of these expectations into the strategic plan of the organisation' (Castka et al. 2004, p. 222). In this study, strategic planning was considered using the optimisation approach. This is discussed further in Chapter 4.

3.2.1 Sustainability Accounting and Reporting

Sustainability accounting and reporting are discussed briefly here as the ethics of care view of corporate governance is related to this issue. The discussion is necessary as the projection of the company's financial condition, as conducted in this study (discussed in Chapter 4), involved financial amounts resulting from the accounting process. The construction of a whole new set of accounting concepts under the ethics of care, however, was not necessary as applications of the ethics can be found in the existing sustainability accounting and reporting concepts.

Sustainability reporting is used as a tool to communicate a company's social performance to its internal and external stakeholders. It is an extension of accounting reports, including information about products, employee interests, community activities and environmental impact. The history of sustainability reporting began with employee reporting and then moved on to social reporting, environmental reporting and triple-bottom-line reporting and is expected to reach the ideal of sustainability reporting (Buhr 2007). Triple-bottom-line reporting does not meet the definition of sustainability reporting as other aspects are incorporated, such as justice and equity.

There is a possibility that a company provides social reporting simply because it cares about how it is perceived by stakeholders. In other words, the reporting is only used to create a 'good image' of CSR. Therefore, the use of a research method to analyse the report, such as content analysis, should be exercised carefully to identify the *actual* level of sustainability activities in a company. The emphasis should be on social and environmental performance measurement, which goes beyond glossy company reports and public relations.

One important issue in sustainability, specific to accounting, is related to the question of how to account for environmental and social impacts. While financial accounting has already been standardised through accounting standards, there are, as yet, no generally accepted practices for evaluating non-financial performance. In order to develop long-term sustainability, a company has to be transparent about both positive and negative stakeholder effects. This means that supplying only financial information might not be adequate and should be supplemented with other information on the effects on company stakeholders, such as wages, employment, health, taxes and levels of pollution. There are several guidelines to assist in such reporting, including the Global Reporting Initiative (GRI), which was a joint initiative of the US-based Coalition for Environmentally Responsible Economies (CERES) and UNEP (United Nations Environment Programme) in 1997. However, the number of companies that use these guiding principles is still small.

Despite the current limitations, CSR and sustainability reporting (which may be presented as part of the annual report or in a stand-alone report) can be said to be the 'most developed form of non-financial reporting' (Elkington and Zollinger 2004, p. 200), attempting to capture, measure and value performance across the triple-bottom-line of economic, social and environmental value-adds. The wider conception of performance and reporting is devoted to presenting the accounting information to a broad range of stakeholders rather than purely to shareholders (Alam 2006).

In Australia, social and environmental reporting remains predominantly voluntary. Only a few specific Australian accounting standards require companies to provide such reporting. These were identified by Deegan (2010), as follows:

(a) AASB 116 Property, Plant and Equipment requires the cost of an item of property, plant or equipment to include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. An entity incurs the obligation for this either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories.

(b) AASB 137 Provisions, Contingent Liabilities and Contingent Assets state that obligations relating to environmental performance could be included in either 'provisions' or 'contingent liabilities', depending upon the circumstances. It also discusses constructive obligations especially in Paragraphs 10 and 21, which will often require recognition in an entity's financial statements.

In conclusion, Deegan (2010) contended that there is still limited coverage of environmental issues in accounting standards. The nature of limited coverage is also restricted to the financial consequences of various actions rather than motivated by a true willingness to present the information about social and environmental performance.

Besides the lack of appropriate accounting standards, Deegan (2010) also asserted that 'traditional' financial accounting has several limitations in terms of reporting externalities by companies. Externalities are the impacts a company has on external parties, either human or non-human. Those effects can be related to the social and environmental implications of a company's operations and merit special consideration when developing more 'friendly' accounting and reporting. The limitations of traditional accounting, as identified by Deegan (2010), are set out as follows:

(a) There is a 'Major focus on the information needs of stakeholders with a financial interest' (Deegan 2010, p. 1260). This focus denies the needs of other parties seeking information that may be non-financial in nature. Companies can provide this information voluntarily.
(b) The concept of materiality in accounting tends to preclude the reporting of social and environmental information because something which is considered immaterial does not have to be disclosed in financial statements. In many cases, the social and environmental externalities cannot be quantified and are gen-

erally not considered to be material and, therefore, do not need separate disclosure. For example, the pollution arising from a company engaging in just-in-time production is not measured and disclosed.

The fact that the social and environmental information is not disclosed, because the individual expenditure is deemed to be immaterial or because it cannot be financially measured, ignores the possibility that such information can have significant impacts on a company's reputation and stakeholder support. Therefore, it is suggested that the impact should be determined and measured even though the determination is a dynamic and subjective process. Stakeholder expectations must be considered and careful examination should be made to determine whether these stakeholders are different from those described in the financial materiality concept.

(c) The practice of discounting liabilities to their present value tends to make future expenditures less significant in the present period depending upon the discount rate chosen and assumptions about advances in technology. As a result of discounting, future environmental expenditure that is remedial (such as site clean-up and remediation of contaminated land) will be recognised as of little or no current cost and therefore warrant no disclosure. Hence, such practice is inconsistent with the sustainability agenda and does not make good ecological sense.

(d) The entity assumption requires a company to be treated as a separate and independent unit from its owners, other companies and other stakeholders. Using this assumption, a transaction or an event that does not directly affect the entity will not be recorded and reported for accounting purposes. This means that externalities will also be ignored, making performance measures such as profitability incomplete from a broader societal perspective. Rubenstein (1994) suggested that to account properly for sustainability issues, the entity should be the firm (in the natural capital context) upon which it is economically dependent but may not own (according to the conventional sense of private property).

(e) Current financial accounting does not recognise environmental resources as company assets as they are not controlled by companies (which are required to recognise assets from an accounting perspective). This limitation brings about the consequence of not recognising the expenses of using or abusing the resources unless there are fines or other cash flows occurring. It also leads to a failure to recognise the full costs of production, which includes natural capital such as water, air or fertile land.

(f) The measurability concept tends to preclude the recognition of environmental obligations and externalities in financial accounts because no reasonable valuation method is currently available to accurately measure the externalities. Various estimates should be applied to place a monetary value on certain social and environmental resources. However, this may lead to inaccuracy of the measurement.

3.2.2 'Feminist' Accounting

The limitations highlighted by Deegan (2010) resonate with a feminist revision of accounting. This is aligned with the political perspective of oppressed parties as suggested by Hammond and Oakes (1992). The following changes in accounting practice might be suggested through feminist theory (Hammond and Oakes 1992):

(a) Money will not be the only unit of measurement. Qualitative information on corporate contributions to the community will also be included. This can be done in the disclosures a company provides in its reports.

(b) Information on distribution of corporate wealth will be provided, such as information on the difference between the highest and lowest paid employees, health-care provisions, training programs, gender and age compositions of each group of employees and employee ownership.

(c) Women will not be objectified or exploited as decorative additions to financial reports.
(d) Environmental information will be provided to induce more socially responsible behaviour, such as information on the natural resources exploited by the company, the location of environmental waste sites and the company's programmes to overcome damage to the environment. This is also suggested by Cooper (1992).
(e) Accounting will include information on other areas of social responsibility, especially in regard to multinational corporations' operation in developing countries.

Accounting in this view is not just a technical phenomenon, but 'one that has the potential for having a reciprocal relationship with the wider societies in which we live' (Hopwood 1987, p. 65).

The development of the optimisation model using accounting from a feminist ethics of care point of view is discussed further in Chapter 4. The approach taken is somewhat optimistic and pragmatic in order to make the ethics of care more workable in the accounting and financial management area. This is quite different to Cooper (1992) who suggested that feminine accounting is terms of 'green accounting' or environmental accounting will be likely to reduce profit, and hence, will be subject to resistance. It will be made possible only by a change to society, in a radically transformed social order. As several years have passed since Cooper's (1992) article, we can see a slight difference in the present world where environmental or sustainability accounting has flourished; even though feminists probably will still view it as 'masculine'. The approach taken in this study is hence a contribution towards a more 'workable' feminine accounting.

3.3 Inferences

Based on the preceding discussion on ethics of care, sustainability activities, accounting and reporting, the following inferences can be drawn:

1. Feminist ethics, although rooted in a feminist political perspective, is not necessarily only exercised by women. Like other ethical systems, it can be

categorised as 'virtue' ethics and is considered more than just a gender issue. It is the human quality that counts, not the gender itself. The consequence of this interpretation influences the choice of samples and the evaluation of a company's activity from the feminist ethics point of view.

2. Feminist ethics envisages the importance of relationship maintenance that goes beyond rules and regulations. This means that a company's CSR activities should go beyond complying with regulations from government or international pressures; they should also be designed to maintain good relationships with stakeholders. This means that the nature of activities should not only be mandatory or compulsory but also, more importantly, voluntary or discretionary.
3. Because the projection of a company's financial condition is central to this study, all activities must be measured in monetary terms by taking into account social and environmental accounting. The optimal level of CSR activities that still generates the necessary company outcome (in terms of revenues/profits) will be determined using the optimisation approach (discussed further in Chapter 4).

3.4 Previous Research Using the Content Analysis Method

Disclosure is one component of governance aimed at protecting stakeholders' interests of timely and accurate reports. A content analysis method is generally applied to the study of company disclosures. Consequently, this method was used in this study to study corporate governance practices from a feminist ethics of care perspective. A discussion of the content analysis methods as applied in previous research is presented in this section to provide context for this study.

The content analysis method can be categorised as quantitative or qualitative, applied within various theoretical frameworks. Using legitimacy theory, which is based on the idea that in order to continue operating successfully corporations must act within the bounds of socially acceptable behaviour as identified by society, Deegan et al. (2002) examined the corporate social and environmental disclosures of BHP Billiton Ltd (one of Australia's largest companies) from 1983 to 1997. Their research was motivated by Guthrie and Parker (1989) who analysed the same company's disclosures to see whether corporate disclosures were made as reactions to environmental pressures and aimed at legitimising the corporation's existence and actions. Unlike Guthrie and Parker (1989), who findings did not support legitimacy theory, Deegan et al. (2002) found significant positive correlations between community concern for particular social and environmental issues (which was measured by the extent of media attention) and BHP Billiton's annual report disclosures on the same issues. The findings represent support for legitimation motives for the company's social and environmental disclosures as BHP Billiton adopted disclosure strategies to comply with community expectations. Support for the legitimacy theory, as an explanatory factor for environmental disclosures, was also found by O'Donovan (2000) who utilised semi-structured interviews with senior personnel from three large Australian public companies to investigate such legitimacy motives.

Kent and Monem (2008) went beyond legitimacy theory to include good corporate governance as another factor that drives triple-bottom-line reporting. Using binary logistic regression, their research provided support for both legitimacy theory and good corporate governance structures as the explanations for the adoption of triple-bottom-line reporting by Australian companies.

Just as BHP Billiton has become the favourite case study for research in Australia, General Motors (GM) in the USA also enjoys the same status. Neimark (1992) used the dialectical theory to analyse the non-financial aspects of GM's annual reports. She was able to show that through the history of the company, the reports were used to assert the superiority of management over the unions, support social consumption and reinforce family values. The implication here is that accounting consists not only of financial statements, but also includes photos and text from annual reports, which she calls the 'hidden dimensions'. Even though such hidden dimensions are usually examined in content analysis, Neimark (1992) provides a new way of thinking in terms of studying the history of a company through its annual reports.

Still focussed on GM's annual reports, Tinker and Neimark (1987) developed a longitudinal study on the relationship between crises in late capitalism and the changing roles women and men play in such crises as reflected in the annual reports of a corporation. Using the content analysis method, text and photographs relating to the issues were measured according to the space devoted to them in the reports. The inequality in the representation of women and men was observed in GM's annual reports between 1917 and 1976: 'women appear in the annual reports as adornments and symbols of (presumably) male achievement' (Tinker and Neimark (1987, p. 83). The same finding was regrettably still ubiquitous 20 years later in the annual reports of 30 firms in the Netherlands, which were studied by Benschop and Meihuizen (2002) using the same method.

Over a shorter period, from 1971 to 1990, Malone and Roberts (1996) examined the public interest reports of GM and discussed the principal areas disclosed by the company during those years. These areas were women and employment issues, energy and the environment, international operations, automotive safety and philanthropic activity. They concluded that there were at least three principal forces driving GM's disclosures: the extent to which public attention is focused on the problem; potential costs associated with GM's adherence to a public standard of social behaviour; and the relative objectivity of an issue.

Beside the quantitative content analysis method, the qualitative one is also used in several studies. Grosser, Kate and Moon (2008) investigated the reporting of gender equality in the workplace among UK companies. They used a CSR perspective as there had been growing interest in employee issues, including gender and diversity within CSR. Quantitative analysis was based on the companies' annual reports, CSR reports and websites, searching the reporting of data on such issues as workplace profiles, career development, equal pay, work–life balance and general management related to gender issues. Then a qualitative content analysis was performed by differentiating two main categories of data. The first included rhetoric, declarative, policy, endeavour or intent and programme reporting. The second included targets, quantified data (monetary or non-monetary), descriptions of performance and outcomes. The findings suggested that there was some improved reporting of gender performance information beyond basic workplace profiles. This had occurred despite no new reporting regulations.

From a review of prior research, it can be concluded that company motivation to engage with its stakeholders (including CSR activities) is driven by the need for legitimacy (external factor) and improvement in corporate governance structures (internal factor). This study focuses more on the internal factor using the feminist ethics of care to study corporate governance practices, an approach that has not been widely applied in previous research. In

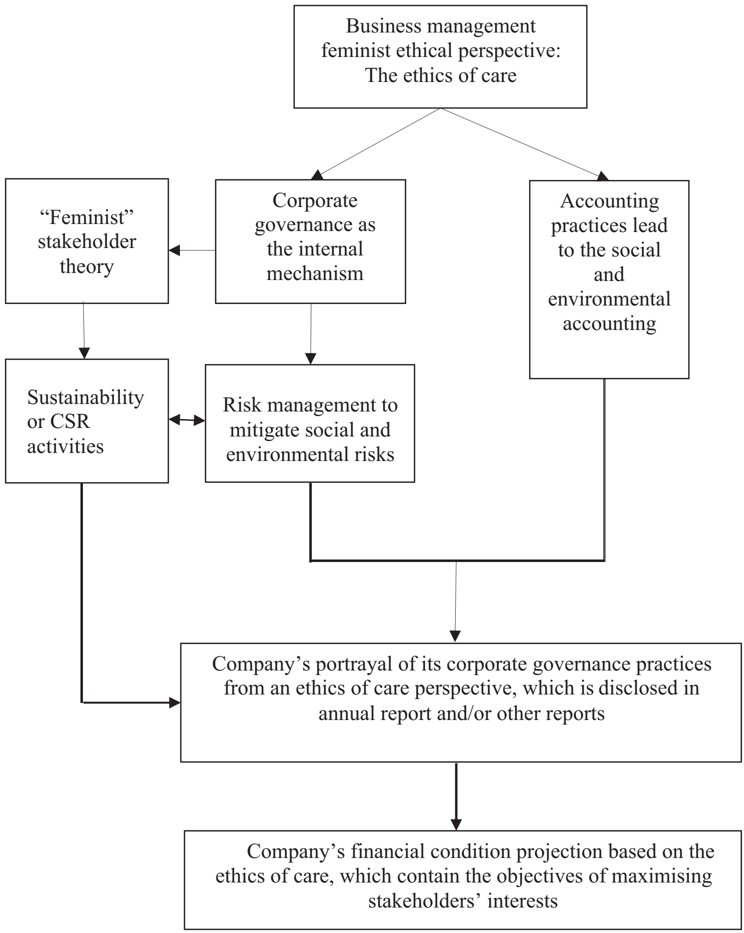

Fig. 3.3 Conceptual framework

addition, the quantitative content analysis method is used in most of the research, but this study applied a qualitative content analysis method to gain a more thorough and deeper understanding of corporate governance practices. Finally, while some researchers have used case studies, empirical research using a sample of many companies still dominates. This study used the former approach, with a case study of an Australian company.

3.5 Conceptual Framework

The conceptual framework of this study was developed from an analysis of feminist ethics, corporate governance and risk management, as outlined in the preceding discussions. This framework is shown in Fig. 3.3, which is an elaboration of the framework of theoretical constructs depicted in Fig. 1.1. The ethics of care becomes the underpinning perspective, shaping the corporate governance and accounting practices of a company. Risk management emerges as an essential component of corporate governance, receiving special attention in this study because of its importance in developing financial management strategies. Together with external factors in the form of regulatory environments, these factors should be considered in developing strategies to achieve the benefits of good corporate governance.

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