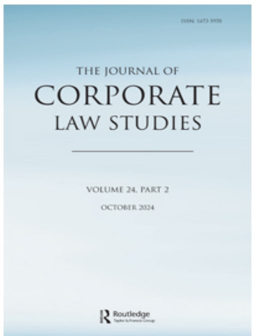

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Journal of Corporate Law Studies

ISSN: 1473-5970 (Print) 1757-8426 (Online) Journal homepage: www.tandfonline.com/journals/rcls20

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To cite this article: Aaron Timoshanko (16 Jun 2025): Do shareholders support corporate social responsibility, or should companies ‘stick to their knitting’?, Journal of Corporate Law Studies, DOI: 10.1080/14735970.2025.2496028

To link to this article: https://doi.org/10.1080/14735970.2025.2496028

Published online: 16 Jun 2025.

JOURNAL OF CORPORATE LAW STUDIES
https://doi.org/10.1080/14735970.2025.2496028

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Do shareholders support corporate social responsibility, or should companies ‘stick to their knitting’?

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ABSTRACT
This article seeks to empirically answer whether Australian shareholders support corporate social responsibility (‘CSR’) or prefer companies to maximise shareholder returns. Legally, companies can consider a wide range of stakeholder interests when deciding what is in the best interests of the company. Generally, most companies continue to pursue the shareholder primacy norm by seeking to maximise shareholder value. However, corporate Australia’s support for the Voice to Parliament (and before that, the plebiscite on marriage equality) departed from the shareholder primacy norm in lending its support to these causes through CSR activities. Missing from this discussion is the voice of shareholders. A survey of 236 Australians suggests that most investors would prefer companies ‘stick to their knitting’ and maximise profits. Where investors were willing to forgo some profit, the amounts are low. Yet, perversely, these investors hold prosocial attitudes in their consumer and donor decisions.

ARTICLE HISTORY Received 12 November 2024; Accepted 15 April 2025

KEYWORDS Australia; shareholders; investors; corporate social responsibility; willingness to forgo

1. Introduction

In 2023, the Australian Labor Government fulfilled an electoral promise to hold a referendum to determine whether an advisory board that would represent Aboriginal and Torres Strait Islander peoples should be enshrined in the Constitution to give First Nations peoples a direct say in the laws and policies affecting them. To amend the Constitution, a referendum must achieve a double majority; namely, passing with the majority support of voters nationally, and the support of at least four out of six states.[1] This referendum, referred to as the Indigenous Voice to Parliament, was ultimately unsuccessful.

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In the lead-up to the referendum, many of Australia's largest public companies in retail, transportation, telecommunications, resources and energy sectors were making multimillion-dollar donations to the 'Yes' campaign. Notable financial supporters of the 'Yes' campaign included Wesfarmers, Commonwealth Bank of Australia, Coles, Woolworths,[2] BHP, Rio Tinto, Newcrest, Telstra, Transurban, Origin Energy and Woodside Energy.[3] Their support of this social cause was justified as a form of corporate social responsibility ('CSR').[4] In response to corporate Australia's support for the Indigenous Voice to Parliament, the shadow treasurer Mr Angus Taylor, a member of the opposition conservative Liberal party, said that company directors should 'stick to their knitting'.[5] In other words, Mr Taylor was encouraging these companies to keep out of politics and focus on maximising shareholders' value.[6] As a member of the opposition, it is perhaps no surprise that Mr Taylor's advice also undermined the Government's proposed reform. However, Mr Taylor's comment raises an important issue; whether a company is responsible for making its shareholders as much money as possible or whether it should sacrifice some profits to support social causes. The answer to this question depends on which theoretical approach one subscribes: shareholder primacy and stakeholder theories. Recourse to theory is necessary because, to date, Australian courts have consistently affirmed that company directors have considerable discretion in deciding what constitutes the 'company's best interests'. Specifically, the interpretation of a director's duty to act in good faith, for a proper purpose and in the best interests of the company may consider stakeholders interests beyond short-term profit maximisation.

The traditional view of shareholder primacy argues that companies should serve the needs of their shareholders and the way company directors do this is to maximise shareholder profits.[7] Thus, any expenditure of company funds

[1]Commonwealth Constitution s 128.

[2]Woolworths Ltd, in Australia, is not related to Woolworths Group PLC in the United Kingdom.

[3]John Kehoe, 'CEOs Ignore Public and Shareholders on Voice' *Australian Financial Review* (16 October 2023) 5.

[4]For example, Rio Tinto, 'Annual Report 2023' (2024) Report 69 acknowledges its corporate donation to the 'Yes' campaign under 'Social Performance', although the amount is unspecified; Woodside Energy, '2023 Annual Report' (2024) Report 39 states that Woodside 'made donations to the Aboriginal and Torres Strait Islander Voice Referendum activities that were aligned with Our Values, the principles set out within our 2021–2025 Reconciliation Action Plan and our First Nations Communities Policy. Our donations supported organisation to disseminate information and advocate in favour of formalising a pathway for Indigenous Australians to share their view on policies that impact them' under the heading 'Climate and Sustainability'; Commonwealth Bank of Australia, '2023 Annual Report' (2023) Report 35 discuss their support of the Voice to Parliament under 'Our approach to ESG' by 'Strengthening our communities', although. However, no specific references were made to the $2m donation.

[5]Kehoe (n 4).

[6]ibid.

[7]AA Berle, 'Corporate Powers as Powers in Trust' (1931) 44 Harv L Rev 1049, 1049; Milton Friedman, 'The Social Responsibility of Business Is to Increase Its Profits' (1970) Late Edition Final *The New York Times Magazine*; Afzalur Rashid, 'Does Corporate Social Responsibility Reporting Enhance Shareholders' Value?: A Simultaneous Equation Approach' (2018) 16 JFR&A 158, 158; Shernaz Bodhanwala and

that are not 'at all times exercisable only for the ratable benefit of all the shareholders' are 'illegal'.[8] This is because democratically elected governments are responsible, in part, for determining contested social issues, including where there is market failure.[9] According to Milton Friedman,

> Managers are merely agents of the stockholders, and thus have no right to spend or give away corporate monies except in the interests of increasing shareholder wealth … any stockholder is free to use his dividends to support any worthy causes he may choose, but the choice should not be made for him by a company president who may not share either his values or priorities.[10]

The other side in this debate argues that companies must consider a broad range of interests, not just their shareholders. Referred to as stakeholder theory (or group of theories), it expands the corporate purpose to include the interests of those impacted by the company activities, including customers, employees, the general community and the environment.[11] Maintaining a profitable business is still essential, but directors seek to do so in a socially responsible way.[12] This approach assumes that CSR activities will benefit the company, at least in the long run.[13] One version of the 'business case' supporting CSR insists that companies operating in this way will have 'an enhanced capacity to be aware of and control risk', which 'ultimately places a company in a stronger, more sustainable market position than an unengaged competitor who is likely to be exposed to a greater number of

Ruzbeh Bodhanwala, 'Do Investors Gain from Sustainable Investing? An Empirical Evidence from India' (2019) 19 Intl J Bus Exell 100, 102; Regina F Bento, Lasse Mertins and Lourdes F White, 'Ideology and the Balanced Scorecard: An Empirical Exploration of the Tension Between Shareholder Value Maximization and Corporate Social Responsibility' (2017) 142 J Bus Ethics 769, 770, 771; Stephen M Bainbridge, *The Profit Motive: Defending Shareholder Value Maximization* (CUP 2023) 13; Lynn A Stout, *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public* (1st ed, Berrett-Koehler 2012) 2 refers to this as 'shareholder value'; the more progressive strain of shareholder primacy refutes the link between prioritising shareholder interests and wealth maximisation, arguing that shareholder interests can be primary without it reducing shareholders' wealth. Hugh Alexander Grossman, 'Redefining the Role of the Corporation: The Impact of Corporate Social Responsibility on Shareholder Primacy Theory' (2005) 10 Deakin LR 572, 575 refers to this as the 'business case' for CSR, and as discussed elsewhere in this article, is also contested; see also Lynn A Stout, 'New Thinking on "Shareholder Primacy"' (2012) 2 AE&L 1, 11-.

[8]Grossman (n 8) 573, 574.

[9]Roland Bénabou and Jean Tirole, 'Individual and Corporate Social Responsibility' (2010) 77 Economica 1, 16; Anthony Gray, 'Corporations and Their Contributions to Public Debates' (2020) 36 AJCL 66, 45.

[10]Friedman (n 8) 33; see also Grossman (n 8) 574, 587.

[11]R Edward Freeman, *Strategic Management: A Stakeholder Approach* (CUP 2010) 46; Shelley Marshall and Ian Ramsay, 'Stakeholders and Directors' Duties: Law, Theory and Evidence Forum: Directors' Duties Revisited' (2012) 35 UNSWLJ 291, 291–94; Rashid (n 8) 158; Bret Walker and Gerald Ng, 'The Content of Directors' "Best Interest" Duty: Memorandum of Advice' (*Australian Institute of Company Directors*, 25 July 2022) 2 <www.aicd.com.au/board-of-directors/duties/liabilities-of-directors/directors-best-interests-duty-in-practice.html> on the meaning of stakeholders; see also Bento, Mertins and White (n 8) 770.

[12]Michael C Jensen, 'Value Maximization, Stakeholder Theory, and the Corporate Objective Function' (2010) 22 JACF 32, 39 this will usually require the firm to adjust its purpose to be consistent with long-term value maximisation or value seeking; Grossman (n 8) 596; Walker and Ng (n 12) 2–3.

[13]Grossman (n 8) 573, 575, 596; Rashid (n 8) 159.

external variables'.[14] It is also argued that companies engaging in CSR will enjoy intangible benefits such as increased goodwill that will have a 'direct impact on a company's bottom line'.[15] However, opponents argue that the direct and indirect benefits of CSR are not guaranteed and are difficult to quantify.[16] If or when the benefits accrue, some shareholders may no longer hold these shares and therefore incur the cost without any of the subsequent benefit.

Recently, Nobel Laureate Oliver Hart and Professor Luigi Zingales proposed a modified version of shareholder primacy that leverages aspects of the stakeholder model by prioritising the interests of shareholders.[17] Referred to as 'broader-based shareholder welfare maximisation' or simply 'shareholder welfare',[18] the shareholder is taken to have a 'preference for social responsibility operating in a rational expectations framework defined by an expanded notion of welfare enhancement'.[19] Hart and Zingales support their holistic and benevolent view of shareholders by pointing to human behaviours that are inconsistent with the goal of profit maximisation, like purchasing more expensive 'chicken from a free-range farm rather than a factory farm' to reduce animal suffering.[20] Similarly, many people give to charities, which is inconsistent with profit maximisation. To Hart and Zingales, this demonstrates that individuals frequently put the interests of other beings ahead of their wealth. Why would shareholders be any different?

This article aims to test whether Australian shareholders are beneficent, of the sort imagined by Hart and Zingales, or would they prefer companies 'stick

[14]Grossman (n 8) 581, 582, 595; this is sometimes referred to as 'strategic CSR': Bénabou and Tirole (n 10) 10.

[15]Grossman (n 8) 596.

[16]Rashid (n 8) 158, 161 citing Rappaport (1997); Bodhanwala and Bodhanwala (n 8) 104.

[17]Oliver Hart and Luigi Zingales, 'Companies Should Maximize Shareholder Welfare Not Market Value' (2017) 2 JLFA 247. This model is similar to the work of Einer Elhauge, 'Sacrificing Corporate Profits in the Public Interest' (2005) 80 NYU L Rev 733, 783; Stout (n 8) 114; and Friedman (n 8).

[18]See Hart and Zingales (n 18); William W Bratton, 'Shareholder Primacy versus Shareholder Accountability' (21 April 2023) 54, 55 <https://papers.ssrn.com/abstract=4431055> accessed 28 June 2023; Scott Hirst, Kobi Kastiel and Tamar Kricheli-Katz, 'How Much Do Investors Care about Social Responsibility?' [2023] Wis L Rev 977, 986; see also Susan Watson, *The Making of the Modern Company* (Hart Publishing 2022) who discusses corporate value maximisation in such a way as to encourage (or even require) directors engage in socially responsible behaviours. I am indebeted to Dr Vincent Goding to bringing this source to my attention.

[19]One poignant criticism of the shareholder welfare model is the implicit assumption that shareholders have homogenous social preferences or that their preferences can be distilled to a point of common ground: see Hart and Zingales (n 18) 248, 271. Another criticism of the shareholder welfare model, but noted by Hart and Zingales, is the dramatic rise in institutional shareholding. The belief is that institutional investors' incentives are aligned with value maximisation, while individual shareholders are more fragmented yet share a common set of values and concerns. However, if institutional investors follow a market model, then the incentives of investment managers will generally reflect the broad preferences of their shareholders; but see Bratton (n 19) 50, 54 that Blackrock and other large index fund managers are working on a mechanism for shareholders to instruct how they should vote with their shares to avoid the public accountability issues institutional investors currently face (especially when supporting CSR); see also Stout (n 8) 59.

[20]Hart and Zingales (n 18) 248; see also Bénabou and Tirole (n 10) 3; Stout (n 8) 96.

to their knitting' and maximise returns? Beneficence, in the context of investment decisions, is demonstrated through a willingness to forgo potential investment returns for CSR activities. And, if so, by how much? One important limitation of this study is the exclusion of institutional shareholding. This is significant because the total issued capital held by institutional vis-à-vis individual shareholders in Australia is heavily in favour of institutional shareholders.[21] Nevertheless, this study offers important insights into retail investors' preferences for and willingness to forgo profit to support social causes. While representing only 12.4–10.5% of the total issued capital in the top 300 companies listed on the Australian stock exchange ('ASX 300') between 2017-2020,[22] retail investors (holding less than 10,000 shares) can instigate a company meeting and propose a resolution, providing the members hold at least 5% of the votes that may be cast at a general meeting.[23] So, individual investors support for CSR cannot be ignored by boards. Furthermore, many of the large institutional investors are ultimately accountable to retail investors, so their support (or lack thereof) for corporate social responsibility initiatives remains relevant. Issues regarding the accountability of institutional shareholders are beyond the scope of this article,[24] and, as such, the present study is confined to individual shareholding in Australian companies.

Part II of this article reviews the research into whether investors support using corporate profits to support a social cause through CSR. In answering these questions and addressing the gaps identified in the literature, four hypotheses are tested. The first hypothesis is that investors are willing to forgo some non-zero sum of money to support specific social causes (H_1). Second, investors have heterogeneous prosocial preferences (H_2). The third hypothesis is that the amount of money individuals are willing to forgo to support a social cause will be affected by context. Three contexts are tested; decision-making as an investor, a consumer, and a donor (H_3). Finally, investors would be willing to forgo more as consumers or donors (H_4).

Part III discusses the methodology and results of an online survey of 236 Australians conducted by the author in 2023. Part IV discusses the implications of these findings. Part V concludes by considering possible future research to help increase shareholders' support for social causes through CSR.

[21] Relying on the top 20 registered shareholders within each index as a proxy for institutional shareholding, Carole Comerton-Forde, 'An Analysis of S&P/ASX 300 and NZX 50 Share Ownership' (Australasian Investor Relation) Final Report 4, 6, found that the fraction of institutional ownership increased from 66% to 70 per in the ASX 20, and from 76% to 77% in the ASX 300.

[22] ibid 13.

[23] *Corporations Act 2001 (Cth) ss 249D, 249F*.

[24] See Bratton (n 19); John C Coates IV, 'Thirty Years of Evolution in the Roles of Institutional Investors in Corporate Governance' in Jennifer G Hill and Randall S Thomas (eds), *Research Handbook on Shareholder Power* (Edward Elgar 2015).

2. Shareholder support for CSR

There are almost as many definitions of CSR as there are articles on the subject. Confounding any agreed upon definition is that CSR is sometimes conflated with other related terms such as 'socially responsible investing' ('SRI'), 'environmental, social and corporate governance' ('ESG'), and 'corporate governance' ('CG') more broadly. The definition of CSR used in this article attempts to reflect the nexus between CSR, ESG, SRI and CG as it relates to shareholders' willingness to forgo potential investment returns.

For present purposes, CSR involves a company voluntarily sacrificing some of its profits to pursue a social cause.[25] A social cause can be any idea, attitude, or behaviour widely held to be socially desirable, affects an identifiable group and requires collective action,[26] such as support for the Indigenous Voice to Parliament, environmental protection, or addressing marriage, income, or gender inequality. Thus, CSR can involve the private provision of public goods when the benefits of these activities are non-excludable and non-rivalrous. This is because the fruits of such CSR produce positive externalities that benefit society, while the company bears the cost through sacrificed profits.[27] CSR differs from socially responsible investing ('SRI'), which integrates environmental, social and corporate governance ('ESG') issues into an individual's investment decisions.[28] Highlighting this distinction, Heimann and Lobre-Lebraty state, 'Companies implementing CSR into their governance establish a basis for socially responsible investors to invest in their companies'.[29]

[25]Bénabou and Tirole (n 10) 2; Nadja Guenster and others, 'The Valuation of Corporate Social Responsibility: A Willingness to Pay Experiment' (28 October 2022) 3 <https://papers.ssrn.com/abstract=4260824> accessed 28 July 2024 explicitly applying the definition of Bénabou and Tirole; see Benedict Sheehy, 'Defining CSR: Problems and Solutions' (2015) 131 J Bus Ethics 625, 625–27 for a more comprehensive definition, noting the four agendas vying to control the definition, adding further complexity to the definitional enterprise; Gray (n 10) 44 on the broad and poorly articulated goals of CSR; P Raghavendra Rau and Ting Yu, 'A Survey on ESG: Investors, Institutions and Firms' (2023) 14 CFR Intl 3, 5 on the distinction between CSR and environmental, social and corporate governance ('ESG'); Honghui Chen and Xiayang Wang, 'Corporate Social Responsibility and Corporate Financial Performance in China: An Empirical Research from Chinese Firms' (2011) 11 Corp Gov 361, 1; see also Paul C Godfrey, Craig B Merrill and Jared M Hansen, 'The Relationship between Corporate Social Responsibility and Shareholder Value: An Empirical Test of the Risk Management Hypothesis' (2009) 30 Strat Mgmt J 425, 425.

[26]M Mercedes Galan-Ladero and Clementina Galera-Casquet, 'Anything Goes in Cause Related Marketing?: The Case of the 'Solidarity' Traffic Radar' in Inna Sousa Paiva and Luísa Cagica Carvalho (eds), *Advances in Business Strategy and Competitive Advantage* (IGI Global 2020) <http://services.igi-global.com/resolvedoi/resolve.aspx?doi=10.4018/978-1-7998-2128-1.ch005> accessed 7 March 2024.

[27]While many forms of CSR under this definition align with the provision of public goods, it is accepted that not all CSR will perfectly align with this categorisation. In some cases, CSR will entail the provision of public and private goods.

[28]Luc Renneboog, Jenke Ter Horst and Chendi Zhang, 'Socially Responsible Investments: Institutional Aspects, Performance, and Investor Behavior' (2008) 32 J B & Fin 1723, 1723; Marco Heimann and Katia Lobre-Lebraty, 'When Does CSR Motivate Investors? A Simulation Study' [2018] Institut de Socio-Économie des Entreprises et des Organisations (Écully, Rhône) Recherches en Sciences de Gestion 93, 97; Christopher C Geczy, Robert F Stambaugh and David Levin, 'Investing in Socially Responsible Mutual Funds' (2021) 11 RAPS 309, 311.

[29]Heimann and Lobre-Lebraty (n 29) 97.

The sacrificing of corporate profits for a social cause may occur due to additional costs incurred in production, labour or through direct financial support of a non-governmental organisation promoting a social cause,[30] referred to as corporate philanthropy. Significantly, these profits could otherwise be used to increase the company's capital value or paid as a dividend to shareholders. Proponents argue that CSR does not always entail sacrificing profits to 'do good'. Instead, CSR can 'have consequences superior to those flowing from a policy of pure profit maximisation',[31] sometimes referred to as 'enlightened self-interest'.[32] For example, research has indicated that CSR may increase firm value,[33] improve brand reputation, promote goodwill, and position the company as a desirable workplace for current and potential future employees.[34] Besides a possible increase in their share price, these expected benefits have (or are argued to have) a positive impact on the company's bottom line in the longer term. However, the link between firm value and CSR is hotly contested, with multiple empirical studies, including meta-analyses, finding 'no or slightly positive correlation between socially responsible behaviour and

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[30]Grossman (n 8) 581.

[31]ibid; Godfrey, Merrill and Hansen (n 26) 426 states that 'The overall orientation has been to argue and show that CSR activities generate [corporate financial performance]'. The benefits may also include 'insurance-like' protection against negative effects, at 442; Chen and Wang (n 26) citing; Bradford Cornell and Alan C Shapiro, 'Corporate Stakeholders and Corporate Finance' (1987) 16 Fin Mgmt 5; Sandra A Waddock and Samuel B Graves, 'The Corporate Social Performance-Financial Performance Link' (1997) 18 Strat Mgmt J 303; Andrew Bartlett and David Preston, 'Can Ethical Behaviour Really Exist in Business?' (2000) 23 J Bus Ethics 199; Philip L Cochran, Robert A Wood and Thomas B Jones, 'The Composition of Boards of Directors and Incidence of Golden Parachutes' (1985) 28 Ac Mgmt J 664; Philip L Cochran and Robert A Wood, 'Corporate Social Responsibility and Financial Performance' (1984) 27 Ac Mgmt J 42; Marc Orlitzky, Frank L Schmidt and Sara L Rynes, 'Corporate Social and Financial Performance: A Meta-Analysis' (2003) 24 Org Stud 403; Hoje Jo and Maretno A Harjoto, 'Corporate Governance and Firm Value: The Impact of Corporate Social Responsibility' (2011) 103 J Bus Ethics 351; Grigoris Giannarakis and others, 'The Impact of Corporate Social Responsibility on Financial Performance' (2016) 13 Inv Mgmt & Fin Innov 171; Soojeen Sarah Jang and others, 'CSR, Social Ties and Firm Performance' (2019) 19 Corp Gov 1310; Joshua Graff Zivin and Arthur Small, 'A Modigliani-Miller Theory of Altruistic Corporate Social Responsibility' (2005) 5 TEA&P 5 <www.degruyter.com/document/doi/10.1515/1538-0653.1369/html> accessed 18 July 2024.

[32]Godfrey, Merrill and Hansen (n 26) 442.

[33]Chen and Wang (n 26); Cathy Nguyen and others, 'Mind the Gap: Understanding the Gap between Intentions and Behaviour in the Charity Context' (2022) 148 J Bus Ethics 216, 7, 11; Seong K Byun and Jong-Min Oh, 'Local Corporate Social Responsibility, Media Coverage, and Shareholder Value' (2018) 87 JBF 68, 70, 83; Frank HM Verbeeten, Ramin Gamerschlag and Klaus Möller, 'Are CSR Disclosures Relevant for Investors? Empirical Evidence from Germany' (2016) 54 Mgmt Dec 1359, 1361; Miho Murashima, 'Do Investors' Reactions to CSR-Related News Communication Differ by Shareholder? An Empirical Analysis from Japan' (2020) 20 Corp Gov 781, 784; Hung-Yu Chen, Ming-Chin Lin and Zong-Han Lin, 'Do Corporate Social Responsibility Activities Enhance Firm Value? An Empirical Evidence from Taiwan' (2024) 12 Cogent E&F 1, 10.

[34]Corporations and Markets Advisory Committee, 'The Social Responsibility of Corporations' (Australian Government 2006) Final Report 89 nn 166; Heimann and Lobre-Lebraty (n 29) 100; see, eg, Telstra Group Limited, 'Annual Report 2023' (2023) Report 13 where the company discusses opportunities it created for staff to engage with the First Nations Voice to Parliament under the heading 'Becoming the place where you want to work'.

corporate returns'.[35] Other studies have found a negative correlation between CSR and firm value.[36]

Surprisingly, whether shareholders support the allocation of corporate funds for CSR activities is not well-researched. One notable exception is the 2021 study by Hirst, Kastiel and Kricheli-Katz, which recruited 279 United States residents to see whether respondents would be willing to forgo some money to support gender diversity, income inequality, environmental protection or faith-based values ('four social causes').[37] They did so by requiring participants to choose between forgoing some amount from their virtual account to one or more of these four social causes or maximising the amount left in their virtual account at the end of the experiment. Respondents were told, in advance, that if they chose to financially support one of these causes, a commensurate 'real-world' donation would be made to a relevant charity. Doing so, however, would reduce their 'real-world' bonus incentive paid at the end of the study.[38] Participants were randomly allocated to one of three experimental groups: investors, purchasers and donors. Participants were required to make ten binary choices (ie forgo $0 vs some non-zero amount in ten increments) for each of the four social causes (ie 40 questions in total).[39] For example, in the investment group, each respondent was asked whether they would be willing to support a gender-diverse investment portfolio by forgoing $10 (from a potential return of $1000) or would they prefer to invest in the general portfolio and forgo $0 and receive a $1000 return to their virtual account. The next nine questions proceeded on the same basis, with the support going from $10, $100, up to $900 (in $100 increments).

The Hirst, Kastiel and Kricheli-Katz study found that investors were willing to forgo some of their potential investment returns to support one or more social causes. The amount participants were willing to forgo varied between social causes. However, the amounts were low: between $176 and

[35]Bénabou and Tirole (n 10) 12 proffer three difficulties with the interpretation of empirical analyses, which is fuelling the debate, including: identifying the CSR theory is being tested, the empirical strategy used by the authors in calculating corporate returns, and finally issues with extrapolation; Roman Kräussl, Tobi Oladiran and Denitsa Stefanova, 'A Review on ESG Investing: Investors' Expectations, Beliefs and Perceptions' (2024) 38 J Econ Surveys 476, 486.

[36]Stanley G Vance, 'Are Socially Responsible Corporations Good Investment Risks?' (1975) 64 Mgmt Rev 18; Lee E Preston and Douglas P O'Bannon, 'The Corporate Social-Financial Performance Relationship' (1997) 36 Bus & Soc 419; Geoff Moore, 'Corporate Social and Financial Performance: An Investigation in the UK Supermarket Industry' (2001) 34 J Bus Ethics 299; M Victoria López, Arminda Garcia and Lazaro Rodriguez, 'Sustainable Development and Corporate Performance: A Study Based on the Dow Jones Sustainability Index' (2007) 75 J Bus Ethics 285; Meir Statman, Kenneth L Fisher and Deniz Anginer, 'Affect in a Behavioral Asset-Pricing Model' (2008) 64 Fin Analy J 20; Stephen Brammer, Stefan Hoejmose and Kerry Marchant, 'Environmental Management in SMEs in the UK: Practices, Pressures and Perceived Benefits' (2012) 21 Bus S&E 423; cited in Chen and Wang (n 26) 2.

[37]Hirst, Kastiel and Kricheli-Katz (n 19) 981.

[38]ibid.

[39]ibid 981, for a detailed explication of their research methodology, see 1001–1006.

\$253 out of a potential return of \$1 000 on a \$10 000 investment.[40] In fact, 32% of investors were unwilling to forgo \$10 out of a \$1 000 return to advance any of the four social causes, indicating that a sizeable minority strongly preferred maximising investment returns.[41] Compared to respondents in the donation and consumption experimental groups, individuals making investment decisions were significantly less willing to forgo money.[42] The authors interpreted this finding to mean 'that a substantial number of investors would prefer that corporations distribute returns to their investors, who can then use those returns to advance social goals directly'.[43]

Other related research does not directly address whether shareholders will forgo financial returns to support a social cause through CSR. For example, in a willingness-to-pay experiment conducted among 302 German university students, Guenster et al found that, in general, respondents were willing to pay a premium for socially responsible assets. However, the premium was substantially smaller than the expected value of the associated charitable donation.[44] The researchers also found that social issues were most important to participants, followed by environmental and governance issues.[45] In a 2017 study of 1 082 French people aged between 16 and 75, it was found that 48% of investors (i.e. holding at least one financial product) rated environmental and social impacts as very important or important in their investment decisions.[46] Relevant to the question of support for CSR, the study also found that 72% of investors wanted sustainability to be compulsorily included in financial products.[47] Heeb et al also found that investors were willing to pay for sustainable investment offers; however, the actual real-world impact of these investments mattered little.[48] For instance, an 'investor's' WTP [willingness to pay] does not significantly differ between an investment that saves 0.5 tons of CO2 emissions and one that saves 5 tons'.[49] In their seminal 2005 study, Geczy, Stambaugh and Levin found that socially responsible investors were willing to pay a price to invest in ethical funds,

[40]The actual amounts respondents were willingness to forgo was rounded up by the researchers to account for the fact it is unknown whether the respondent would be willing to forgo one dollar less than the next increment but not one dollar more. As such, respondents' willingness to forgo amounts are less than the amounts cited.

[41]Hirst, Kastiel and Kricheli-Katz (n 19) 981, 1015.

[42]ibid 982.

[43]ibid.

[44]Guenster and others (n 26) 4, 25.

[45]ibid 5 (although, the authors acknowledge that the brands of the three charities and their 'perceived trustworthiness' may have had an impact on respondents choices) 3, 22.

[46]Forum pour l'Investissement Responsable and Vigeo Eiris, 'The French and SRI (Socially Responsible Investment)' (*Forum pour l'Investissement Responsable*, September 2017) 3 <www.frenchsif.org/isr_esg/sondage-2017-les-francais-et-lisr/, archived at https://perma.cc/8HTS-58ZA> accessed 31 July 2024; see also Heimann and Lobre-Lebraty (n 29) 96.

[47]Forum pour l'Investissement Responsable and Vigeo Eiris (n 47) 5.

[48]Florian Heeb and others, 'Do Investors Care about Impact?' (2023) 36 R Fin Stud 1737, 1738.

[49]ibid.

but how much depends on what percentage of their portfolio they commit to socially responsible investments ('SRIs') and their prior beliefs about asset managers' skill and pricing models.[50] Geczy, Stambaugh and Levin conclude that the cost of socially responsible investing is high for investors who commit all their funds to SRIs and remains 'quite substantial' for the average SRI investor who invests only a third to SRIs.[51]

Employing a financial event study methodology of investors' reactions to the Dow Jones Sustainability Index (DJSI), Hawn, Chatterji, and Mitchell found that investors' responses to DJSI events (i.e. addition to, deletion from, and continuation on the DJSI) were limited.[52] Answering the question posed in the title of their article, 'Do Investors Actually Value Sustainability?' the answer was a resounding 'meh'.[53] However, the authors note that the situation did appear to be changing based on the results towards the end of the study period (1999-2015). In particular, investors seemed to increasingly value CSR activities among firms continuing on the index.[54]

Similarly, Larcker and Watts' major finding was

> that the greenium, or the premium that green assets trade to otherwise identical non-green securities, is precisely equal to zero … These results provide strong evidence that investors are unwilling to sacrifice returns to support environmentally friendly projects, and thus the greenium is equal to zero.[55]

Although their study involved United States municipal bonds, which the authors acknowledge are 'quite different than other asset classes', the authors are nevertheless doubtful that a greenium may exist in the corporate green bond market because 'the municipal securities market is a setting where [a greenium] is most likely to be observed'.[56] Remaining in the green bond market, Baker et al concluded that where there is a 'supply-demand imbalance, a subset of investors sacrifice a small amount of yield in the municipal bond market to hold green bonds'.[57] In another 2022 study, Baker, Egan and Sarkar found that, on average, investors 'have been willing to pay an additional 20 basis points to invest in funds with an ESG mandate'.[58] Similar to Hawn, Chatterji and Mitchell discussed above, Baker,

[50]Geczy, Stambaugh and Levin (n 29) 343.
[51]ibid.
[52]Olga Hawn, Aaron K Chatterji and Will Mitchell, 'Do Investors Actually Value Sustainability? New Evidence from Investor Reactions to the Dow Jones Sustainability Index (DJSI)' (2018) 39 Strat Mgmt J 949, 971.
[53]ibid 971, 972.
[54]ibid 971.
[55]David F Larcker and Edward M Watts, 'Where's the Greenium?' (2020) 69 J Acc & Econ 101312, 2.
[56]ibid 22.
[57]Malcolm Baker and others, 'The Pricing and Ownership of US Green Bonds' (2022) 14 ARFE 415, 434. The authors reconcile their results with those of Larcker and Watts on the basis that their results include the secondary market where 'a premium emerges over time'.
[58]Malcolm Baker, Mark L Egan and Suproteem K Sarkar, 'How Do Investors Value ESG?' [2022] NBER Working Paper Series 1, 14, 25.

Egan and Sarkar also found that the amount investors are willing to pay for ESG funds has more than tripled lately (2019–2022).[59]

Examining whether shareholders support CSR from a different angle, another branch of the literature examines investors' reactions to CSR-related news. If shareholders support CSR, one would expect a strong reaction to positive CSR-related news. However, the evidence is mixed. McWilliams and Siegel found in two studies a neutral relationship existed between social and financial performance.[60] Similarly, in 2018, Hawn, Chatterji and Mitchell concluded there was only a limited relationship between sustainability index changes and investors' reactions.[61] Sekhon and Kathuria,[62] and, in a separate study, Jang et al,[63] found a neutral or negative relationship between CSR and a firm's financial performance. In 2015, Krüger found that investors responded negatively to favourable CSR news, albeit weakly.[64]

Other studies have reported a positive relationship between CSR-related news and investors.[65] In a study of Japanese investors, Murashima concluded that different types of shareholders reacted differently to CSR-related news.[66] Specifically, individual investors responded only to positive CSR-related news, whereas institutional investors only responded to negative CSR-related news.[67] Also, in a 2013 event study, Flammer found that investors 'reacted positively to the announcement of eco-friendly initiatives, and negatively to the announcement of eco-harmful behavior'.[68] Flammer also discovered that the rate of environmentally-related shareholder proposals increased almost four times during the study period (1997-2009), suggesting that an increasing percentage of shareholders care about CSR.[69] Hartzmark and Sussman concluded that 'a large portion' of mutual fund investors in the United States positively value sustainability based on the performance of

[59]ibid.

[60]Abagail McWilliams and Donald Siegel, 'Corporate Social Responsibility and Financial Performance: Correlation or Misspecification?' (2000) 21 Strat Mgmt J 603; Abagail McWilliams and Donald Siegel, 'Corporate Social Responsibility: A Theory of the Firm Perspective' (2001) 26 Ac Mgmt J 117.

[61]Hawn, Chatterji and Mitchell (n 53).

[62]Amritjot Kaur Sekhon and Lalit Mohan Kathuria, 'Analyzing the Impact of Corporate Social Responsibility on Corporate Financial Performance: Evidence from Top Indian Firms' (2019) 20 Corp Gov 143.

[63]Jang and others (n 32).

[64]Philipp Krüger, 'Corporate Goodness and Shareholder Wealth' (2015) 115 J Fin Econ 304.

[65]Chiara Amini and Silvia Dal Bianco, 'Corporate Social Responsibility and Latin American Firm Performance' (2017) 17 Corp Gov 403; Chen and Wang (n 26); Yu-shan Wang and Yi-jie Chen, 'Corporate Social Responsibility and Financial Performance: Event Study Cases' (2017) 12 JEIC 193; Costanza Consolandi and others, 'Global Standards and Ethical Stock Indexes: The Case of the Dow Jones Sustainability Stoxx Index' (2009) 87 J Bus Ethics 185; Caroline Flammer, 'Corporate Social Responsibility and Shareholder Reaction: The Environmental Awareness of Investors' (2013) 56 Ac Mgmt J 758; Julia Lackmann, Jürgen Ernstberger and Michael Stich, 'Market Reactions to Increased Reliability of Sustainability Information' (2012) 107 J Bus Ethics 111.

[66]Murashima (n 34) 782, 792–93.

[67]ibid.

[68]Flammer (n 66) 771.

[69]ibid 762.

funds after Morningstar published its first sustainability ratings on more than 20 000 mutual funds.[70] According to the authors, 'The large causal flow response that we observe in the short term allows us to reject the hypothesis that investors are indifferent to sustainability as well as the hypothesis that they view sustainability as a negative characteristic'.[71] The experimental study of Martin and Mosers found that investors do make their investment decisions based purely on 'risk-adjusted present value of future cash flows' but are willing to pay a premium when companies engage in CSR due to the societal benefits this entails.[72]

An empirical study conducted by Riedl and Smeets in 2017 examined why individuals hold socially responsible equity funds and found that prosocial attitudes and social signalling were more important factors for ESG investors than financial motives.[73] By examining administrative data, survey responses and results from incentivised experiments, Riedl and Smeets were able to show that most ESG investors expected lower returns.[74] A field study in 2021 by Bauer, Ruof and Smeets found that 69% of Dutch investors favoured expanding sustainable investments, with most respondents choosing to do so despite expecting a negative or an uncertain return on these investments.[75] Rubaltelli et al also discovered a 'psychological (aka non-financial) advantage of investing morally is to help in coping with possible downturns and negative performances'; specifically, investing in SRIs can help 'investors cope with unsatisfactory investment returns'.[76]

A relatively well-researched and related question is the motivations of environmental, social and corporate governance ('ESG') investors.[77] In a survey of the literature, Rau and Yu identify three motivations for ESG investing: 'strong intrinsic prosocial preferences, financial considerations, or social signalling (a concern for their social image)'.[78] The relative importance of these three motivations to ESG investors is inconsistent in the literature.[79] For example, Riedl and Smeets identify intrinsic social preferences as 'playing a dominant role' in ESG investment decisions, while investors who

[70]Samuel M Hartzmark and Abigail B Sussman, 'Do Investors Value Sustainability? A Natural Experiment Examining Ranking and Fund Flows' (2019) 74 J Fin 2789, 2791, 2833.
[71]ibid 2793.
[72]Patrick R Martin and Donald V Moser, 'Managers' Green Investment Disclosures and Investors' Reaction' (2016) 61 J Acc & Econ 239, 252.
[73]Arno Riedl and Paul Smeets, 'Why Do Investors Hold Socially Responsible Mutual Funds?' (2017) 72 The Journal of Finance 2505, 2507, 2533.
[74]ibid.
[75]Rob Bauer, Tobias Ruof and Paul Smeets, 'Get Real! Individuals Prefer More Sustainable Investments' (2021) 34 R Fin Stud 3976, 3992, 3995.
[76]Enrico Rubaltelli and others, 'Moral Investing: Psychological Motivations and Implications' (2015) 10 J&DM 64, 64, 68.
[77]Rau and Yu (n 26) 5 defines ESG as 'typically refer[ing] to the incorporation of ESG concerns into the decisions of investors''.
[78]ibid 11.
[79]ibid.

'strongly signal their investment behavior hold significantly smaller shares' in companies with a good CSR record.[80] Bauer, Ruof and Smeets also found that social preferences 'predict the choice for more sustainable investments'.[81] In a survey of socially responsible investors, Lewis and Mackenzie found that 84% of investors were motivated to avoid harmful companies, 73% wanted to help fund companies that positively impact society, and 69% wanted to make ethically clean investments.[82] However, Nilsson found that among 528 investors, approximately half believed the financial performance of SRIs to be equal to or better than non-SRI mutual funds, indicative of a non-altruistic motivation.[83] Similarly, in a large survey of 4 000 SRI investors, Rosen, Sandler and Shani found that most were unwilling to sacrifice financial returns to support CSR despite concerns about environmental and labour issues.[84] Heimann and Lobre-Lebraty, in a mixed methods study that analysed investors' qualitative responses and quantitative data based on their investment actions, found that despite investors declaring that they support SRI because it is the 'right thing' to do, such sentiment did not result in more socially responsible investments within their portfolios.[85] Whereas respondents motivated by the prospect of better financial returns, were found to have more SRIs within their portfolios.[86]

As previously noted, much of the literature reviewed is only tangentially related to whether investors are willing to forgo profit to support social causes through CSR. We turn now to addressing this question for Australian investors.

3. Materials and methods

The survey conducted by the author is based on the methodology and questionnaire employed in the Hirst, Kastiel and Kricheli-Katz research (reviewed above) but adapted and applied to Australian participants.[87] The survey was conducted online from 19 to 27 October 2023, with 1 459 respondents

[80] Riedl and Smeets (n 74) 2508, 2533.
[81] Bauer, Ruof and Smeets (n 76) 3997.
[82] Alan Lewis and Craig Mackenzie, 'Support for Investor Activism among UK Ethical Investors' (2000) 24 J Bus Ethics 215, 218.
[83] Jonas Nilsson, 'Segmenting Socially Responsible Mutual Fund Investors: The Influence of Financial Return and Social Responsibility' (2009) 27 Intl JBM 5, 23; see also Heimann and Lobre-Lebraty (n 29) 99.
[84] Barry N Rosen, Dennis M Sandler and David Shani, 'Social Issues and Socially Responsible Investment Behavior: A Preliminary Empirical Investigation' (1991) 25 J Cons Aff 221; see also Heimann and Lobre-Lebraty (n 29) 99.
[85] Rosen, Sandler and Shani (n 85) 230–31; see also Heimann and Lobre-Lebraty (n 29) 110.
[86] Heimann and Lobre-Lebraty (n 29) 110.
[87] One point of departure was the use of lottery tickets as an additional incentive in the Hirst et al study. For every $1000 retained in their virtual account (of a possible maximum of $10 000) participants would receive 1 lottery ticket to win $100. The objective of the lottery was to 'amplify the effects' of the real-world trade-offs with the bonus incentives, which would otherwise vary between $0.40 to $4.00 depending on their choices: Hirst, Kastiel and Kricheli-Katz (n 19) 1002.

recruited from Ipsos.[88] Participants were required to be Australian residents over the age of 18 years and have investing experience, either directly or indirectly, including via compulsory superannuation.[89] Participants were randomly allocated to one of three experimental groups: investors, consumers or donors. Participants in the investment group were told they needed to manage a virtual investment account with a hypothetical $40,000 over one year. They would need to decide how much, if any, of a $10,000 investment return they would be willing to forgo to support the socially responsible investment portfolio for each of the four social causes. In other words, the socially responsible portfolios focussed on gender diversity (excluding companies with low female board representation), income equality (excluding companies with high executive pay disparities and poor labour rights compliance), faith-based values (excluding companies profiting from adult entertainment, alcohol, tobacco, and gambling), and environmental protection (excluding companies with high carbon emissions, fossil fuel production or excessive resource usage). If they were unwilling to forgo any return to support for one of the four social causes, they would choose the general investment portfolio, which guaranteed a return of $10,000.[90] A similar explanation was provided to participants in the consumption and donation experimental groups, which was suitably adapted to their scenario while avoiding any unnecessary changes to the text.[91] Respondents were told that the more money remaining in their virtual account, the larger the bonus incentive paid at the end of the study (to a maximum of A$4.00). As with the Hirst, Kastiel and Kricheli-Katz study, if respondents choose to forgo some money from their virtual account to support one or more social causes, then the commensurate percentage will be deducted from their bonus incentive payment and paid to an appropriate charity.[92]

Every participant had to pass two 'attention check' questions to test whether they were paying sufficient attention to maintain the integrity of the data.[93] An incorrect answer to an 'attention check' question resulted in

[88]The research was carried out per the National Health and Medical Research Council Standards. Ethics approval was granted for the Project through the University of Southern Queensland: Ethics application ETH2023-0444 (HREC) (08 Aug 2023).

[89]Of the 1 154 respondents who failed to complete the survey, 457 stated they 'had no experience at all' in investing and 309 did not answer the question.

[90]The precise wording, including all versions of the full survey instrument, is available at Open Science Framework. See the Data Availability statement below for further details.

[91]A copy of the full survey instrument is available at Open Science Framework. See the Data Availability statement below for further details.

[92]Participants were allowed to review the specific charity they would be supporting within each of the social causes. The respective charities were: for gender diversity, the Australian Gender Equality Council; for income equality, the Australian Council of Social Service; for faith-based values, the Alliance for Gambling Reform; for environmental protection, the Australian Conservation Foundation.

[93]The first 'attention check' question was positioned after the first ten choices (general portfolio vs a socially responsible portfolio focussing on gender diversity). The second was located after the second set of ten questions (general portfolio vs a socially responsible portfolio focussing on income equality).

the participant being ejected from the survey.[94] Respondents who made an illogical or inconsistent choice during the willingness to forgo questions for each social cause were also excluded from the analysis. For instance, a respondent in the investment group who selected the general portfolio for the second choice (ie unwilling to forgo $100 to support the social cause) yet selected the socially responsible portfolio for the third choice (ie willing to forgo $200), this is logically inconsistent because if they are willing to forgo $200 to support a social cause, they must also be willing to forgo $100. After excluding the respondents who made inconsistent responses during the preference questions for each social cause, there remained 236 respondents.[95] There remained a few missing values representing one or more choices that the respondent failed to make in the willingness to forgo questions. As the percentage of these NA values was less than 1%, the NA values were replaced with the median value for that question.[96]

As there is no way to know whether a respondent was willing to forgo some amount above their maximum (but before the next increment), it is assumed that their willingness to forgo could have been one cent less than the next increment. If, for example, a respondent in the investor group indicated that they were willing to forgo $10 but not $100 to support environmental protection goals, the survey instrument does not capture whether the respondent would be willing to forgo $70 or even go as high as $90 to support environmental protection. The authors of the original study on which the present is based handled this uncertainty by making the 'conservative' assumption that respondents may have been willing to forgo one cent less than the next increment, which was then rounded up.[97] The present study makes the same assumption for the same reasons. This means that all choices to forgo some amount to support a social cause are 'bumped up' to the increment. This has the effect of inflating the willingness to forgo values, but as Hirst, Kastiel and Kricheli-Katz note, this is an established practice for this kind of research.[98]

Overall, participants had a mean age of 49.7 years (SD = 16.1). The majority of respondents were female (n = 143, 60.9%), 38.7% were male (n = 91), and one respondent identified as transgender or non-binary (0.4%). The final division between the experimental groups was 74 (31.4%) respondents in the

[94]These respondents appears as an 'incomplete' survey response in the full dataset.

[95]The total number of complete responses was 305. The total number of respondents that made an illogical choice in the willingness to forgo questions (across all experimental groups) was 69.

[96]'NA' stands for 'not available'. The NA values represent one or more of the 10 binary choices were not completed. The number of respondents with one or more NAs per experimental group is as follows: investment group = 22 respondents (0.74%), donation group = 23 respondents (0.78%), and purchasing group = 23 respondents (0.78%).

[97]Hirst, Kastiel and Kricheli-Katz (n 19) 1007.

[98]ibid.

investment group, 90 in the purchasing group (38.1%), and 72 in the donation group (30.5%).

3.1. Results

3.1.1. Investors' willingness to forgo potential profit for a social cause

Table 1 below summarises the maximum amounts investors were willing to forgo across the four social causes. On average, investors were willing to forgo $292 to support environmental protection (out of a possible maximum of $1000 return, i.e. 29.2%), $243 to support income equality (24.3%), $136 to support gender diversity (13.6%), and $87.60 to support faith-based values (8.8%).

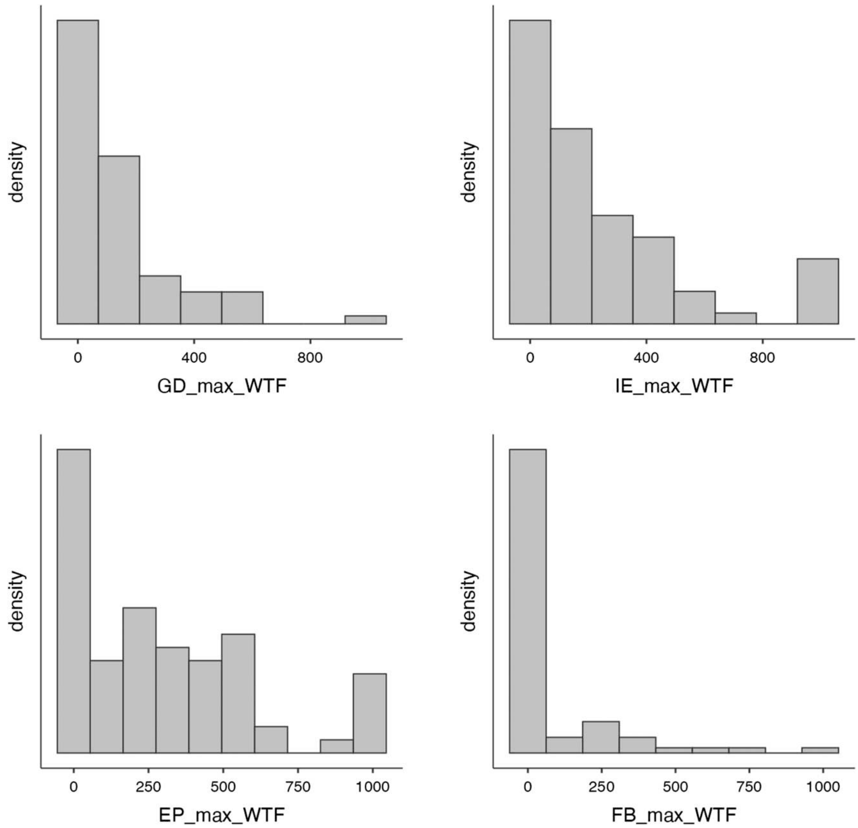
However, the median values for each social cause tell a different story. Noting the 'rounding up' effect discussed in the previous section, it is notable that the median for both gender diversity and faith-based values had a median of $10. This means more than half of investors were unwilling to forgo even $10 (from a potential return of $1000) to support these social causes. As can be seen in the Graph 1 below, for each social cause there were some investors whose maximum amount they were willing to forgo was much higher, which has the effect of skewing the mean values.

In total, 20 respondents in the investment experimental group were unwilling to forgo $10 for all four social causes, equating to 27.1% of investors. These investors appear to embody the shareholder primacy norm that Angus Taylor was countenancing. Within specific social causes, more than a quarter (31.1%, n = 23) of investors were unwilling to forgo $10 for environmental protection, and 28 respondents (38%) had a max willingness to forgo of $10 for income equality. These were the most popular social causes. Thirty-eight investors (51.3%) were unwilling to forgo $10 for gender diversity, and 78.4% (n = 58) were only willing to forgo $10 for faith-based values. Averaged across the four social causes, almost half of investors (49.7%) were either unwilling to forgo any amount or some amount below $10.

When investors with a small maximum willingness to forgo (i.e. $10 or $100) are combined, it shows that overall 58.45% of investors were only willing to forgo trivial amounts to support a social cause. Specifically, for environmental protection, 40.5% of investors' were only willing to forgo a

Table 1. Investors maximum willingness to forgo values by social cause.

	GD_max_willingness to forgo	IE_max_willingness to forgo	EP_max_willingness to forgo	FB_max_willingness to forgo
Mean	136	243	292	87.6
Median	10.0	200	200	10.0
Standard deviation	184	285	301	185
Minimum	10.0	10.0	10.0	10.0
Maximum	1000	1000	1000	1000



Graph 1. Investors' maximum willingness to forgo by social cause.

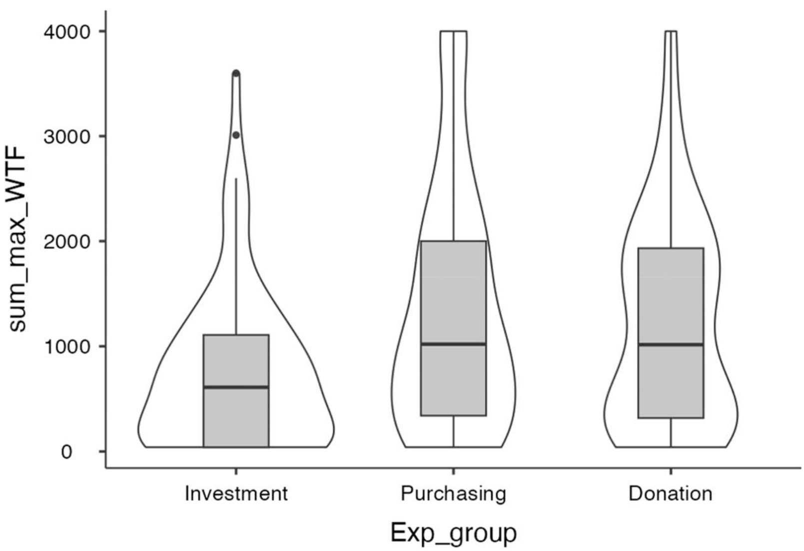
small amount (n = 30). For faith-based social causes, the figure is 82.4% (n = 61); for gender diversity, 64.9% (n = 48); and 46% for income equality (n = 34). This means that across all social causes, a majority of investors were only willing to forgo small amounts of a potential return of $1 000.

These results indicate that hypothesis one (H_1) is true; investors are generally willing to forgo some non-zero sum of money to support specific social causes. Averaged across the four social causes, 49.7% of investors were unwilling to forgo any amount ($0) or possibly some amount below $10. However, the rounding up of participants' choices to the next increment makes it impossible to say definitively what percentage of investors were unwilling to forgo any amount. However, even if all investors who selected $0 and were subsequently rounded-up to $10 confirmed that they indeed were unwilling to forgo even $1, then a slim majority of investors were willing to forgo a non-zero sum to support a social cause.

The above results also demonstrate a significant degree of heterogeneity among investors' prosocial preferences (H_2). Environmental protection and addressing income equality had the highest means and medians among investors. However, 31.1% (n = 23) of investors were unwilling to forgo \$10 for environmental protection, and 28 respondents (38%) had a maximum willingness to forgo of \$10 for income equality. There appears to be a broad rejection of causes supporting faith-based values in Australia. But, between the three remaining social causes, a majority were willing to forgo up to \$100 for environmental protection (n = 51, 69%), income equality (n = 46, 62.2%), while 48.6% of investors (n = 36) were willing to do so to support gender diversity. These results certainly do not suggest that most investors only cared about one social cause.

3.1.2. Were participants more generous as investors, consumers, or donors?

The survey results also reveal that those in the purchasing and donation experimental groups were willing to forgo more money than investors. A Kruskal-Wallis test was conducted on the sum of the maximum amounts respondents were willing to forgo for each experimental group, as each respondent had a maximum amount they were willing to forgo for each social purpose. The Kruskal-Wallis test revealed a statistically significant difference in the maximum amounts participants were willing to forgo between experimental groups, $\chi^2(2) = 13.9$, $p < .001$. This is evident in the boxplot of the sum of the willingness to forgo values by experimental group, see Graph 2 below.



Graph 2. Sum of the maximum willingness to forgo for all social causes by the experimental groups.

Pairwise comparisons using the Dwass-Steel-Critchlow-Fligner test indicated that the participants in the investment group were willing to forgo significantly less than participants in the purchasing group ($W = 4.890$, $p = 0.002$) and the donation group ($W = 4.192$, $p = 0.009$). However, there was no significant difference in participants' willingness to forgo between the purchasing and donation groups ($W = -0.589$, $p = 0.909$).

This analysis demonstrates that respondents in the donation and purchasing groups were willing to forgo more money than those in the investment group. These findings suggest that individuals may be more inclined to forgo larger sums of money in their donations and consumer purchases to support a social cause than in their investment decisions.

To explore whether investors in this study were more inclined to support a social cause as a consumer or donor, a correlation analysis was conducted on the investment group's answers to two subsequent questions in the survey that related to their purchasing and donor behaviour. These questions asked how often respondents considered each of the four social purposes when 'deciding what goods and services to buy' and 'what charities to donate to'.

The results in Table 2 above reveal a statistically significant relationship between the maximum amount investors were willing to forgo to support a social cause and their consideration of the same social cause in their purchasing and donation decisions, with some exceptions. Most notably, there is no significant correlation between the amount an investor is willing to forgo to support gender diversity and their consideration of gender diversity in purchasing and donation decisions. This may be because of the relative difficulty in determining whether the board of a corporation has adequate representation of women, whether in the products we buy or charities we donate to.

There is a strong negative correlation between the maximum amounts investors are willing to forgo and investors' consideration of environmental protection in their purchasing and donation decisions. This means that as the amount investors' were willing to forgo to support environmental

Table 2. Spearman's Correlation between investors' maximum willingness to forgo amount and consideration of the same social cause in purchasing and donation decisions.

	Purchasing decisions			Donation decisions		
Social purpose	Spearman's rho	df	*p*-value	Spearman's rho	df	*p*-value
Environmental protection	−0.323**	72	0.005	−0.294*	71	0.012
Income equality	0.271*	72	0.019	0.238*	71	0.043
Gender diversity	0.157	72	0.180	0.176	71	0.136
Faith-based values	0.300**	72	0.009	0.078	71	0.514

Note: * $p < .05$, ** $p < .01$, *** $p < .001$.

protection, they considered environmental protection less in the purchasing or donation decisions. This finding is significant as this is the only negative correlation and relates to the most popular social cause in this study. Further investigation is required, however, the negative correlation may exist because these investors feel that they have already adequately supported this cause by forgoing potential investment returns. Alternatively, it may be that assessing a company's environmental record is too onerous, and there are concerns about corporate 'greenwashing' in their purchasing and donation decisions. Such concerns are not unreasonable in Australia, with the Australian Competition and Consumer Commission finding that 57% of businesses' claims reviewed by the regulator as making 'concerning environmental claims'.[99]

There was a strong and very strong correlation between the maximum amount investors were willing to forgo and consideration of income equality and faith-based values in their purchasing decisions, respectively. As the amount investors are willing to forgo increases, investors are likely to give more consideration to income equality and faith-based values in their purchasing decisions. Finally, a positive correlation also exists between the maximum amounts investors were willing to forgo and their consideration of income equality in their donation decisions.

These findings help answer the third and fourth hypotheses. The total amount that respondents were willing to forgo to support a social cause varied significantly based on their randomly assigned experimental group. Those in the purchasing and donation groups were generally willing to forgo more money to support one or more social causes than investors (H_3). It also appeared that investors may be willing to forgo more money in their purchasing and donation decisions for income equality (H_4). This is also true of faith-based values and purchasing decisions (H_4). For environmental protection, the opposite is true (H_4). As the amount investors are willing to forgo to support environmental protection increases, they are less likely to consider environmental concerns in their purchasing and donation decisions.

However, the findings relevant to hypothesis four (H_4) need to be interpreted cautiously. The survey questions on which the correlation analysis is based did not ask investors to forgo any monetary value regarding their

[99] Australian Competition and Consumer Commission, 'Greenwashing by Businesses in Australia' (March 2023) <www.accc.gov.au/system/files/Greenwashing%20by%20businesses%20in%20Australia.pdf, archived at https://perma.cc/5R92-3KL6> accessed 4 November 2024; although it must be noted that similar issues of 'greenwashing' occur among so-called 'green' investment options with the regulator taking enforcement action, see Australian Securities and Investment Commission, '24-173MR ASIC's First Greenwashing Case Results in Landmark $11.3 Million Penalty for Mercer' (2 August 2024) <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2024-releases/24-173mr-asic-s-first-greenwashing-case-results-in-landmark-11-3-million-penalty-for-mercer/, archived at https://perma.cc/KQ4C-A8TB> accessed 4 November 2024.

purchasing or donation choices. Instead, the questions asked respondents how much they *consider* each of the social causes during their purchasing or donating decisions, which is not the same as asking them to forgo an amount of money (with real-world consequences). One may expect a 'gap' between consideration of a social cause and real-world action. This gap may be due to previously discussed biases, including social desirability bias,[100] recall bias,[101] or the intention-behaviour gap.[102] On the other hand, self-reported data generally has been shown to have a 'strong association between self-reported and objective pro-environmental behavior' according to a 2007 meta-analysis.[103] The meta-analysis authors recommend avoiding questions about everyday behaviours and avoiding vague quantifiers such as 'sometimes' and 'often'.[104] Both recommendations were not followed in the present study, which weakens any claim that investors' self-reported consideration of social causes would translate into actual purchasing or donation behaviours. However, the comparison between the sum total that participants were willing to forgo did vary significantly across experimental groups (see Graph 2 above), which suggests that one's support for social causes is context-dependent. Meaning that it is possible that those in the investment experimental group may have forgone more money to support income equality (in the purchasing or donation decisions) and faith-based values (in purchasing decisions only) if they were allocated to the purchasing and donation group. And, conversely, those in the purchasing and donation groups may have been less willing to forgo money if they were allocated to the investment group. If true, then environmentally conscious investors would forgo less money to support environmental protection in their purchasing and donation decisions.

4. Discussion: implications for CSR and further research

The survey results demonstrate that most investors are willing to forgo potential returns in companies that undertake CSR activities in one or more

100 Don A Dillman, Jolene D Smyth and Leah Melani Christian, *Internet, Phone, Mail, and Mixed-Mode Surveys: The Tailored Design Method* (John Wiley & Sons, Incorporated 2014) 99–100 <http://ebookcentral.proquest.com/lib/usq/detail.action?docID=1762797> accessed 28 May 2024; Christine Kormos and Robert Gifford, 'The Validity of Self-Report Measures of Proenvironmental Behavior: A Meta-Analytic Review' (2014) 40 J Enviro Psyc 359, 360.

101 Kormos and Gifford (n 101) 367.

102 Nguyen and others (n 34) 222.

103 Kormos and Gifford (n 101) 369. The authors do acknowledge, however, that there is 'considerable amount of unexplained variance between selfreports and objective measures suggests that these measures are not asisomorphic as somemight think, or expect, given the particular context of self-report validity, which leads us to conclude that the observed effect size is conventionally large but functionally small. This is not to argue that self-reports should not be used. Far from it, in fact, they are convenient and cost-effective indicators of behavior and they have high levels of validity in some cases'.

104 ibid.

of the social causes, especially income equality and environmental protection. However, the amount of money they were willing to forgo, in terms of dollars, was low. 58.45% of investors were only willing to forgo $100 or less (< 10%) averaged across social causes. The survey results also highlight a high degree of heterogeneity among social causes Australians care about, with a preference towards environmental protection and income equality.[105] The lack of a clear consensus in favour of one social cause arguably strengthens Mr Taylor's advice that companies should 'stick to their knitting' to avoid getting shareholders offside by pursuing a social cause they do not agree with or support.

One interpretation of this finding is that investors would prefer companies 'stick to their knitting' and focus on maximising shareholder value so investors can spend more or donate more to their preferred social causes. The amount investors were willing to forgo significantly differed ($p < 0.01$) from consumers or donors facing the same choices.[106] A similar finding occurred in the Hirst, Kastiel and Kricheli-Katz study, which the researchers interpreted as meaning 'that a substantial number of investors would prefer that corporations distribute returns to their investors, who can then use those returns to advance social goals directly'.[107] Whether this interpretation is correct or not, it is clear that shareholder support for CSR activities is tepid (at best).

In an environment where investors are less willing to forgo potential returns than someone making a purchase or donation to the same social causes, directors may be understandably reluctant to pursue CSR activities for fear of losing shareholder support. Shareholder support being critical when seeking a pay increase and, in extremis, keeping their jobs.[108] In the next section, I argue that shareholders' lack of financial support for CSR is problematic because it will deprive society of the benefits the private provision of public goods yields.

4.1. A the benefits of CSR

The first of these benefits could be broadly described as efficiency related, in that corporations are uniquely placed to solve the challenges of addressing the externalities caused by their business activities.[109] For example, if companies alter production methods to reduce environmental or social impacts, this will likely occur in the most cost-effective method due to market forces. This is

[105]See generally Stout (n 8) 59 on the heterogenous interests of 'human' shareholders; Kräussl, Oladiran and Stefanova (n 36) 486 noting the varying views 'on different aspects of the sustainability profile of a firm' and 'the objectives of responsible investors'.
[106]See the pairwise comparisons in Part III(A)(2).
[107]Hirst, Kastiel and Kricheli-Katz (n 19) 982.
[108]*Corporations Act ss 203C, 203D, 203E (removal of directors) and s 250R (shareholders say on pay).*
[109]See John Morgan and Justin Tumlinson, 'Corporate Provision of Public Goods' (2019) 65 Mgmt Sci 4489, 4490.

not to suggest that such changes do not have a material cost to the company,[110] just that their expertise and knowledge will result in more efficient changes than if command-and-control regulation was relied upon to make the same changes. Hart and Zingales use the example of Walmart in the United States of America ('US') and its decision to sell high-capacity rifle magazines that are used in school shootings and other massacres. As a major retailer of high-capacity rifle magazines, Walmart is uniquely placed to impact the severity of mass shootings by restricting or ceasing to sell high-capacity magazines in their stores.[111]

The seemingly intractable issue of firearms control in the US highlights the second benefit of CSR: addressing shortcomings in the democratic political process. To continue with the Walmart example above, the Second Amendment in the US Constitution (colloquially referred to as the 'right to bear arms') is cited as a reason the Federal Government cannot address gun-related violence.[112] Whether the Second Amendment is a valid argument against gun control or not, a democratically elected government may nevertheless fail to give sufficient attention or resources to a particular social cause. This may be because the necessary reforms are politically unpalatable, the government lacks the expertise or technical knowledge to draft effective and efficient regulations, or the issue does not lend itself to command-and-control style regulation, such as respecting diversity or promoting workers' dignity.[113] This afflicts all democracies and fuels criticisms that governmental action is inefficient and wasteful of public resources.[114] Although these criticisms often unfairly overlook issues like information asymmetry and higher delivery costs facing governments.[115] In such circumstances, the private provision of public goods through CSR can help fill the void.[116]

Another benefit of CSR is that it preserves the efficiencies associated with centralised giving. As social causes, such as environmental protection, are not traded on efficient capital markets, it is often cheaper (in terms of time and other resources) for investors to let companies 'undertake stakeholder-related activities instead of attempting to get to their optimal preferences by themselves'.[117] In fact, Graff Zivin and Small demonstrated that investing

[110]ibid 4502.

[111]An attempt was made by Trinity Church, a shareholder in Walmart, to impose greater oversight on the sale of products that endanger public safety. However, the proposal was defeated on the grounds that it would interfere with management's ability to run the company: see Clare O'Connor, 'Walmart Beats Out Church In Court Fight Over Gun Sales' (*Forbes*, 15 April 2015) <www.forbes.com/sites/clareoconnor/2015/04/15/walmart-beats-out-church-in-court-over-gun-sales/> accessed 19 January 2024.

[112]Hart and Zingales (n 18) 249.

[113]ibid; see also Adi Libson, 'Taking Shareholders' Social Preferences Seriously: Confronting a New Agency Problem' (2018) 9 UC Irvine L Rev 699, 704.

[114]Bénabou and Tirole (n 10) 2.

[115]ibid.

[116]Hart and Zingales (n 18) 249.

[117]Rau and Yu (n 26) 5.

in companies that pursue CSR may be more efficient than donating to charity directly.[118] Efficiency results by avoiding the 'transaction costs associated with researching and selecting personally among the options in the large market for social causes', and shareholders 'donations are leveraged by the amount the firm would otherwise have paid in corporate profits tax on distributed dividends and retained earnings'.[119] Finally, leaving it to individual shareholders to donate or buy from socially responsible suppliers introduces the omnipresent free-rider problem.[120]

4.2. The legal basis for CSR

There is some debate about whether Australian directors can divert company profits to promote social causes. Professor Anthony Gray, examining the use of corporate resources to espouse support for particular social causes publicly, argues that such use of resources may breach directors' legal responsibilities under the *Corporations Act*.[121] This argument acknowledges the accepted legal test that a company can engage in CSR to promote a social cause if it is in the company's best interests to do so.[122] Professor Gray's argument turns on how the best interests of the company are conceived. Resolving this debate is beyond the scope of this article. While the current research suggests that Australian shareholders would prefer companies to maximise their returns, this section is necessary to demonstrate that directors can pursue non-shareholder interests to support the private provision of public goods through CSR.

In *Greenhalgh v Ardene Cinemas Ltd [No 2]*, the company's best interests were referred to as the interests of the shareholders as a whole rather than the company as a separate entity.[123] This appears to endorse the shareholder primacy model, with some Australian courts following this reasoning more

[118]Graff Zivin and Small (n 32) 2.

[119]ibid.

[120]The free-rider problem refers to market failure, where individuals benefit from a good or service without paying their fair share of the costs. Such individuals can do so because the good or service is difficult or impossible to prevent non-paying users from accessing (non-excludability) and their consumption does not reduce the availability for others (non-rivalry). In these circumstances, it is economically rational for individuals to free-ride, however, if everyone does so then the goods or services may no longer be provided. See Morgan and Tumlinson (n 110) 4489.

[121]Gray (n 10) 33, 34.

[122]Corporations Act s 181(1); Marshall and Ramsay (n 12) 295; Walker and Ng (n 12) 6, 15 noting that 'subtle differences between the general law and statutory duties' may exist; see also Jean J du Plessis, 'Directors' Duty to Act in the Best Interests of the Corporation: "Hard Cases Make Bad Law"' (2019) 34 AJCL 3, 5; Corporations Act s 180 may also be breached if a director(s) allows a company to undertake a course of action that, such as CSR activity, that has no prospect of producing a benefit for the company; see Corporations and Markets Advisory Committee (n 35) 90.

[123]*Greenhalgh v Arderne Cinemas Ltd* [No 2] (1950) 2 All ER 1120, 1126; see also *Ngurli Ltd v McCann* (1953) 90 CLR 425 (HCA) 438; but see du Plessis (n 123) 7, 17, who argues that the correct approach is that directors' duties are owed to the company as a separate legal entity because *Greenhalgh v Arderne Cinemas Ltd* was a case dealing with shareholders' voting rights, not directors' duties; Corporations and Markets Advisory Committee (n 35) 84.

closely than others. For instance, in 2001, the High Court of Australia stated, 'It may be readily accepted that directors and other officers of a company must act in the interests of the company as a whole and that this will usually require those persons to have close regard to how their actions will affect shareholders'.[124] Further, Justice Ward of the New South Wales Supreme Court in 2011 stated that 'whether directors have complied with their duties involves a determination of whether the conduct diverged from the interests of the company's shareholders' and explicitly referred to the 'shareholder primacy norm' in parenthesis.[125]

Precedents such as these have arguably created uncertainty about whether directors can prioritise longer-term social goals over shareholders' short-term financial interests by engaging in CSR.[126] For instance, a 2014 study found that 63% of Australian companies prioritise shareholder interests, especially in the materials sector.[127] One reason posited by the study's author(s) was the judiciary's interpretation of a company officer's duty under s 181 of the Corporations Act 2001 (Cth) as being easily discharged if management acts in a way consistent with shareholder primacy.[128] More recently, in an analysis of the JobKeeper payments received by corporate Australia during COVID-19, Goding observed that there remains an expectation of 'maintaining returns on equity at certain rates expected by shareholders over and above the interests of other stakeholders' and if 'anything [is] likely to impact those returns, cost measures should be undertaken to prevent that outcome'.[129]

While the company's interests will *generally* be synonymous with the interests of the shareholders, they need not be the same.[130] This opens up the possibilities for engaging in CSR whilst satisfying directors' legal duties. Increasingly, Australian courts have held that the company's best interests

[124] *Pilmer v The Duke Group Ltd* (2001) 207 CLR 165 (HCA) 178.

[125] *International Swimwear Logistics Ltd v Australian Swimwear Company Pty Ltd* [2011] NSWSC 488 (Supreme Court of New South Wales) [102].

[126] Marshall and Ramsay (n 12) 292.

[127] Reegan Grayson Morison and Ian Ramsay, 'Corporate Governance and Corporate Social Responsibility: An Analysis of Companies' Business Objectives' (2014) 32 C&SLJ 438, 444 this was based on the presence and frequency of keywords used in publicly available statements under s 229A of the Corporations Act 2001 (Cth); cf Marshall and Ramsay (n 12) 304, 306 which found that 55% of Australian company directors believed that acting in the best interests of the company 'meant they should balance the interests of all shareholders' and 'Nearly all directors (94.3%) believed that the law is broad enough to allow them to take the interests of stakeholders other than shareholders into account'. However, based on stakeholder ranking, shareholders were ranked first. The authors concluded, on page 308, 'that "shareholder primacy" is prominent in the attitudes of our respondent company directors' but, nevertheless (at page 311), the data did not confirm the 'shareholder primacy' view.

[128] Morison and Ramsay (n 128) 446; citing Corporations and Markets Advisory Committee (n 35) 84–86, 91–92, 106–07.

[129] Vincent Goding, 'Directors' Duties, CSR and the Jobkeeper Wage Subsidy Scheme' (2024) 47 MULR (advance), 29.

[130] Ian M Ramsay, *Company Directors: Principles of Law and Corporate Governance* (2nd ed, LexisNexis 2023) 507–08; Walker and Ng (n 12) 8.

may differ from its shareholders' interests, including prioritising the long-term well-being of the corporation over maximising profit or paying dividends in the short term.[131] For instance, in 2008, the Western Australian Supreme Court stated in *Bell Group (in liq) v Westpac Banking Corp (No 9)* that directors may act in the company's best interests when considering non-shareholders' interests.[132] Specifically, Owen J stated that

> It is, in my view, incorrect to read the phrases 'acting in the best interests of the company' and 'acting in the best interests of the shareholders' as if they meant exactly the same thing. To do so is to misconceive the true nature of the fiduciary relationship between a director and the company. And it ignores the range of other interests that might (again, depending on the circumstances of the company and the nature of the power to be exercised) legitimately be considered.
>
> On the other hand, it is almost axiomatic to say that the content of the duty may (and usually will) include a consideration of the interests of shareholders. But it does not follow that in determining the content of the duty to act in the interests of the company, the concerns of shareholders are the only ones to which attention need be directed or that the legitimate interests of other groups can safely be ignored.[133]

Owen J acknowledged that the interests of the company and its shareholders generally overlap but stressed that this is 'because the interest of the company and the interests of the shareholders intersect', not because 'the shareholders are the company'.[134] This view was subsequently endorsed by Edelman J in the Federal Court of Australia in *ASIC v Cassimatis (No 8)*, but again, acknowledging that their respective interests will not always be identical.[135]

In *Harlowe's Nominees Pty Ltd v Woodside (Lakes Entrance) Oil Co NL*,[136] the High Court of Australia held that directors are 'vested the right and the duty of deciding where the company's interests lie and how they are to be served'.[137] Although this case was decided in 1968, it has not been overruled or overturned and continues to reflect the High Court's position on how the company's best interests are determined. This principle has been extended to include the interests of stakeholders. In the Federal Court of Australia, Middleton J acknowledged that directors' decisions affect other interests, including

[131]Corporations and Markets Advisory Committee (n 35) 84.
[132]*Bell Group Ltd (in liq) v Westpac Banking Corp (No 9)* [2008] WASC 239, [4393] and [4395]; see also Morison and Ramsay (n 128) 439; Ramsay (n 131) 508.
[133]*Bell Group Ltd (in liq) v Westpac Banking Corp (No 9)* (n 133) 534 [4395].
[134]*ibid 534 [4393].*
[135]*Australian Securities and Investments Commission v Cassimatis and Another (No 8)* (2016) 336 ALR 209 (FCA) 308 [515].
[136](1968) 121 CLR 483.
[137]*Harlowe's Nominees Pty Ltd v Woodside (Lakes Entrance) Oil Co* (1968) 121 CLR 483 (HCA) 493; see also Walker and Ng (n 12) 11.

the general community.[138] Similarly, Drummond AJA in the Western Australian Supreme Court of Appeal noted the increased prevalence of large companies taking into account a broader range of concerns than shareholders' interests than has traditionally been the case.[139]

Although not legal authority, Commissioner Hayne (former Justice of the High Court of Australia), in the *Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, stated that in discharging their duties to act in the best interests of the company, directors need to go beyond a shallow concern for financial returns or shareholder value.[140] Similarly, in 2006, the Corporations and Markets Advisory Committee affirmed that s 181 of the Corporations Act could be discharged by considering stakeholder interests, providing there is a benefit to shareholders as a whole.[141] More recently, in a 2022 published legal opinion to the Australian Institute of Company Directors, Walker SC and Ng SC noted that directors have considerable latitude in how they discharge their legal duties, stating that

> There is no reason why directors could not have regard to the interests of customers, employees and the community more generally, provided that there is a rational justification for doing so by reference to the long-term interests of the company, including its interest in avoiding reputational harm.[142]

Given that reputational damage incurs very real costs for companies (and therefore shareholders), directors should consider a range of interests,[143] including those underpinning common forms of CSR.

Other common law jurisdictions are also adopting a more stakeholder-friendly position. In the United Kingdom, while directors' duties are owed to the company, what constitutes the company's interests is 'more than just the sum total of its members'.[144] Similarly, the Canadian Supreme

[138] *Australian Securities and Investments Commission v Healey* (2011) 196 FCR 291 (FCA) 297 [14].
[139] *Westpac Banking Corporation v Bell Group Ltd (in liq) (No 3)* (2012) 44 WAR 1, 367 [2051]; see also du Plessis (n 123) 24.
[140] Commonwealth of Australia, 'The Royal Commission into Misconduct in the Banking, Superannuation Financial Services Industry' (Treasury 2019) Final Report 402 <https://treasury.gov.au/publication/p2019-fsrc-final-report>.
[141] Corporations and Markets Advisory Committee (n 35) 91–92; see also Morison and Ramsay (n 128) 439.
[142] Walker and Ng (n 12) 3, 16.
[143] ibid 3, 9–10, 13 citing Edelman J in *Australian Securities and Investments Commission v Cassimatis (No 8)* (2016) 336 ALR 209 at 301 [482].
[144] *Fulham Football Club Ltd v Cabra Estates Plc* (1994) 1 BCLC 363, 379; see also du Plessis (n 123) 21; although, as noted by Lorraine Talbot, *Progressive Corporate Governance for the 21st Century* (Routledge 2013) 169 s 172 of the Companies Act 2006 makes it clear that stakeholder interests are only to be considered to the extent that it benefits the company's members as a whole. I am grateful to Dr Vincent Goding for bringing this reference to my attention.

Court has stated that the '"best interests of the corporation" should be read not simply as the "best interests of the shareholders"'.[145]

Company directors clearly have broad discretion in determining what is in the company's best interests. As this relates to CSR activities, Harris and Peters surmise, 'Whether directors of Australian companies choose to comply with their duty to consider the interests of the company, by managing the business to be socially responsible, is ultimately a question for each individual company'.[146] The guiding principle is whether a reasonable director would believe the course of action is in the company's best interests.[147] Directors are undoubtedly on safer ground when consideration of stakeholders' interests results in a derivative benefit for shareholders. However, the provision of such a direct benefit is not a prerequisite.[148]

Arguably, more must be done to educate directors about their broad powers to act in the company's best interest if they are concerned about the future impact of a social cause on the company. A 2012 survey of 368 Australian company directors found that 55% of directors saw balancing the interests of all stakeholders as their primary obligation when acting in the best interests of the company.[149] Nevertheless, when it came to ranking stakeholders, the company's shareholders were at the top of the list.[150] These directors are unlikely to sacrifice company profits for CSR activities, even if they believe it is in the company's longer-term best interests. If we hope to tackle some of the most urgent social causes by leveraging the benefits of CSR, then directors need to feel confident that they can do so, providing it is in the company's best interests.

With improved awareness among directors that non-shareholder interests can be important in determining what is in the company's best interests, the focus can turn to encouraging greater support of CSR among investors in these companies. In fact, based on the present survey findings, many Australian directors may be prioritising the needs of shareholders as this is what the shareholders want. How does one encourage investors to willingly forgo more potential returns, at a level similar to that of consumers or donors acting in a socially responsible manner? Does the answer lie in the presence of a corporate intermediary that disinclines investors to give more in support of a social cause through CSR? Is it a matter of choice or control that investors lose through CSR activities? Unfortunately, the present survey was not

145 *Peoples Department Stores Inc v Wise* (2004) 3 SCR 461 (Canadian Supreme Court) 481 [42]; see also du Plessis (n 123) 22.
146 Jason R Harris and Timothy D Peters, *Company Law: Theories, Principles and Applications* (Third edition, LexisNexis Australia 2023) 379; Ramsay (n 131) 522; Corporations and Markets Advisory Committee (n 35) 91–92.
147 Walker and Ng (n 12) 16.
148 Marshall and Ramsay (n 12) 298–99.
149 ibid 304.
150 ibid 306.

designed to answer these questions. But, an answer to these questions is necessary if Australian society is to benefit more from the private provision of public goods.

4.3. Limitations

Several limitations of this study must be considered when reviewing the results and considering its implications. First, the possible effect of social desirability bias.[151] The prosocial attitudes being studied may have triggered social- and self-esteem concerns.[152] However, the mechanics of this survey, specifically providing respondents with anonymity and the fact that the data was collected online (rather than face-to-face), have been found to reduce the effects of social desirability bias.[153] Nevertheless, such bias may still exist.

Second, self-selection bias exists despite the survey participants being recruited through a third party (Ipsos), which incentivises participation. While differing from a traditional invitation-based survey, which usually involves targeting specific individuals who may agree to participate because of strong opinions on the topic or due to convenience, the present survey participants have self-selected to join a panel or platform for taking surveys, which were then matched to this survey.[154] Participants who chose to participate in the present research may differ in their views from the rest of the Australian population.

Third, the survey results are subject to motivation bias. Recruited participants are likely primarily interested in the financial incentive, especially a study that pays a bonus incentive (such as this one). That said, the presence of two 'attention check' questions, in addition to other proprietary mechanisms employed by Ipsos, helps to ensure that participants are not simply clicking answers and not engaging with the survey content. Thus, the survey results are likely biased towards those who participate in survey panels and are motivated by the incentive paid and, thus, are not generalisable to the broader Australian population.

5. Conclusion

The corporate purpose of Australian companies has again piqued the public interest due to some ASX-listed companies' financial support of the Voice to

151 Dillman, Smyth and Christian (n 101) 99–100; Kormos and Gifford (n 101) 360.
152 Bénabou and Tirole (n 10) 3.
153 Donna M Randall and Maria F Fernandes, 'The Social Desirability Response Bias in Ethics Research' (1991) 10 J Bus Ethics 805, 813, 814; see also Heimann and Lobre-Lebraty (n 29) 103.
154 Voxco, 'Voluntary Response Sample' (20 April 2021) <www.voxco.com/blog/voluntary-response-sample/, archived at https://perma.cc/BW8A-EBAY> accessed 4 September 2024.

Parliament as a form of CSR. Not all shareholders were supportive of corporate funds being used in this way, with some shareholders asking directors to justify their decision to do so during AGMs.[155]

The media firestorm surrounding the use of corporate funds to support the 'Yes' campaign in the Voice to Parliament referendum suggests at least some Australian shareholders would prefer companies 'stick to their knitting'. In their seminal article, Hart and Zingales push-back on the suggestion that shareholders only want to maximise profit at the cost of other considerations. They cite the consumer trend to purchase products sourced or produced responsibly, like fair-trade coffee or free-range meat.[156] Hirst, Kastiel and Kricheli-Katz set about empirically testing Hart and Zingales' argument to see whether shareholders did indeed care about social responsibility, or would they prefer to maximise their returns? This article has endeavoured to do the same for Australian investors. It is inappropriate to directly compare the results of the two studies in any detail. However, it is striking that both the Hirst, Kastiel and Kricheli-Katz study and the present study both found that respondents were willing to forgo more money as a consumer and donor than as an investor.

Given the benefits of private entities providing public goods and the willingness of individuals to forgo money to support social causes in other capacities, it would be more efficient to align investors' social preferences with CSR activities. Unless a company's constitution prohibits the use of corporate funds towards CSR activities, there is no common law or statutory prohibition from doing so. In fact, Australian courts and other scholarly sources make it clear that directors can prioritise stakeholder interests over the short-term financial interests of shareholders if it is in the company's best interest to do so.

The findings of this study, unfortunately, raise more questions than it answers. Why do investors seemingly prefer companies 'stick to their knitting' and maximise returns yet exhibit higher levels of concern for the same social cause in their donation and purchasing decisions? Why are consumers and donors willing to forgo more money than investors under near identical experimental conditions? Does a corporate intermediary reduce the 'warm glow' feeling individuals otherwise experience when donating to a charity or purchasing socially responsible products? If true, how does this dynamic affect institutional shareholders, themselves a corporate intermediary, whom hold the largest fraction of issued capital across all indices in the

[155]Kehoe (n 4) for example, Commonwealth Bank chairman Paul O'Malley had to defend the company's $2 million contribution to the Yes campaign after 'after some shareholders at the bank's annual general meeting argued it should not be allocating capital to support what they considered a political campaign'.

[156]Hart and Zingales (n 18) 248.

ASX. The answer to these questions is important if society is to make meaningful progress towards socially responsible goals through CSR.

Disclosure statement

No potential conflict of interest was reported by the author(s).

Data availability statement

The data and materials that support the findings of this study are openly available in the Open Science Framework at https://osf.io/p7wv9/.

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Appendix

Table A1. Maximum amounts respondents were willing to forgo by experimental condition and social cause.

	Exp_group	GD_max_WTF	IE_max_WTF	EP_max_WTF	FB_max_WTF
N	Investment	74	74	74	74
	Purchasing	90	90	90	90
	Donation	72	72	72	72
Mean	Investment	136	243	292	87.6
	Purchasing	299	393	430	224
	Donation	255	351	412	210
Median	Investment	10.0	200	200	10.0
	Purchasing	200	300	400	10.0
	Donation	100	300	400	100
Standard deviation	Investment	184	285	301	185
	Purchasing	334	344	346	340
	Donation	291	333	342	280

^ 'GD' = gender diversity, 'IE' = income equality, 'EP' = environmental protection, and 'FB' = faith-based values.