



Australian Centre for Corporate Social Responsibility

PO Box 2371 / Caulfield Junction VIC 3161 / AUSTRALIA
T: +61 3 9576 1694 / F: +61 3 9576 1517 / E: info@accsr.com.au / W: www.accsr.com.au
ABN: 71 007 029 610

Tracking CSR: ACCSR Occasional Paper **July 2006**

What will the PJC report on corporate responsibility mean for business?

By Rebecca Jones and Leeora Black

With the release of the report, "Corporate Responsibility: Managing risk and creating value", the Parliamentary Committee on Corporations and Financial Services has achieved what years of interest group lobbying has not. All political parties have now legitimised corporate social responsibility as an important and commercially sensible path for business to follow.

Whether or not the government accepts the report's recommendations, its publication is a watershed because it so far the highest-level, official debunking of the primary argument traditionally made against CSR, by affirming that company directors can legitimately have regard for a wider set of stakeholder interests than shareholders. The residual question now is, what will the report's recommendations mean for business?

There are three big messages for business.

Superannuation trustees will create the next pressure point

First, superannuation trustees can no longer excuse themselves from considering the social and environmental responsibility of business by hiding behind the "sole purpose test". The report strongly encourages superannuation trustees to consider companies' environmental and social responsibilities because "it is in fact so far bound up in long term financial success that a superannuation trustee would be closer to breaching the sole purpose test by ignoring corporate responsibility" (section 5.41).

ACCSR has long argued that superannuation trustees will provide the next pressure point on business to drive increased standards of social and environmental responsibility. They will do so because they are by nature risk averse, and corporate CSR strategies when successful mitigate new forms of social and environmental risk well before they appear in corporate profit and loss statements.

Fund managers should expect more questions from superannuation trustees about the social and environmental risks managed by the companies in which they invest. Some companies will wait for these questions from fund managers. Other companies already considered leaders in CSR can exert influence by supporting trustees in their quest to better understand their biggest CSR risks and challenges.

Encouragement for sustainability reporting

Investment analysts need better information to make decisions based on environmental and social risk, which leads to the second message in the report for business. The report's encouragement of greater levels of social and environmental risk disclosure through sustainability reporting is a fruitful means of initiating a shift in business consciousness as to what the true impacts are of 'being in business'.

It recommends that year-one costs of initiating sustainability reports be offset through inflated write-off arrangements and recommends regulatory relief for companies that proactively initiate sustainability reporting.

ACCSR welcomes the committee's premise that sustainability reporting must be cost effective, flexible and comparable to be useful. But we doubt that prevailing market conditions provide sufficient stimulus to generate this level of accountability. Without a clearer impetus for business laggards to act now, investment analysts will be unable to consider the effect of CSR risk management strategies in a robust manner.

In the interim, some companies will continue 'business as usual', making minimal change in strategy. But over time, businesses will respond to their social and environmental risks as a commercial imperative, either to improve efficiencies or prevent potential liabilities. The smartest businesses will use sustainability reporting to hasten integration of sustainable business practices.

Of course, the balance of businesses that will fall into each category is uncertain. Although additional leadership provided by the Government, by regulatory and other bodies such as the ASX will be important, leadership provided from the ranks of the business community itself will be central if we are to tip the scales in favour of the latter category.

This is also where ACCSR sees the greatest weakness in the report's recommendations about sustainability reporting. By leaving it to the ASX, it is not clear how far the motivation to report will extend. We need broader public policy tools in place to reach organisations that are not listed companies. This includes organisations in both the commercial and not-for-profit sector.

Political Positioning

The third dimension of the report is that it fleshed out the divergent policy positions of the major parties in relation to CSR in Australia. The recommendations essentially run along party lines with the committee's (comprising a majority of government members and senators) recommendations reflecting the philosophy of the Howard government on self-regulation and industry initiatives as the cursor of change, while the supplementary reports submitted by the Australian Labor Party and the Democrat's demonstrated a much stronger appetite for regulatory and government policy measures to reinforce the adoption of CSR in Australia.

Both major political parties agree that the traditional accent at the Federal government level on community capacity building and philanthropy as the outcome of corporate engagement on CSR should be broadened to include sustainable business practices. Companies are encouraged to integrate CSR strategy not merely to retain competitiveness and reputation, but also to obviate the risk of imposed government regulation.

If the cues are correct from this report, we may see an increased role for the Prime Ministers' Community and Business Partnerships forum, with the Department of Family, Community Services and Indigenous Affairs as lead agency. Whether this will end up looking anything like the UK's Business in the Community Network, as inferred by the report, is unclear.

Rather than replicate the UK model which is successful because it is business led, we are more likely to see a government-led model with a smaller budget than BITC. The proposed Australian CSR Network is likely to try to support or complement initiatives by corporate and civil society actors. This is reflective of the Howard Government's long-held position on industry self-regulation and industry-led solutions. The success of this approach will depend on the participation of business.

In contrast, the Australian Labor Party (ALP) sees a stronger business-oriented government response on CSR. The ALP has clearly used this inquiry as a means of dealing itself into an area of policy where it considers the Howard government's policy response is weak. In Labor's supplementary report we see obvious points of difference. For instance, Labor would like any future CSR bureaucracy to be based in a business-oriented department – Treasury or the Department of Industry, Tourism and

Resources – as well as a National Sustainability Council that would, in part, be charged with establishing voluntary Australian sustainability targets for the public and private sectors.

Labor supports mandatory minimum reporting of non-financial risk, with an amendment to the *Corporations Act* to require all public and private companies, operating in Australia and over a specified size to disclose their top five sustainability risks. Most significantly the ALP has also recommended stepped targets for the introduction of sustainability reporting: 90 per cent of ASX 100 companies by 2010; 90 per cent of ASX 200 companies by 2012; 90 per cent of ASX 300 companies by 2014 and 90 per cent of ASX 500 companies by 2016.

With the exception of the proposed national Sustainability Council, none of Labour's recommendations are yet ALP policy. Should the Labor recommendations become ALP policy, a Labor government would make stronger demands on business for disclosure of sustainability risk and non-financial information.

Either way, business is very obviously being asked to step up to the plate to avert further government intervention.

The 'take home' message

Business has been given the clearest message yet from government that corporate social responsibility is a legitimate concern.

But the PJC report is a small step. Notwithstanding our arguments to the Inquiry that mandatory sustainability reporting should be introduced, we believe that maturation of CSR in Australia will be driven more by business-led solutions than by government-led solutions.

Efforts made at the higher echelons of the corporate tree invariably have filtering implications. Business is interdependent. Our leading companies have smaller suppliers. Business representative organisations are networked.

If the business community is averse to regulation, then clearly the answer is to remain ahead of the game and implement CSR now, before political pressures force government to take a far more interventionist role.

Rebecca Jones is a consultant and Leeora Black is Managing Director at the Australian Centre for Corporate Social Responsibility.

ACCSR is hosting a breakfast titled "What Governments can Do about Corporate Social Responsibility" on Tuesday 25 July at the Victorian Arts Centre. Special guests are PJC Committee Member Senator Penny Wong and international government sustainability advisor Paul Hohnen. The breakfast will be moderated by Leon Gettler, Editor of The Age newspaper's Enlightened Self Interest section.

6 July 2006