

# 11. UNDERSTANDINGS OF SUSTAINABLE CORPORATE GOVERNANCE BY AUSTRALIAN MANAGED INVESTMENT SCHEMES AND SOME IMPLICATIONS FOR SMALL-SCALE FORESTRY IN AUSTRALIA

Paul Dargusch

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This study reveals that managers of Australian managed investment schemes understand sustainable corporate governance as a mix of financial, natural environment and social outcomes. The managers that were interviewed prioritized financial aspects of business performance but acknowledged that sustained financial performance was only possible if positive natural environment outcomes and positive social outcomes were also sustained. In this context, the managers expressed qualified support for the development of small-scale forestry in Australia.

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## INTRODUCTION

In the last 10 years, plantings of short-rotation commercial hardwood plantations in Australia on land previously used for food production have dramatically increased, with about 400,000 ha of such plantations being planted since 1997 (BRS 2006). This has been a result of substantial increases in investments made in such plantations through managed investment schemes (MIS) (Stanton 2006). These schemes project manage the establishment, maintenance and timber marketing of the plantations, the majority of which are intended to produce woodchips most likely destined for export to Japan for use in the manufacture of printing, copying and information-grade paper (Kelley *et al.* 2005).

The scale and rate of expansion of short-rotation hardwood plantations by the MIS has been impressive and dramatic and their activities have attracted both praise (as reported by Harte 2006) and criticism. Criticism has been mainly of two types. The first has been made by expert commentators warning that due to various flaws in aspects of the policies and regulations underpinning public scrutiny of the MIS, yield and price forecasts for hardwood pulpwood made by the MIS have been overstated (Clark 2004 2005, Mackarness and Malcolm 2006). The second has been by representatives of rural communities expressing concerns about how the MIS were adversely changing the social and economic conditions of traditional food and fibre production in their regions (as reported by Adams 2007).

This criticism has contributed to the activities of the MIS being the subject of two investigations by the Australian Senate (Senate 2001 2004), a review by the Australian Department of Treasury in 2006 and an in-depth investigation in April 2007 in mainstream media on the Australian Broadcasting Commission's Four Corners program (entitled 'Tree Change' and produced by Masters 2007). Although to date the result of such scrutiny has been relatively minor changes in related policies and regulations (such as those announced by the Assistant Treasurer of Australia, Hon. Peter Dutton in December 2006), it is reasonable to assume that such contentious debate will continue to typify the political environment of the MIS industry for at least the foreseeable future.

Upon reflection it is not surprising that the MIS have been the 'centre of attention' in such debate given the pronounced and wide ranging impact, both positive and negative, that numerous reports have claimed that the MIS have had on the forest industries of Australia. These impacts include: (1) their impact on forest product markets, particularly their contribution to the probable oversupply condition of the economically important Pacific Rim hardwood pulpwood market (Kelley *et al.* 2005, Clark 2005); (2) their impact on the need and availability for regional employment and forestry workforce skills (Hartman 2005, Kellas 2006); (3) their impact on regional water resource management (Clifton *et al.* 2005); (4) their important roles in significant forest policy initiatives (Levinson 2006, Roberts 2006); and (5) their important roles in the progression of a number of major forest industry infrastructure developments, including the pulp mill project of Gunns Ltd. (Stanton 2006, Frame 2006). Small-scale forestry in Australia is not immune to these types of impacts. Indeed, similar types of impacts were documented as part of each Australian Senate review's stakeholder impact analysis albeit of minor mention (Senate 2001 2004). Concerns over

how the MIS may adversely affect smaller industry players and related stakeholders also seem to underpin much of concern that motivates critics of the MIS.

This paper seeks an improved understanding of the impact of the MIS on small-scale forestry. The study is unique in that it seeks this understanding from the perspective of how the MIS consider their relationship with proponents of small-scale forestry. It does so by addressing the research question: how is sustainable corporate governance understood by senior managers of firms that operate MIS in Australia and what are the implications for small-scale forestry?

## UNDERSTANDINGS OF SUSTAINABLE CORPORATE GOVERNANCE

Dunphy *et al.* (2003) described sustainable corporate governance as the contribution that corporations make to 'the continuing health of the planet, the survival of humans and other species, the development of a just and humane society and the creation of work that brings dignity and self-fulfilment to those undertaking it'. At the heart of the construct are understandings of what is meant by sustainability and understandings of how corporations can govern to achieve sustainability. These understandings often vary between individuals, communities and organizations (Kidd 1992, Bosshard 2000).

Russell *et al.* (2007) investigated how managers from Australian private and public organizations understood the notion of sustainable corporate governance. They found four main categories of how the participants in their study understood sustainable corporate governance. The first of these considered that sustainable corporate governance was primarily about corporations working towards long-term economic performance and survival. All of the participants involved in the study from privately owned organizations (six out of a total of 38 participants) held this view. Such participants emphasized that compliance to legislation and regulation was a critical part of sustainability.

Category 2 managers considered that sustainable corporate governance was primarily about corporations working towards positive outcomes for the natural environment as represented in ecological outcomes such as conservation and ecoefficiency behaviour. Participants expressing this view also expressed a strong personal commitment to pursuing positive outcomes for the natural environment. The third category (Category 3) considered that sustainable corporate governance was primarily about supporting people and social outcomes. The fourth category (Category 4) emphasized a systems thinking approach to corporate sustainability and participants expressing this view acknowledged the need to balance economic, social and natural environment outcomes. As Russell *et al.* (2007) noted in describing this fourth category, 'This was expressed through a description of the organization as part of a system and the need to appreciate the context in which the organization operates and in which decisions are made'.

In presenting these categories, Russell *et al.* (2007) recognized that there was a relationship between the categories of understanding. Participants who expressed a Category 1 understanding (all of the participants involved in the study from private organizations) essentially prioritized this understanding over their other categories of understanding to, according to the authors, almost the exclusion of the other categories. In other words, the participants in Russell *et al.*'s (2007) study from private organizations understood sustainable corporate governance as sustainable economic performance wherein compliance to environmental and social legislation and regulations empowered them to achieve sustainability through continuation of a 'license to operate' (a notion discussed more broadly by Gunningham *et al.* 2003). That noted, participants that expressed Category 2 and Category 3 understandings (participants from public organizations including government owned corporations) had a much greater commonality between their views (i.e. that sustainable corporate governance was almost equally about environmental and social outcomes), but both Category 2 and Category 3 groups also expressed lesser emphasis on Category 1 issues (economic outcomes). Participants expressing a Category 4 understanding (a systems thinking approach) tended to see sustainable corporate governance as a balance of Category 1, Category 2 and Category 3 outcomes.

## RESEARCH METHOD

To investigate how sustainable corporate governance is understood by senior managers of firms that operate MIS in Australia, this paper used a similar approach to that of Russell *et al.* (2007). This paper also uses the findings of Russell *et al.* (2007) as a reference point for much of the discussion of results. The data collection activities used for this paper were part of a larger project

investigating how environmentalism influenced the export performance of Australian forest product exporters. The methodology used was phenomenography (as described by Marton 1981). Nine senior managers from three firms that operate MIS in Australia were recruited as participants. Theoretical saturation (as described by Eisenhardt 1989) was reached with these nine participants. Other studies from social science settings published in respected peer reviewed journals that have used similar research design circumstances that have claimed to have reached theoretical saturation with similarly sized samples of participants include Lee *et al.* (2002), Jette *et al.* (2003) and Troiano (2003). Notably, Russell *et al.* (2007) used 38 participants but only six of these were from privately owned organizations, and they considered that this was a sufficiently large collection from which to infer findings pertaining to privately owned organizations (that were not specific to any particular industry).

All nine of the participants used for this paper were male and aged between 30 and 55 years of age. All were senior managers from the forestry divisions of the respective MIS. Participants took part in a single interview, in which they were asked three open-ended questions: (1) What is sustainable corporate governance? (2) What are the most important aspects of sustainable corporate governance for you? and; (3) How does small-scale forestry fit in with your views on corporate sustainability? Follow-up questions were used to encourage participants to elaborate on their comments (What do you mean by that? Can you explain further? Can you give an example?).

## DISCUSSION OF RESULTS

All participants expressed sustainable corporate governance as a mix of the four categories of understandings reported by Russell *et al.* (2007) with most expressing an understanding consistent with a systems or holistic approach (Category 4 type). In doing so, most participants noted that within that systems approach the notion of regulatory compliance as a form of 'license to operate' was an important consideration. The following quotes provide support for this finding.

The fact is that you have to do all the other things to stay in business – environment's important, community's important, employees, contractors, greens, politicians, even if you don't like them, they're all important and we try and keep everyone happy ... If you don't do what you have to do by law, particularly also with codes, you just won't be in business... (17)

No one thing is more important than any other. You have to make money, you have to do things legally and ethically, we have to look after our sites for the long run ... You have to work in with people or at least try to act responsibly ... (18)

All these sustainability issues go hand in hand ... Forestry is all about balancing environmental, social and economic needs ... If we don't manage our sites sustainably it'll just be too hard to make money ... (12)

In this sense the participants expressed a different constellation of relationships of understandings to that reported for participants from private organizations by Russell *et al.* (2007). Figure 1 shows two conceptual models representing, firstly the constellation of relationships between the categories of understanding reported by Russell *et al.* (2007) (Figure 1a.), and secondly the constellations of relationships between the categories of understandings found in this study (Figure 1b.). One reason for this difference between Russell *et al.*'s (2007) findings and the results of this study could be related to the use of participants in this study who were all involved in the forest management activities of the respective MIS. It may be that this type of professional experience (being responsible for forest management activities), where the balancing of multiple economic, social and environmental objectives is part of everyday management activities, contributed to the systems-based understandings of sustainable governance held by the participants.

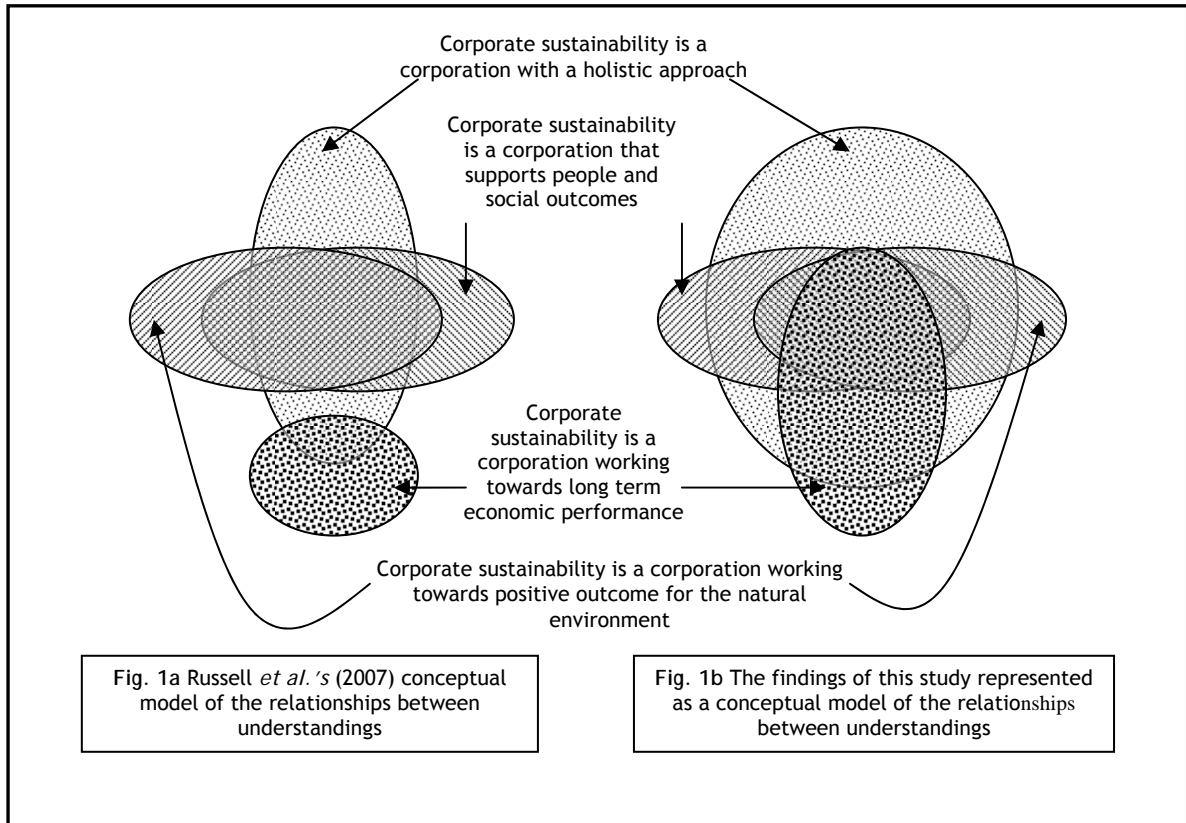


Figure 1. Comparison of constellation of relationships of understandings of sustainable corporate governance between Russell *et al.* (2007) and this study

Participants also expressed a strong personal commitment to principles of sustainability and in this sense demonstrated similarities with participants in Russell *et al.*'s (2007) study who expressed understandings in terms of the natural environment (Category 2) and social outcomes (Category 3).

Everyone I work with is the same. We try and do a good job because we want to do a good job ... We're proud of what we do and the way we do it ... (I6)  
I think a lot of people that criticize us forget that planting trees is good for the environment and we plant a lot of trees and that's something we're very proud of ... (I2)

Most participants explained that although it was both a desired and necessary outcome, sustainable corporate governance was a difficult outcome for them to achieve. In doing so, they noted that this was partly due to the inherent difficulty of balancing conflicting aspects of environmental, social and economic needs but also due to their workloads.

It's not easy to balance things and get a good outcome particularly when you have a 1000 other things going on ... (I2)

It was also apparent that participants considered that one aspect of their understanding of the sustainable corporate performance of their organizations was their role as members of a collegiate forestry industry. This included offering tacit support for the development of small-scale forestry and endorsing the worthiness and benefits of such activities carried out by others.

I think it's commonsense that a healthy industry would have a mix of small and big business, each has its place and each contributes different things and products and services ... (I9)  
There's none that really act as our competitors that I can think of ... We sort of work in with them through the AFG (*Australian Forest Growers*) and IFA (*Institute of Foresters of Australia*) ... I think the AFG does a good job in promoting farm forestry and that should continue. We do a fair bit through sponsorship ... (I8)

There are a few smaller plantations owners in our area but I don't have too much to do with them, to be honest. They're either hobby farmers ... and if they sell anything it's usually to some of the smaller mills. You can't really say they're competitors ... As foresters I think we're all a little parochial in seeing everyone in Australian forestry do well ... (I2)

Some participants were careful to clarify that this tacit support for small-scale forestry was only feasible within the context of the MIS maintaining their own viability and competitiveness.

I'm happy to support anyone planting trees but I'm also part of a business and if that someone is a competitor then it doesn't make sense for me to support them ... (I3)  
I think we're happy to support small-scale forestry operators as long as they don't pose a threat ... (I6)

There were also suggestions that responsibilities for the development of small-scale forestry should primarily sit with government and that Australian governments should support the development of small-scale forestry through support for such activities as niche product market development.

They need to focus on niche markets like high value added sawn timber and the government needs to help them ... (I2)  
I don't think it's really our role to directly help smaller operators. We can sponsor conferences and research and other things but when it comes to direct support like market development and promotion, I think that really is a government responsibility ... (I9)

## POLICY IMPLICATIONS FOR SMALL SCALE FORESTRY IN AUSTRALIA

There are a number of implications from these findings for small-scale forestry in Australia. One of these relates to whether or not the MIS will consider small-scale forestry proponents as competitors. At the moment it's apparent that the MIS do not consider small-scale forestry proponents as competitors but rather as industry associates operating in separate markets or industry associates operating in the same market but at sufficiently lower scale to not warrant concern as competitors. This is an important consideration because it tends to frame the attitudes of the MIS to small-scale forestry: if small-scale forestry is considered as a competitor, the MIS do not want to support it, but if small-scale forestry proponents are not considered competitors, the MIS are happy to provide tacit support.

A second implication relates to how the MIS might assist the development of small-scale forestry by helping small-scale forestry lobby government support. A number of the participants suggested that it was the role of government to help facilitate small-scale forestry in Australia. It follows that small-scale forestry could seek the support of the MIS to engage cooperatively or at least tacitly support approaches to the government to request support for small-scale forestry initiatives like niche market development, increased research funding and favourable policy settings.

A third implication relates to how the MIS might facilitate the creation of markets that might also serve as opportunities for small-scale forestry. Such initiatives might include pulp mills and environmental markets. Considering the tacit support implied for small-scale forestry it would be reasonable to assume that the MIS would be willing to consider opportunities to cooperate and support the engagement of small-scale forestry in such emerging markets.

There are also implications for the international small-scale forestry advocacy community. The approach and models applied in this study can be used to undertake evaluations of the relationship between corporations and small-scale forestry proponents in the broader international context. Indeed, it would be interesting to consider how understandings of sustainable corporate governance in forest industries varies between different corporations and within corporations working in different countries and how the implied relationship between those corporations and small-scale forestry varied between developed and developing economy settings.

In conclusion, as Dunphy *et al.* (2003) implied in his definition, sustainable corporate governance is about pursuing collective benefit and it follows that if there is sincere willingness on the part of forestry corporations to pursue sustainable corporate governance principles and practices based on a systems thinking perspective, there is also an opportunity for proponents of small-scale forestry to seek positive collaborative outcomes.

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