WALTERS

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The bystander effect

Kath Walters explains why boards are failing in their attempts at corporate social responsibility.

Why are boards standing by and watching as the companies they govern take our environment to hell in a handbasket? The banks are a case in point, as researcher Martijn Boersma from Catalyst Australia, recently wrote: "While banks frequently mention risk assessments, they nevertheless continue to finance unsustainable activities." Since 2008, banks collectively have invested tens of billions into the carbon-rich fossil fuel sector, but do not include these details in their CSR reports.

Actually, there is a good reason – or at least a psychological explanation – for the inaction of so many boards. It's called the "bystander effect" – a weird social phenomenon in which an individual refuses to help someone in need – for, example, feeling ill, in obvious emotional distress, or even being attacked; they just stand by and watch. What causes such a callous response? A crowd. When other people are present, we hold ourselves back. We are confused by the inaction of others.

The bystander effect is so powerful, we put our own lives at risk. In one astonishing experiment, three people are sitting in a room. The researchers pipe smoke into the room. Two of the three people in the room are instructed to ignore the smoke. The third person, though agonisingly confused, remains seated despite the clear risk to their life.

We are working with powerful human instincts. I discovered just how powerful recently. In August, I joined with 99 others to spend my Saturday playing "We R One World" – a game staged by the Slow School of Business in which we tried to solve the world's problems. In my role as the Finance Minister of India, I felt a heavy responsibility to address our incredible food shortages. My team and I quickly realised that, short of selling military equipment or our valuable and finite resources, we could never actually feed our people. You are going to find my next paragraph challenging.

I decided to steal $10 billion from Russia; they were not looking after their basket of resources very well and it was only a game. My fellow team were horrified by my actions, but not one of them jumped up to report me to the game facilitators – the bystander effect. We are wired to stick to a commitment when we make it public. I'd made a public commitment to be India's Finance Minister. I didn't want to lose India's money. (I confessed my actions mid-game because I was unable to bear inconsistency with my own values).

A private commitment is another matter; we are very likely to break it, explains author Robert Cialdini in his classic book *Influence: The Psychology of Persuasion.* The customer-owned Bank Australia (formerly Bank MECU) calls itself a responsible bank guided by three pillars: its customers, their communities and the planet. Such a public commitment has a strong effect on the bank's board, staff and customers. For example, this commitment influenced the bank's chairman, Judith Downes, to join the board in 2012. It underscores her board's commitment to transparency, guides the bank's investment choices and the behaviour of its staff. It also attracts customers.

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There is a parallel here with the issue of gender diversity. Since 2011, the ASX Corporate Governance Council guidelines have required companies to publish measurable objectives for achieving gender diversity and to report on their progress. If they chose not to do so, they need to explain why.

But this is not yet the case for environmental and social risks. The latest guidelines require a listed entity to disclose whether it has "any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks". It is open to interpretation. To engage our consistency bias, we need company boards to take similar actions to those of gender diversity – such as publicly reporting on risk against criteria.

It would be even more effective if boards declared that addressing these risks is an emergency. Rare and unusual emergencies that threaten actual harm are the most likely to get bystanders into action, the researchers found. But what of shareholder value? Shareholder value is too narrowly defined by our boards today. In reality, it refers only to "current shareholders". The task for boards is to act in the best interest of both current shareholder and future shareholders – the ones whose cities will be under seawater unless we take action on global warming. ■