4. STAKEHOLDER ENGAGEMENT

Stakeholder engagement encourages consensus building and avoidance or minimisation of risks to people and the environment.[75] Making stakeholders central to moral corporate discourse also increases the chance of making social progress.[76] Yet, stakeholder engagement does not always have moral motives, and can be aimed at knowledge gathering, human resource management and legitimisation. It should thus not be seen as corporate responsibility in action, but rather as an initiative that can be related to corporate responsibility.[77]

Indicator	ANZ	CBA	NAB	WBC	Asia	Europe	N. America
Identifies stakeholders	✔	✔	✔	✔	6/8	10/11	7/7
Explains engagement	✔	✔	✔	✔	6/8	10/11	7/7

The majority of banks in the sample identify stakeholders and explain methods of engagement. It is crucial to note that, due to the reasons outlined in the preceding paragraphs, present times are characterised by growing stakeholder scepticism. As a result, banks must carefully decide how to convey commitments towards their stakeholders. Recognising this fact will help banks to take greater responsibility for their activities.[78] However, research shows that when companies are faced with increasing pressure to be accountable to a number of stakeholders, decisions to implement standards are frequently made based on cost-benefit calculations, neglecting broadly defined stakeholder interests.[79]

Internal Stakeholders

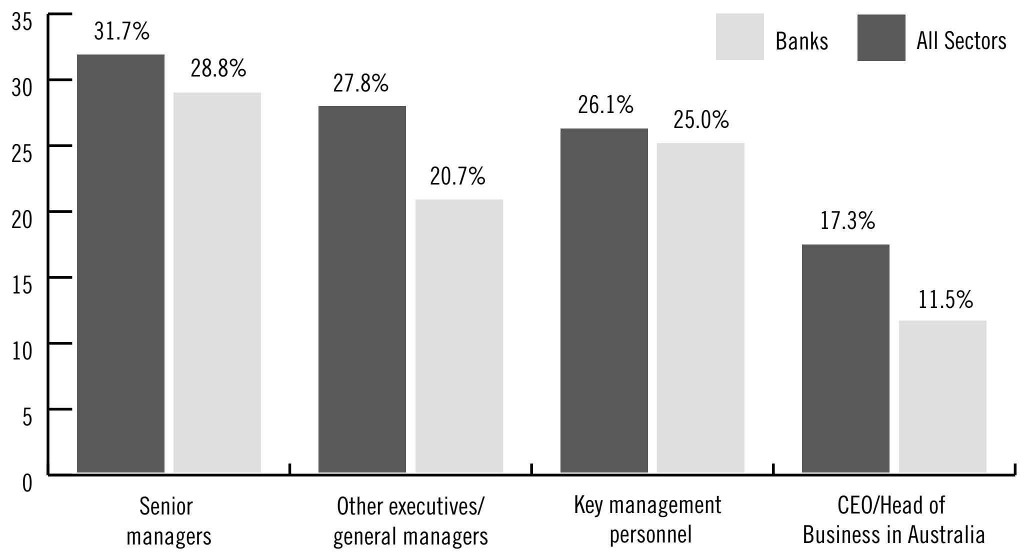
Stakeholder engagement has internal and external dimensions. Moral managing of staff entails considering employees as a resource to be treated with respect. Moral management would seek out fair dealings with employees, and employ a consultative and participative leadership style, focused on harvesting mutual confidence and trust.[80] Concerning the internal social conduct of banks in the sample, the majority report on their employee engagement, providing training and education to staff, diversity initiatives, and actively obtaining staff feedback.

Indicator	ANZ	CBA	NAB	WBC	Asia	Europe	N. America
Training and education	✔	✔	✔	✔	8/8	10/11	7/7
Diversity and opportunities	✔	✔	✔	✔	7/8	11/11	7/7
Staff Feedback	✔	✔	✔	✔	5/8	11/11	5/7

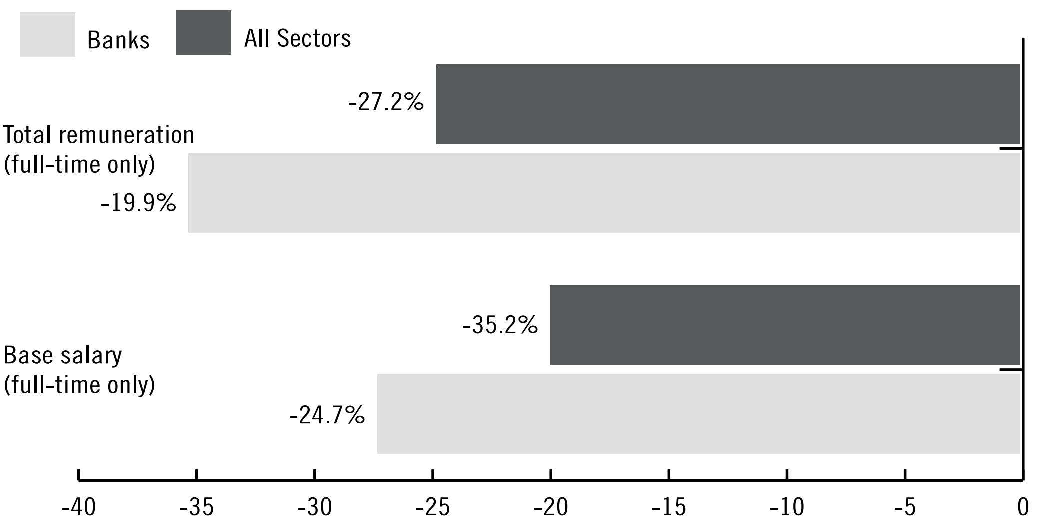
Although the Australian banks report that they manage staff in a moral manner, there are numerous cases that contradict these claims. For example, despite enormous profits, a number of restructures[81] and offshoring[82] of jobs in recent years has resulted in thousands of job losses.[83] Moreover, a look at the representation of women in leadership positions and the remuneration of women compared to men – gives rise to further doubts. [84] In comparison to other industries, banks in Australia have fewer women in management positions, while the base salary and the total pay gap at banks is greater.[§]

[§] Figures are based on 25 banks and 4,329 other organisations in Australia that reported to the Australian Government's Workplace Gender Equality Agency in 2014.

Percentage of Women in Leadership



Remuneration of Women vs. Men



External Stakeholders

When considering external stakeholder engagement, banks frequently devote resources to public outreach and community engagement. Moral management of community stakeholders involves considering a vital community as a business goal that is worth actively pursuing. Leading firms would, for example, focus on environmental issues, education, culture, and volunteerism. Moral management would consider community and company goals as mutually interdependent.[85]

Indicator	ANZ	CBA	NAB	WBC	Asia	Europe	N. America
Community involvement	✔	✔	✔	✔	8/8	11/11	7/7
Sponsoring	✔	✔	✔	✔	7/8	11/11	7/7

All banks in the sample mention that they are in some way engaged in the community. All banks but one report that they sponsor public events. These figures suggest a worthy effort by banks to engage their external stakeholders. Optimism is tempered by research that shows a clear philanthropic strategy is frequently lacking in community investment[86], as well as by studies showing that "[…] external stakeholders are not integrated on a regular but on a case-by-case basis and most of the time interaction takes place in a situation of crisis".[87]

Despite the seemingly widespread community involvement of Australian banks, there are some examples where their interests conflict with the interests of the wider community. As mentioned, thousands of Australians lost their life savings because of inappropriate advice given to them by financial planners. Another conflict between Australian banks and society concerns a class action over disputed late payment fees.[88] In the largest collective legal action in Australia's history, over 185,000 people who claim to have been charged unfair fees are attempting to redeem their money, claiming over $AUD 240 million.[89] Although the Federal Court over-ruled an earlier decision that branded late payment fees as illegal, the matter will most likely be taken to the High Court.[90] Regardless of the verdict, Australian banks have had to square off against 185,000 citizens.

Multistakeholder Initiatives

Bringing multiple stakeholders together to participate in dialogue, decision-making and formulating solutions to social and environmental issues encourages transparent and accountable business enterprise. It allows for participation of the stakeholders that are most directly impacted by business enterprise and often have little opportunity to voice their concerns. The **United Nations Global Compact** (UNGC) and the **United Nations Environment Programme Finance Initiative** (UNEP-FI) are two well-known initiatives. All four Australian banks partake in these initiatives, while participation rates are lower in other regions.

Indicator	ANZ	CBA	NAB	WBC	Asia	Europe	N. America
UNGC	✔	✔	✔	✔	4/8	8/11	1/7
UNEP-FI	✔	✔	✔	✔	4/8	7/11	4/7

The UNGC is an international multistakeholder forum that relies on the adoption of ten principles across four areas: human rights, labour standards, environment, and anti-corruption.[91] While the UNGC is often lauded, it has only had modest impact on corporate responsibility.[92] It is criticised for the alleged dominance of corporate interests, vague principles, and a failure to validate fulfilment of the principles.[93] Firms mostly benefit through networking and enhancing corporate reputation.[94] Proponents argue that the UNGC should be seen as an addition to incomplete state and non-state regulation.[95] Yet, companies are less likely to be delisted from the UNGC in countries where institutions function well[96], which suggests that the initiative does not offer a substitute for weak or absent governance.

The UNEP-FI facilitates dialogue between the community and private sector companies, with the aim of promoting sustainability in business operations.[97] In order to become a signatory, financial companies must adhere to a statement, which dictates that activities are compatible with social and environmental welfare. Signatories express commitment to sustainability, but are not accountable, nor do penalties exist for non-compliance. It follows that criticism of the UNEP-FI is similar to that of the UNGC and mainly concerns the absence of enforcement, while rebuttals likewise state that the initiative should be seen as filling the gap left by incomplete private and public policy.

The fact that the UNGC and the UNEP-FI do not fill the gap caused by weak or absent governance frameworks is best illustrated by the occurrence of land grabs in emerging markets, financed by the big four Australian banks. While bringing together stakeholders to participate in a dialogue about responsible financial enterprise is laudable, it has not served the victims of improper land acquisition well, nor did the UNGC principles or the UNEP-FI statement prevent these land grabs. Without accountability, enforcement and penalties for non-compliance, the UNGC principles or the UNEP-FI statement regrettably are not worth the paper they are written on.

Summary

At first sight, Australian and overseas banks seem to engage well with internal and external stakeholders. Yet, there is evidence that reveals a different picture. The purported extent of internal and external stakeholder engagement has not solved existing employee and community issues, as shown by the continuing underrepresentation and underpayment of women in leadership, in addition to thousands of layoffs despite enormous profits, as well as banks being faced with the largest class action in Australian history. It appears that stakeholder and community engagement is driven by reputation incentives, given that previous sections show that banks are often motivated to enhance their corporate image.

This supposition is verified by research showing a lack of detailed community investment and engagement strategies, and studies that show companies make decisions based on a cost-benefit basis when faced with pressure from various stakeholder groups, therefore ignoring broadly defined stakeholder interests. In other words, stakeholder engagement is often opportunistic and reactive. This is no different for multistakeholder initiatives, which promote voluntary standards over binding regulation, even though they do not provide a failsafe supplementary governance framework. In sum, these initiatives fall short in aligning actual incentives to stated aims, in countering information asymmetry and reducing social and environmental risk levels.