O'Byrne, S. and Daymon, C. (2013) Unequal investors: Questioning the ethicality of Australia's financial sector. In: Annual Meeting of the International Communication Association (ICA) 2013, 17 Jun 2013, Hilton Metropole Hotel, London

Unequal investors: questioning the ethicality of Australia's financial sector

Introduction

In an age of global disquiet about the power and ability of large companies to influence the social fabric of the countries in which they operate, citizens around the world are increasingly voicing their concerns and questions about whose interests are being served by the activities of these powerful institutions. The rise of the Occupy movement, class actions against banks about 'unfair' fees, and the fallout from the News International phone hacking scandal denote citizens' refusal to remain passive about their discontent. There is now a growing clamour for international companies to acknowledge that citizens and communities are legitimate business stakeholders with the right to have a say in corporate goal-setting and decision-making. We argue that because corporate public relations fails to acknowledge the diversity of business stakeholders, it privileges the views and voices of a single elite group, in effect, marginalising those of other stakeholders. Overlooked most notably are citizens who contribute to superannuation and pension schemes, because it is their financial savings that provide the capital on which large companies and economies are based. We focus our study on one major sector of the Australian economy, showing the implications of its communication activities for all Australian citizens and for the Australian economy. We suggest that corporate public relations cannot begin to be ethical and socially responsible, and business cannot be fully effective, until the hierarchical separation of stakeholders is eradicated and account taken of all stakeholder views and voices.

While there have always been power differentials in society, scholars have argued that the emergence of big business has accentuated these. In the modern economy, corporations wield great power over people and society (Bakan 2004) with public relations intimately tied to a corporate agenda that fosters a system of dominant-subordinate relations, underpinned by a manipulative ideology (Munshi and Kurian 2005). Munshi and Kurian argue that public relations promotes this inequitable distribution of power among stakeholders, because in communication campaigns and strategies certain key stakeholders are prioritised over those who are deemed to be peripheral and therefore unworthy of public relations attention. Positioned at the top of this 'asymmetric hierarchy' (p.514) are shareholders, a group with an obsessive focus on profits and share prices. Because Munshi and Kurian's main research interest is on diversity in relation to the First and Third World, they then go on to identify other groups of stakeholders but these are less relevant for our particular concern, which is with the financial sector of Australia and with discrimination within the stakeholder group known as investors or shareholders. Nevertheless, the notion of an asymmetric hierarchy is of interest to us because it is able to reveal how corporate public relations, working on behalf of a powerful elite (that is, senior management) separates, prioritises and, in effect, discriminates against certain stakeholders.

Australia's financial sector

In Australia, as in other capitalist economies, a broad and diverse base of investors provide the economic capital that allows businesses to function. Organisations and individuals, through their investments, take a stake in listed companies in the form of shares which are a portion of the value of each company invested in. In many cases, monies are invested and managed on behalf of others by companies known as institutional investors, which includes superannuation funds. These companies manage large sums of money owned by, for example, a sole investing organisation, or they pool smaller amounts from a number of investors into a single investment fund.

Around 40% of Australia's equity market and 30% of Australia's bond market are owned by Australian institutional investors, predominantly superannuation funds (Black and Kirkwood 2010). Therefore, a substantial portion of the capital that fuels the daily activities and growth of major national and international companies is provided by superannuation funds which, in turn, are funded by individual citizens who invest in these funds for their retirement through their regular savings. In Australia, over 70% of the adult population have some level of superannuation savings, and of those aged between 25 and 54, this figure increases to 87% (Allen Consulting 2011). In effect, then, it is the citizens of Australia who are the real owners of the capital that sustains the operations of national and international listed companies. Despite this fact and also the recent demands of citizens for greater corporate engagement, individuals are rarely acknowledged by the superannuation funds and listed companies as having the right to a say in the activities and outcomes of business. Research by the Centre for Corporate Law and Securities Regulation (Ramsay, Stapleton and Fong 1998) and by other industry and government bodies indicates that institutional investment companies such as superannuation funds do not seek to engage with the individual investors whose money they manage, nor do they gather their views and seek to understand their concerns. Instead, the views of large shareholders and senior managers are privileged, with the interests of individual investors not taken account of, despite the fact that they are the real owners of corporate capital and therefore legitimate corporate stakeholders.

Literature review

In the management literature, there are competing views of the corporation and how it should be managed. Agency theory and stakeholder theory have been described as polar opposites because of their contrasting views about management assumptions and processes (Shankman 1999). We argue that both are useful in explaining corporate public relations in the financial sector.

Traditionally, agency theory has been used to explain the nature of the implicit and explicit contractual relationships that exist between an organisation's various constituents and its management (eg Eisenhardt 1989, Fama 1980). From this perspective shareholders, as the principals or owners of companies, are the primary constituents who delegate their decision-making rights to an agent (senior management). Management has a fiduciary duty to maximise profits and thus ensure that the highest returns possible are achieved. The effect of this relationship is that senior managers are considered an elite group whose powerful position and ability to privilege or disadvantage various relationships is legitimised by large shareholders. When a shareholder base is diverse and diffused (such as when there are multiple large and small investors), then smaller investors or shareholders have difficulty in exerting any power over the agent.

While agency theory still has currency in justifying current management practice including managers' presumption of their right to make decisions on behalf of investors, recent scholarship has suggested that this perspective is limited and should be either complemented with stakeholder theory (Hill and Jones 1992), or subsumed within it (Shankman 1999) because stakeholder theory offers a more appropriate and moral means of informing contemporary management practice, as well offering the possibility of giving a the right to property and decision rights to broader range of stakeholders (Janssen 2005). Public relations research has not engaged with agency thinking, but there is a growing body of work examining stakeholder relationships in public relations, such as De Bussy (2008; De Bussy and Kelly 2010) and Mackey (2006).

Stakeholder theory posits that at the heart of management and corporate governance are interdependent relationships with a range of diverse stakeholders (Shankman 1999:323). Writing about public relations, De Bussy (2008) states that 'managing stakeholder relationships is – or should be – the core business of public relations, whether in business, politics or other organisational settings'. Therefore, he posits that it is 'of the utmost importance' that more studies be conducted into stakeholder relationships in order to develop theory within the context of public relations'. Holzhausen (2011) agrees. Drawing on studies from South Africa (2005), she argues that taxpayers and the communities in which organisations operate are just as much principals in these organisations as are shareholders. Unless all stakeholders are addressed in public relations activities, then 'organisations will be unsustainable because an organisation that does not adhere to the value system of its environment will be shut down' (Holtzhausen 2011:158). We have already noted the work of Munshi and Kurian (2005) who have drawn attention to the discrimination that occurs when stakeholders are hierarchically separated in communication campaigns. Questioning the ethicality of the notion of a hierarchy of stakeholders, de Bussy and Kelly write that, 'To continually overlook the concerns of the legitimate in favour of the interests of the "merely" powerful is far from an ideal state of affairs… The voices of the legitimate but powerless should, at a minimum, have the opportunity to counterbalance the clamouring of the powerful (2010: 301).

To date, little academic research has examined stakeholder involvement and participation in the financial sector. In particular, there is scarce research on the hegemonic role of senior management as the agent of shareholders, and the role of public relations in reinforcing this position. Most previous research has focused on:

- the increasing importance of superannuation funds as a source of capital in Australia and the impact of the regulatory changes to compulsory retirement savings in the field of business studies, such as the work of Ramsay, Stapleton and Fong (1998), Black and Kirkwood (2010) and Liu and Arnold (2010); and
- the rise of stakeholders, other than shareholders, and their influence on how companies communicate in the field of communication studies, such as Arnt Aune (2007) and Waddock (2007).
- organisational stakeholders in non-financial sectors, such as de Bussy and Kelly (2010), Holzhausen (2011), and Munshi and Kurian (2005)

In developing our literature review beyond this abstract, we will build on the work of the above authors and also further a discussion of ethics, by drawing on, for example, the work of Fitzpatrick and Gauthier (2001), Raupp (2012) and L'Etang et al (2012).

Methodology

Our study is situated in Australia's financial sector. Our review of the literature led us to investigate the following questions:

- How do companies and institutional investors identify and engage with different stakeholder groups, and what is the role of public relations in this process?
- Do institutional investors such as superannuation funds acknowledge that individual investors are the real owners of the assets in which they invest, or is there a hierarchical separation of stakeholders?
- What are the likely outcomes for Australian society of the above practices?

We employed a critical discourse analysis approach to analyse the websites, annual reports and sustainability reports of five of the largest companies listed on the Australian Stock Exchange, and five of the largest superannuation funds which manage superannuation fund members' contributions[1]. The five listed companies are BHP Billiton Ltd, Woolworths Ltd, Commonwealth Bank of Australia Ltd, Telstra Corporation Ltd and Wesfarmers Ltd.

The size of these companies means they have some influence over the lives of Australians and the social fabric of Australia, as well as over government policy through professional lobbying and participation in industry association bodies. Australians interact with these organisations in many ways as employees, contractors, sub-contractors, customers, suppliers and neighbours.

The five superannuation funds included in the sample are AMP Superannuation Savings Trust, Colonial First State FirstChoice Superannuation Trust, AustralianSuper, The Universal Super Scheme and UniSuper. These funds were chosen because they are five of the largest superannuation funds in Australia, and represent a mix of private retail funds and industry funds.

The 2010/2011 annual reports of the chosen listed companies and superannuation funds, and also the corporate responsibility reports of the listed companies were examined and compared to reveal: (a) whom each company identified as (i) stakeholders and (ii) shareholders, and if there was any distinction communicatively between large shareholders and small investors; (b) the language, content and genres employed to communicate with the different stakeholder groups and if there was any distinction in the language, content and genres that targeted large shareholders vis ᾀ vis small investors. The summaries at the start of the each report, provided by the Chief Executive/Managing Director and Chairman, were a particular focus as examples direct written communication between the highest level of management within these institutions and the targeted stakeholder group.Websites of the companies and superannuation funds were analysed in order to understand how the organisations engaged with their members, and the extent to which the structure and content of the website constrained or facilitated engagement with shareholders and investors. With regard to the superannuation funds, the analysis also focused on the extent

1 This study refers to money invested by Australians in superannuation funds only and does not take into account money invested in the stock and bond markets through separate investments

to which companies and superannuation funds acknowledged superannuation members (individual investors) as the providers of capital for the underlying investments, and if the structure and content invited fund members to contribute to discussions about how funds were invested. Themes emerged inductively from the data and we used these to structure the following presentation of findings.

Findings

In this section, we briefly summarise some of our initial findings as they relate to two key themes: proximity and access, and transparency and opacity. In the developed paper, we will present the findings in specific detail with quotations.

Proximity and access

An indicator of the salience of a stakeholder group to an organisation is the method of communication (or genre) an organisation uses to engage with each stakeholder group, and the access each stakeholder group has to senior management. In the case of all of the listed companies the data indicate that stakeholders were prioritised differently, with a clear distinction evident in terms of the proximity that companies allowed to senior management and boards. Current and potential professional investors (including market analysts) had greater access to the upper echelons of management and the boards through briefings and smaller meetings. Other shareholders, such as small retail shareholders, had access at annual general meetings and through the websites, although the opportunity for closer interaction with senior management was not apparently available.

Listed companies made great efforts to regularly dialogue in a variety of ways with professional and potential investors and shareholder groups, presenting their engagement policies and practices on their websites and in publicly available reports. However, with the exception of two companies, the listed companies were less forthcoming about how other stakeholders might access information or have a say in investment decisions. In the case of the majority, there was little or unclear detail about mechanisms for contacting or interacting with corporate executives. Two companies did provide information about how to gain access to company representatives, usually through public meetings or community events (and then only to executives at lower management levels) or via the highly controlled channel of the website. Therefore, in the case of the limited companies, the data indicate that individual superannuation fund members were provided with no access to senior management and little opportunity to engage with their corporate communication activities.

The lack of access to management by small investors was further evidenced in the language that the superannuation funds used on their websites and in corporate reports. Individuals' accounts were referred to as 'yours' whereas financial investments were described as 'ours', thus implying that investment capital was the property of the superannuation funds. This disregarded the fact that the capital was supplied in the first place to the superannuation funds by individual members. Such discursive strategies encourage the notion that professional investors, on behalf of superannuation funds, are the rightful owners or agents of capital and therefore take priority among stakeholders who are ranked hierarchically.

Transparency and opacity

The salience of stakeholder groups is highlighted not only by the genre selected for corporate communication, or the extent of access allowed to senior management, but also by the content of corporate messages that are targeted at different stakeholder groups. When communicating with shareholders and institutional investment companies, the listed companies employed a financial discourse, evidenced in the reporting of results as well as analyses about the impact of external events on the companies' commercial interests. The investor centres of all the companies' websites provided information on business development, financial information and the impact this had on investment accounts. These communication strategies were designed to resonate with shareholders and institutional investors whose priorities are share values and profits. There was little information about how each company was run, how its operations impacted on local or national communities, or the company's corporate responsibility role in shaping Australian society.

With regard to the superannuation funds, information was opaque about how professional investors made investment decisions on behalf of individual superannuation members. In the sections of the websites labelled 'members' there was only information about individual account performance and administration of that account. None of the communications of the superannuation funds linked members' monies with the listed corporate assets which benefitted from their capital, thus obfuscating the connection between the provision of capital by superannuation members and the investment funds where they could rightfully claim a stake. Indeed, once citizens' monies had been invested by superannuation funds, it then appeared to become the property of professional investors who managed and invested it into 'our investments'. This use of language encourages the notion that there has been a change of ownership of money, thus ensuring that superannuation funds have 'agency' and control over investment decisions without any recourse to the views and voices of individual superannuation contributors as investors.

Conclusion

Dealing with investor stakeholders as monolithic group is to overlook the complexity and nuance of stakeholder relations in Australia's financial sector. Stakeholders involved in investing, managing or advising on investments are diverse and range from individual citizens who contribute to superannuation funds through their regular savings, to professional investment managers, institutional investors, shareholders and also listed companies, with managers of companies and funds acting as agents on behalf of large and small investors, including shareholders. While most scholars tend to categorize shareholders as important and privileged stakeholders, our data suggest that even within the shareholder or investor stakeholder group there is privilege and disadvantage. Our data indicate that there is a separation of investor stakeholders along hierarchical lines with certain groups of investors occupying more powerful positions than others. Listed companies and superannuation funds pay greater attention in their corporate communications to the views and voices of professional investors, institutional shareholders and potential professional investors (including market analysts). These stakeholders are supplied with information relevant to their investment interests and imperatives, and also are granted greater proximity to the senior management and the boards of the companies in which they invest through financial briefings and informal meetings. Other shareholders, such as small retail shareholders, have access to financial information on websites and also at annual general meetings, although the opportunity to meet with and influence the investment decisions of the senior management of companies in which they invest is not available (although there is some access offered to lower level managers). Superannuation fund members, the providers of capital to many of the institutional investment groups, have no access at all and are not acknowledged as the real owners of the financial foundations on which the Australian economy is constructed. In effect, a small, elite group of professional investors are most influential in driving corporate investment decisions and there is no evidence that these stakeholders canvas the views and values of the citizens who provide them with the money for investment.

In the conclusion of our developed paper, we will apply an ethical perspective to develop theoretical propositions concerning the ethicality of communication practices in the financial sector. We will also note the broader societal and economic consequences for Australia when citizens, as the real owners of the capital that supports the country's assets and major corporations, are overlooked in both corporate public relations and investment decision-making.

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