

# Profits not popularity win the day

Author: Grahame Dowling - Grahame Dowling is a professor at the Australian Graduate School of Management and the Australian representative of the US and European-based Reputation Institute

Date: 20/12/2005

Words: 446

Source: AFR

Publication: The  
Financial Review  
Section: News  
Page: 47

It's been an interesting year for corporate Australia, and even more so for James Hardie. What with the asbestos victims and their lawyers, the regulators, the unions, government and most journalists berating the company, who would want to be Meredith Hellicar? As chairwoman, she has borne the brunt of the public backlash against James Hardie Industries.

However, the share price is looking good. It is well above the price it was at when the asbestos crisis became big news.

The conventional theory about corporate reputations suggests that when a company is pillaged by the groups listed above it should suffer everywhere - even in the stockmarket. Hence the Hardie situation illustrates a classic paradox in the world of corporate reputations - you don't always have to be liked to be successful in financial markets.

At the heart of this paradox is a clash of two theories of corporate governance: the stakeholder theory and the property theory. Stakeholder theory says that all a company's stakeholders should be important to a company's success and sustainability. Companies that subscribe to this theory employ a range of meaningful stakeholder engagement programs, including corporate social responsibility.

Many years ago, Milton Friedman articulated the economics that underpinned the property theory of governance. His thesis has been frequently paraphrased as "the business of business is business". From this perspective, shareholders are first among equals and strategies that produce economic gain for the company - that are legal and don't intentionally damage the community - are to be pursued.

In 2001, when James Hardie moved to the Netherlands it practised a classic property theory tactic called regulatory arbitrage: move to the jurisdiction that is most favourable to the company's activities. The relocation had the effect of quarantining the company's liability to its Australian asbestos victims to its two main former asbestos-producing subsidiaries. What followed was the debacle about funding the Medical Research and Compensation Foundation and the subsequent damage to the company's public reputation.

The Hardie case exposes a critical dilemma for all Australian company directors. How do they balance the company's financial imperative with their own fiduciary responsibilities in an environment of increased social responsibility? The Hardie strategy of fighting through the conflict is one option. It is working, in sharemarket terms, because Australian public opinion plays only a limited role in the financial success of the company. However, this strategy won't work when a company must rely on its name for customer support.

- Grahame Dowling is a professor at the Australian Graduate School of Management and the Australian representative of the US and European-based Reputation Institute.