



Australian Centre for Corporate Social Responsibility

## **Turning Point: How Leading Businesses Can Navigate the Corporate Social Responsibility Landscape in 2007**

**Conference Report**

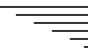
5 February 2007



**Australian Centre for Corporate Social Responsibility**

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## Introduction

It is with pleasure that I introduce this report on the conference, "Turning Point: How Business can Navigate the CSR Landscape in 2007".

This report is only possible because of the work of our volunteer reporting team, for whose efforts I am deeply grateful. The individuals are acknowledged throughout this document for the sessions they covered.

The idea for Turning Point arose, as many good ideas do, over the dinner table. Following last year's launch of the Global Reporting Initiative (GRI) G3 guidelines, I met our international colleague, Paul Hohnen for a catch-up at one of his favourite restaurants in London. We noted that much had been going on, both internationally and in Australia, which seemed to us to add up to greater convergence and clarity on the CSR agenda for business. We also wondered about the effect on Australian business of any interaction between changing international and domestic policy settings for CSR.

Paul was planning to visit Australia again in January for an ISO corporate responsibility working party meeting. Surely the presence of 350 international CSR experts in Sydney, negotiating an international CSR standard, was a momentous occasion, a turning point of sorts? Would Paul stay on and give an update on the ISO CSR standard at a seminar we might organise? Yes, he would. And would there be other delegates to the ISO meeting who we could invite, too? And so Dr Cornis van der Lugt from UNEP and the Global Compact kindly accepted our invitation. And would the Australian people and organisations with so much influence over the CSR agenda be willing to speak? Yes, they were.

And so, the Turning Point conference was developed. We intended it as a seminar for about 40-50 people. After all, the Australian Centre for Corporate Social Responsibility is better known for small hands-on specialist workshops in CSR, not big conferences. It was only when the attendance list started to soar beyond 100 that we finally recognised we were organising a conference.

The support and encouragement of our sponsors, in particular, Westpac, really helped make the day a huge success. Green Capital (a project of the Total Environment Centre), CPA Australia and the Australasian Compliance Institute also gave outstanding support to the event.

So, to main messages of the day. Internationally, we will see more convergence between the leading standards, principles and frameworks. For companies aspiring to international legitimacy and recognition for their approach to CSR, the UN Global Compact will provide the highest level guidance about the appropriate principles for CSR. The GRI-G3 guidelines and the AA1000 assurance standard will provide the gold star approach to sustainability reporting. And the forthcoming ISO standard will provide a globally applicable management standard to implementing CSR. Quite a few Australian companies are already ahead of where the ISO CSR standard is likely to land. The ISO standard will still be relevant for them in helping to build stakeholder confidence, especially in the Asia-Pacific region where ISO has excellent brand recognition.

Nationally, the main effect of two government inquiries into corporate responsibility in 2006 was to introduce a meaningful discussion about CSR into the highest levels of our leading corporations. CSR is now a board-level agenda item. The government inquiries clarified that there is no legislative impediment to CSR and that the current Corporations Law is adequate to allow the kind of extended performance reporting required under the GRI-G3 guidelines.

The ASX Review of Corporate Governance Principles and Best Practice Recommendations is currently canvassing the question sustainability reporting. If the Review decides that sustainability reporting is within the purview of the ASX Corporate Governance Council, companies will be encouraged to disclose material social and environmental risks, without imposing a prescriptive approach. If the Review decides that sustainability reporting is not part of its business, then each business will need to decide for itself what level and manner of disclosure is best suited to its own circumstances.



Should the ALP form government after the next election, we can expect a more active approach to government policy settings that encourage CSR, but there will be nothing heavy-handed or prescriptive.

One of the questions we asked ourselves in planning Turning Point, is "In 2007, will business be left to set the standard?"

The answer from the Turning Point conference was mostly, yes. Business can rely on the major international CSR institutions to continue refining their approach and developing easier and more stream lined processes for businesses that want to use their products. In Australia, the prospect of heavy handed regulatory or legislative responses to CSR are very remote. Government will not stand in the way of corporations wishing to become more socially responsible. Business associations will give modest encouragement to members to be more socially responsible but will not prescribe particular approaches or suggest particular standards that should be met.

It will be up to business itself to drive change. Business leaders such as David Morgan of Westpac and Steve Vamos of Microsoft have greater appetite and capacity to influence business towards social responsibility than any formal institutions either in Australia or overseas. Leading by example, they and other like-minded CEOs, directors and managers, will listen to the conversation among their own employees and among their stakeholders and they will set the standard for CSR in business in 2007.

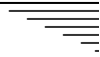
A year from now, any changes to the Australian landscape for CSR may be modest and incremental. But the changes will be no less profound and far-reaching for that.

We are very proud to have hosted the Turning Point conference on 5 February, 2007. We thank the sponsors for endorsing the vision behind the conference and helping us to put it together. We thank all the speakers for their outstanding contributions. We thank the volunteers for putting together this report and all manner of other tasks that required attention on the day.

And most of all, we thank the participants who attended and contributed to the discussion.

I hope that 2007 will be a Turning Point for all the participants, as they make good on their interest in, and commitment to, managing their enterprises in ever more socially responsible ways.

Dr. Leeora Black  
**Managing Director**  
13 February 2007



## Summary of Sessions

Title of Session: *Official Opening Address by The Hon. Bob Carr, Former Premier of NSW*

Name of Reporter: Arahni Sont, The Institute for Neuromuscular Research

Summary:

The official opening address by Mr Carr put forward a challenge to business – namely to convince the public that they have a genuine commitment to implementing CSR in their business practice. He believes that the issue of global warming is the “galvanising issue” that makes the adoption of CSR by the business sector an imperative right now. “Global warning is a permanent and powerful force shaping the economic landscape”.

Specific recommendations made were for companies:

- to provide greenhouse ratings of their buildings
- show a commitment to carbon trading by supporting Federal and State Government initiatives in this area
- that every company in Australia should want to engage in a carbon trading scheme
- the investment community, especially pension and mutual funds, should adopt a sustainable and ethical investment approach to investment.
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Title of Session: *Part 1 - Understanding the CSR Landscape: International Perspectives*

Name of Reporter: Karen Powell

Summary:

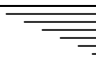
In the first session, *Understanding the CSR Landscape – International Perspectives*, Dr Cornis van der Lugt and Mr Paul Hohnen discussed the diversity of CSR standards, codes, and guidelines at the international level and the role of these initiatives in helping business implement CSR. Both speakers emphasised the importance of integration – incorporating CSR into core business - to achieve sustainable development and highlighted climate change as the most critical problem, encouraging business to look for opportunities in addressing this issue. Dr van der Lugt gave an overview of the UN Global Compact Performance Model, which provides management tools for implementing the Global Compact. Mr Hohnen put this tool into context historically and alongside industry-specific standards and other international initiatives, such as the GRI and the emerging ISO Standard on CSR. Businesses were advised that there would continue to be a greater focus on CSR initiatives at the international level and further development of more detailed, sectoral standards. In the following discussion, delegates questioned the appropriateness of GDP as a measure of wealth and were assured that all dimensions of CSR, including human rights and labour standards, would continue to be important in the context of the current focus on climate change.

Title of Session: *Part 2 - Understanding the CSR Landscape: Australian Perspectives*

Name of Reporter: Karen Grima, Russell Kennedy Solicitors

Summary:

The *Understanding the CSR Landscape Australian Perspectives* session involved presentations by Kathleen Farrell, Representative of the Law Council of Australia on the ASX Corporate Governance Advisory Council, John Kluver, Executive Director of Corporations and Markets Advisory Committee (“CAMAC”) and Ms Katie Lahey, Chief Executive of the Business Council of Australia (“BCA”). Kathleen discussed the ‘ASX Review of Corporate Governance Principles’ and finished by calling for submissions to the Explanatory Paper and Exposure Draft by 9 February 2007. John Kluver focused on the ‘Implications of the CAMAC Report for Business’ with a specific focus on directors’ duties, government initiatives and reporting. He also speculated as to where he sees CSR in 2012. Katie Lahey provided a ‘View of CSR from the BCA’. She highlighted the significance of the shift in the way the Australian community views and relates to large business and the opportunity that follows for a new dialogue between business and community. She called for a new framework for CSR around sustainable business and noted the role for not only business, but also politicians, the media and NGOs. The subsequent discussion dealt with the cynicism and mistrust held by the Australian community with respect to CSR activities, the possible causes and solutions and the need to place emphasis on workforce participation as part of the CSR agenda.



Title of Session: *Business Round Tables – Extended Performance Measurement and Innovation Roundtable*

Name of Reporter: Sophie Constance, Societal Business

Summary:

The *Extended Performance Measurement and Innovation Roundtable* addressed the issue of the concept of value. Whether value is economic, organisational, environmental or social it is increasingly generated by non-traditional, intangible forms of capital. It was generally agreed that reporting alone was not sufficient in capturing the value derived from knowledge and innovation; nor how it fosters or influences innovation or shifts in people, and what benefits it results in for the organisation.

The keynote address was co-delivered by Tim Williams (Westpac) who highlighted three key issues on Westpac's sustainability journey. These were centred on the transition of Westpac moving beyond mere compliance and actions to understanding and integrating their core principles throughout the firm. This is captured in several key reports such as "Measuring and Managing on *What Matters*" and "Our Principles for Doing Business". They have been doing stakeholder impact reports since 2001 and compare their principles to performance data. In pushing the boundaries they have also been doing half-year reports on non-financials and away from financial language to 'Leading Performance Indicators'. Recognising the challenge at a societal and corporate level they persevered with influencing the framing and context of things. The ASX has now also changed its framing to Material Business Risk/Performance.

"Reporting is absolutely essential and fundamental to everything" continued Tim. It implies making a public commitment and resources across the period. The Global Reporting Initiative (GRI) was used by the firm, and lots of problem solving was done in conjunction with this method. Westpac have also received international verification through the AA1000 standard amongst others.

Following on, the second discussant, Christina Boedker (Society for Knowledge Economics), explained her work relating to internal corporate drivers and how they are begun and managed inside the organisation. She found there was considerable disconnect in firms, "as reporting is one thing, however embedding is a totally different level and benefit" Finally Tim Williams confirmed that it is embedded in Westpac with their sustainable development proposition and core value proposition being one and the same. The firm also has an integrated commitment both editorially and at the board with sign-off.

Title of Session: *Business Round Tables – Engaging Capital Markets*

Name of Reporter: Sally Aves, Partnership Matters Pty Ltd

Summary:

The *Engaging Capital Markets roundtable* discussed ways to encourage investors to pressure corporates into addressing environmental, social and governance issues (ESG). James Gifford, our discussant, described the United Nation's approach through their development of the Principles of Responsible Investment and their promotion of 'active ownership' through the Engagement Clearinghouse. Investors are encouraged to collaborate with other investors to initiate dialogue with corporates on ESG issues. Discussion highlighted that corporates are increasingly recognising the need for continuous stakeholder dialog to inform their overall strategic direction; this is placing pressure on fund managers (in addition to that from clients/investors) to consider ESG issues in their decision making; however it was recognised that decisions were unlikely to change as long as fund manager's reward systems are based on short term results. It was generally agreed that it is early days with many more opportunities to expand the initial focus on pension funds to other sectors of the capital market.

Title of Session: *Business Round Tables – Reporting and Assurance Frameworks and Standards*

Name of Reporters: Sheila Gowans, University of Melbourne & Andrea Jobson, Coles Group

Summary:

The group addressed issues relating to *Reporting on Sustainability*, specifically

- The change in reporting requirements – from historically financial-based accounting to non-financial sustainability forward projections
- Difficulty in reporting on non-financial areas (e.g. socio-cultural, environmental) because information could not be easily quantified

- The problem with multiple reporting frameworks.
- The differentiation between financial reporting (independently *audited* and subject to legislative sanctions) and sustainability reporting (independently *assured* and so not subject to sanctions)
- How and by what authority is assessment of sustainability reports to be determined
- The role of the new ISO 26000 standards relating to CSR.

Title of Session: *Business Round Tables - Climate Change roundtable*

Name of Reporter: *Éva Varga, Executive Officer, Save the Children-SA*

Summary:

The *Climate Change Round Table* addressed the issue of 'How Business should lead on Corporate Social Responsibility (CSR). In his introduction, Jeff Angel, Director Total Environment Centre, highlighted the importance of keeping politics outside of the discussion, there being 21 participating delegates from varied backgrounds including, energy, mining, banking and wine industries also finance, NGOs and Government.

Jeff alluded to the current crescendo of discussion and wide media coverage of climate change, with corporates, staff, investors, Governments and the wider community becoming acutely aware of the seriousness and importance of climate change – moving from a point of awareness to the point of action. This realisation bringing with it a certain alarm of how this will impact and bring about changes in lifestyle, laws, funding and political debate as to where the money should go towards.

Jeff gave a comprehensive overview of the different perspectives and multiple layers of CSR, including Ethical/social, financial and legal drivers.

1) *Ethical*

- leading to staff satisfaction
- shareholder v stakeholder balance
- legal regulations preventing class actions being taken,
- avoiding risk to reputation

2) *Companies taking voluntary action – going carbon neutral*

- Number of leading companies 'talking the talk' but slow in change and action, climate change being the 'push'
- Business and Governments need to introduce new laws and systems to set up carbon neutral scenarios
- On site carbon neutral schemes have more veracity and reduce carbon footprint.
- Prime Minister now discussing greenhouse gas emission, trading scheme and regulated market scheme with companies having carbon footprint measured at national level.

There being three particular aspects of carbon responsibility:

- 1) Arbitration targets have to respond vigorously and address risk management
- 2) Need transparency to stakeholders regarding carbon neutral reporting and individual activity
- 3) Some companies seeking indemnity from companies against future claims.

Panel discussion followed.

Title of Session: *Part 4 -Responding to the Challenge: Responses from business and government*

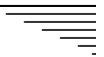
Name of Reporter: Sheila Gowans - University of Melbourne

Summary:

Dr David Morgan – CEO – Westpac:

1) *Policy and Legislation:*

- Business calls for certainty are overstated
- The period of disruption cannot be rushed
- Business does not want to be overregulated
- Financial systems struggle to define value – for example OH & S, employee commitment etc.
- One can argue that ALL business drivers are non-financial
- The top accounting firms have declared that reporting must be changed for the post-industrial



society

- Ethical, human capital and other risks must now all be considered as well as financial risk
- Westpac puts 1.5% of pre-tax profits into social causes
- Indicators that Westpac's CSR policies are working are higher employee retention, favourable shareholder response and positive customer feedback

2) *Climate Change:*

- We are at the tipping point with respect to climate change
- The science debate is largely over
- The politics, rhetoric and short-termism is now recognised for what it is
- A response can be made within the sustainability framework
- One further revolution required – organisations to sign up to the Equator Principles
- Westpac Advertising re Equator Principles – overwhelmingly positive feedback – not seen as greenwashing.

3) *Capital Markets:*

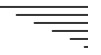
- Doing the right thing should be inherently value-adding – this fact is now supported by empirical evidence
- Mainstream analysts and fund managers are not yet on board with to CSR
- Progress is modest, but the trends are encouraging – for example, BT Investment has just signed up to the PRI principles. They will bring others along.

Steve Vamos – Managing Director, Microsoft Australia & New Zealand:

- Corporations must now be much more accountable to stakeholders
- Organisational and individual values cannot be faked
- Hidden divisions between social, environmental and business interests have created hierarchically-based silos and fragmentation and thus are impeding progress
- Microsoft moved from startup to industry leader so fast that it did not have time to develop a maturity of approach – five years ago it realised it needed to change
- A much more holistic and humanistic approach needs to be taken as functions are as productive as they are going to get – all stakeholders (governments, policy makers, partners, the internal organisation, the investment sector) all need to be involved in connecting and interacting
- Mr Vamos recommended a book: "Presence: An Exploration of Profound Change in People, Organisations and Society" (Peter Senge, C. Otto Scharmer, Joseph Jaworski, Betty Sue Flowers) website: <http://www.presence.net/reviews.html>

Senator Penny Wong – Shadow Minister for Corporate Governance and Responsibility:

- ALP sees climate change as a priority and is taking a multifaceted approach
- It will be leading by example by setting up a CSR network similar to the one established in the UK (if elected)
- Organisational cultural change applying normative principles NOT prescriptive regulation is the way to achieve CSR.



## Part 1 : Understanding the CSR Landscape: International Perspectives

### Opening Address by The Hon. Bob Carr

*Former Premier of NSW*

Reporter: Arahni Sont, The Institute for Neuromuscular Research

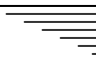
The official opening address by Mr Carr put forward a challenge to business – namely to convince the public that they have a genuine commitment to implementing CSR in their business practice.

- Mr Carr showed that there exists latent anti-business sentiment in Australia. A 2004-05 survey of over 18 year olds, by Sweeney showed that 84% of people polled think companies only consider profits, that 83% feel that business is greedy and that a high proportion feels that business has no ethics or morality. The starting point for this resentment is the reform of the economy in recent times through privatisation and the ensuing job insecurity that has ensued through downsizing.
- In order to overcome these feelings of resentment and mistrust, the business community needs to send the message that they are concerned about society as a whole. Global warming is the “galvanising issue” that has made CSR an imperative right now.
- “Global warming is a permanent and powerful force shaping the economic landscape”. Greenhouse gases are the result of an experiment that humans have been conducting with the planet. Over the next 10 years, the problem will get worse and won’t be resolved – “we are not yet at the peak of a panic, only the start”.
- The fight against global warming has to become part of mainstream politics – part of our way of life as scientists are *under-estimating* the problem. The problem will be a part of our life for as long as we can see and Australia has a special vulnerability since white settlement as 2/3 of Australia’s tree cover was removed at that time. The latest idea to shift agriculture to the north of Australia is a dubious one.

### *Conclusion*

The challenge for the business community is to ensure that the public knows each and everything companies are doing to combat global warming. Specific recommendations made were for companies:

- to provide greenhouse ratings of their buildings
- show a commitment to carbon trading by supporting Federal and State Government initiatives in this area
- every company in Australia should want to engage in this scheme
- the investment community, especially pension and mutual funds, should adopt a sustainable and ethical investment approach to investment. The US pension funds are leading the way in taking an ethical approach to their investment decisions. Mr Carr believes that these pension funds will adopt the rule not to invest in companies that contribute to global warming, i.e. that fail the greenhouse test (guidelines).



## Part 1 : Understanding the CSR Landscape: International Perspectives

### Dr Cornis Van der Lugt

*Business and Industry Unit, Division of Technology, Industry and Economics (DTIE), United Nations Environment Programme (UNEP)  
Senior Adviser to the United Nations Global Compact*

### Paul Hohnen

*Special Adviser to the Global Reporting Initiative (GRI).  
GRI Expert in the ISO Negotiations  
Principal, Sustainability Strategies*

Reporter: Karen Powell

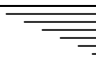
Dr Cornis van der Lugt and Mr Paul Hohnen focused on CSR standards, codes, and guidelines in: *Understanding the CSR Landscape – International Perspectives*. Both speakers promoted the integration of CSR into core business activities to achieve sustainable development and highlighted climate change as the most critical problem, challenging business to look for opportunities to address this issue. Dr van der Lugt explained how the UN Global Compact Performance Model can help incorporate CSR across different levels of corporate activity from high-level strategies to managing impacts and reporting to the community. Existing tools, such as Life Cycle Analysis, and issues such as sustainable consumption and production fit within this model. Businesses can also use it to determine the boundaries of their social responsibility according to their level of influence and control and the scientific and social significance of issues. Mr Hohnen compared international initiatives and sectoral standards according to their functionality and credibility and promoted the GRI, the Accountability 1000 Assurance Standard and the emerging ISO 26000 standard as tools for implementing CSR. There will be an increasing focus on these initiatives and continued development of more detailed, sectoral standards with the effectiveness of such tools continuing to be a priority.

In the discussion following the presentations, Mr Hohnen was asked to comment on the implications of climate change for business in terms of the social transition that it will involve. He hypothesised that, on the downside, there would be five groups who would not contribute to the solution - those in denial, those using 'green spin' in an attempt to convince others that they are contributing but who are having no real impact, those that accept it as inevitable, those that react by stripping resources while they are still there and those who are seeking retribution or payback. On the upside, there are three paths of action that businesses can take to be part of the solution – adaptation through building business models that contribute to addressing the issue, mitigation and restoration. Addressing climate change will require a multi-stakeholder approach and as governments and NGOs can't address the problem alone, business's role in the solution is critical.

Following the strong emphasis on climate change in both presentations and in the opening address by The Hon. Bob Carr, some delegates questioned the implications of this focus for other CSR issues such as ethics, human rights and labour standards.

While the focus was largely driven by the release of the latest report by the Inter-governmental Panel on Climate Change on the previous Friday, the panel highlighted that climate change is a multi-dimensional issue that needs to be addressed across all dimensions of CSR. Climate change also has implications for all areas of social and environmental concern. To be socially responsible, businesses will still need to be doing something in each of the seven proposed categories for the emerging ISO standard on CSR: organisational governance; environment; human resources; labour practices; fair operating principles; consumer issues and community involvement. Other priorities are not going to disappear but climate change will become more integrated into all areas of CSR. The message was clear that climate change will shape life and business as we know it.

One delegate questioned the appropriateness of GDP as a measure of wealth. Paul Hohnen agreed that this indicator was a barrier in driving real change in relation to CSR and proposed the concept of a 'green GDP'.



## Part 2 : Understanding the CSR Landscape: Australian Perspectives

### Ms Kathleen Farrell

*Member, Representative of the Law Council of Australia on the ASX Corporate Governance Advisory Council.  
Consultant, Freehills*

### Mr John Kluver

*Executive Director, Corporations and Markets Advisory Committee*

### Ms Katie Lahey

*Chief Executive, Business Council of Australia*

Reporter: Karen Grima, Russell Kennedy Solicitors

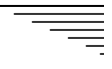
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Kathleen Farrell discussed the 'ASX Review of Corporate Governance Principles'. The Explanatory Paper and Exposure Draft outline proposed changes to Principles 3, 7 and 10 in relation to reporting requirements. The Council rejected a standardised reporting framework and the imposition of a requirement that companies inform investors of the top five sustainability risks that they face. One question that is left open surrounds the role, if any, the Council should have in relation to sustainability reporting and CSR. Submissions to the Council's Explanatory Paper and Exposure Draft on the Principles of Good Corporate Governance and Best Practice Recommendations are due by Friday 9 February 2007.

John Kluver discussed the 'Implications of the CAMAC Report for Business' with a specific focus on directors' duties, government initiatives and reporting. He speculated that the business case for CSR in 2012 will be 'mainstream' but of course applied differentially according to the type of industry, company and the impact on stakeholders. He reiterated the CAMAC Report recommendation that the *Corporations Act* does not require amendment with respect to directors' duties, given that the current provisions are wide enough to provide directors with the ability to take environmental and social factors into account. He noted that the CAMAC Report did not recommend a radical approach in respect of government initiatives. John also touched upon the introduction of section 299A of the *Corporations Act* in relation to non-financial reporting which has the potential to play a role in the development of the reporting of social and environmental issues.

Katie Lahey provided a 'View of CSR from the BCA' starting from the premise that there is a major shift in the way the Australian community perceive and relate to large business. Some factors creating this shift are the years of unbroken economic prosperity and the major increase in share ownership. The complexity of the relationship between community and business requires a movement towards a new framework or language for CSR around sustainable business. CSR is about business doing what it does best, namely marshalling resources and expertise, defining clear, achievable objectives, investing in programs and activities in a strategic and sustainable way and measuring the outcomes. In summary, it is about ensuring that the business impact on community enhances the alignment between business and community from an economic, social and environmental sense.

The question and answer session involved a participant referring to some of the statistics provided by Katie Lahey, in relation to the employee hours reported to have been contributed to CSR activities. After calculating approximately how many hours that those statistics translated to hours per corporation, he concluded that it was not surprising that many Australians are cynical about companies undertaking CSR activities. Katie's response centered on the problem of the fragmentation of CSR activities which makes it difficult to then quantify the actual contribution. She however agreed that more needs to be done by companies provided that the steps that are taken have a focus and link risk and opportunity so that a real difference to business is made. There was also a discussion regarding the need to place emphasis on workforce participation as part of the CSR agenda, including consideration of the ageing and shrinking workforce.



## Part 3 : The Implications for Business - Round Tables

### Extended Performance Measurement and Innovation

Chair: Sarah Hatcher, Executive Director, Society for Knowledge Economics  
Discussants: Tim Williams, Senior Advisor, Corporate responsibility & Sustainability  
Christian Boedeker, Director, Society for Knowledge Economics  
Reporter: Sophie Constance, Societal Business

#### Discussion:

The *Extended Performance Measurement and Innovation Roundtable* addressed the issue of the concept of value. Whether value is economic, organisational, environmental or social it is increasingly generated by non-traditional, intangible forms of capital. It was generally agreed that reporting alone was not sufficient in capturing the value derived from knowledge and innovation; nor how it fosters or influences innovation or shifts in people, and what benefits it results in for the organisation.

Tim Williams (Westpac) described how sustainability is operationalised in different ways based on a modified balanced scorecard. The Westpac board is now comfortable with juggling two sets of data.

Internal processes right through the business and performance management are critical in going beyond pre-existing human resource values, e.g. through the balanced scorecard employees are measured on how they demonstrate the organisational values.

Furthermore this is the first time Westpac has come out and communicated in an impressive fuller manner in terms of the report, which in previous years was minimal with line drawings. It was a deliberate approach to ensure they got their business processes in terms of sustainability in substantial way rather than be accused of 'greenwash'.

After ten years on the Sustainability journey and a host of leading international awards they have earned the right and continue to set the industry standards.

As this roundtable was the biggest of all, with about 30 people, we divided into 5 sub-groups.

Sub-group 1 (SG1): Public sector sustainability reporting is very new. It all started with the environment and they are struggling with the community side. The problem is that the sector doesn't see or recognise that they make impacts as they are providing a service. That is an example of silo thinking. Overall collectively they have a big effect. Consistent messages from top management go hand in hand with alignment of values throughout the organisation.

SG2 started with "What needs to change"? The group response was that report needs to be easier to manage. There are a plethora of frameworks to go on and values need to be lived in the organisation and externally with stakeholders for holistic or integrated alignment. Although there is cynicism around the CSR issue there was praise for Westpac and ANZ that made the cut-through.

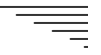
SG3: Need to talk the right language at the top-level management. Some firms are at rock bottom in terms of not being engaged in sustainability /CSR issues and there is only one way to go but up/ and trying to create an ideological shift through an attitudinal change.

SG4 drew a diagram. It may have some connection to the way an organisation frames the issue of CSR. It depicted where CSR started in the organisation and the journey it takes until it becomes part of the whole company; that is until it becomes embedded.

SG5: There are a number of direct and indirect measures and as Westpac illustrated not all measures are worked out as yet. It's about reflections and many of the things have to be experienced individually and within the specific organisation. Also Gen Y are the types that seek meaning.

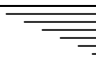
Sarah Hatcher from the Society of Knowledge Economics in summary:

Where are the internal impacts? What are the part changes? What are the Sustained changes?



By working on long term issues are we adding value or detracting value?

It depends because it's the way we have trained stakeholders and we need to retrain them. Whilst often reacting to a crisis point is what leads firms to find out about CSR. Reference was made to the UN/KPMG 2006 'Carrot & Stick Approach' report; Inference was made of creating more carrots to entice boards. It's still very early days moving from industrial age thinking.



## Part 3 : The Implications for Business - Round Tables

### Engaging Capital Markets

Chair: Bill Hartnett, Managing Director Australasia, Innovest Strategic Value Advisors  
Discussants: James Gifford, Lead Project Manager, UN Principles for Responsible Investment  
Reporter: Sally Aves, Partnership Matters Pty Ltd

#### Discussion:

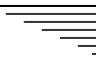
Bill Hartnett, of Innovest Strategic Value Advisors and the session chair, set the context for the roundtable by offering a broad definition of what it meant to engage capital markets, describing it as 'simply a discussion of environmental, social and governance (ESG) issues which we believe to be financially important' with corporations; citing examples of Innovest's work, Bill demonstrated how the mega trends of the last ten years (such as climate change, globalisation, growth of civil society, technological change) had led to the growth of ESG related investment decisions, a trend he expected to see become even more important over the coming years.

James Gifford, our discussant and Lead Project Manager for the UN Principles for Responsible Investment (UN-PRI), described how the United Nations had recognised the impact of Socially Responsible Investors (SRI) on corporate behavior by taking the decision to focus on encouraging shareholder engagement; in order to effect the greatest change the UN targeted initial activities on pension fund holders as they have the longest term investment horizons; are the least conflicted by corporate relationships; and most would argue that they have withstood political pressure over the years. Then UN-Secretary General Kofi Annan invited the largest 25 pension funds to meet, from which the PRI emerged; since then the UN has promoted the notion of 'active ownership', whereby shareholders do not simply hold a piece of paper, but actively exercise their investor's rights through dialogue, voting etc. Signatories to the UN PRI have access to the Engagement Clearinghouse where they can post invitations to collaborate with other investors, pooling resources to influence corporates' activities. As an illustrative example of the power of the Clearinghouse, James described how a recognition that slave labour was being used to produce steel in Brazil led to HERMES posting a request for support from other investors which resulted in joint representations to US corporates buying Brazilian steel to put pressure on their supply chains.

#### Highlights of the subsequent discussion were:

- Fund managers are increasingly being targeted on both sides (by investors/trustees and corporates) to consider ESG issues in their decision making, but it was recognised that as long as they are rewarded on short term results this will be difficult. A number of EU initiatives to address this issue were highlighted (see: [http://www.usshq.co.uk/special\\_interest\\_groups\\_index.php?name=SPECIAL\\_INTEREST\\_GROUPS\\_COMPETITION](http://www.usshq.co.uk/special_interest_groups_index.php?name=SPECIAL_INTEREST_GROUPS_COMPETITION)).
- Presentations from two corporate shareholder relationship managers described the growing importance of continuous dialogue with stakeholders over ESG issues in determining future strategic direction. Most corporates recognise the growing need to engage with shareholders over ESG issues, but do not have any processes. Building trust through dialogue is the first step.
- Australians now have significant individual power within the broad availability of superannuation funds, and this choice will grow; however, most people are not aware of their power, or how they can engage.
- Many mainstream companies are expanding their risk assessments to include climate change and related ESG issues, but these are not recognised SRI funds, and so the SRI – non-SRI boundaries are beginning to blur, a trend that will increase.
- The targeting of super funds should be seen as a first step with other sectors, such as fixed interest, following.
- Investors can assess corporates based on: research provided by specialist SRI advisors; NGOs and the media; hired in expertise.

Engagement activities after an initial letter would depend on the country/context: in the US it would be to file a shareholder resolution; in the UK and probably Australia, a more subtle approach would be more likely to work, through collaboration with other investors, meeting with executive officers and boards.



## Part 3 : The Implications for Business - Round Tables

### Reporting and Assurance Frameworks and Standards

Chair: Dr Cornis van der Lugt, UN Global Compact Senior Adviser

Discussants: John Purcell, Policy Advisor, CPA Australia

Reporter: Sheila Gowans, University of Melbourne & Andrea Jobson, Coles Group

Discussion:

The Chair, Mr. Cornis van der Lugt

- Recommended to the round table the 2006 combined KPMG/UNEP joint report: "*Carrots and Sticks for Starters*" which notes current trends and approaches in voluntary and mandatory standards for sustainability reporting  
[<http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=486&ArticleID=5365&I=en>].
- Advised that the ISO 26000 standards relating to CSR which were expected to be launched in 2008 were deliberately not certifiable as with other ISO standards, but were to be a guide for CSR good practice.
- Noted the fact that in the past reporting, because of its financial focus and empirical nature, had been the sole responsibility of accountants; however with sustainability reporting, there was now a much greater need for communication across different corporate functions (e.g. accounting, marketing, operations) in order that the uncertainty relating to providing a coherent narrative regarding sustainability was minimised.

Mr. John Purcell distributed a discussion document, which noted:

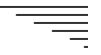
- The long-term evolution and maturity of financial accounting and auditing in contrast to the reporting of non-financial or extended performance, which is still in a state of relative infancy.
- The increasing concern as to the role and capacity of corporations to redress global social and environmental issues to which they have contributed.
- The need for change in accounting practice in scope and methodology to reflect the shift in accountability expected of business.

Mr. Purcell then posed the following questions:

- 1) How might entity-based accounting systems evolve to capture and assimilate data to reflect the wider scope of business within the extended corporate boundary (including for example supply chain activities)?
- 2) How are sustainability reports to be written so they meet current criteria of balance and reasonableness?
- 3) Are traditional audit reporting techniques capable of meeting these non-financial-based criteria?
- 4) How is relevant information content and thus *value to users of sustainability reports* to be determined against non-quantifiable criteria?

Common themes arising out of group discussion included:

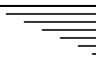
- Concern about what information should be included in sustainability reports
- *Diversity of Sustainability issues:* How an organisation is to compare relative sector sustainability reports from particular sites with distinctive local social issues - (the example given was how a mining company compares two sites – one, a Queensland site with the dominant local community issue being water supply and the second site in SA with the dominant community issue being level of alcoholism in the labour force) and still meet sustainability reporting requirements.
- *The number of reporting guidelines.* A recent study undertaken by Sydney University looking at the top ten mining companies' OH & S reporting revealed 17 different measures. 'Lost time incidents' alone were measured in eight different ways.
- *Managerial decision-making:* Managers will now be required to focus not only on short-term quantitative outcomes but also on longer-term more complex sustainability projections.
- The question as to why non-financial sustainability reporting should be required.
- The tension between the fact that the multiplicity of guideline frameworks were being developed to reflect universal principles relating to human rights, the environment, labour rights etc. yet sustainability reporting itself was required to be specific and reflecting local conditions.



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### Recommendations

- It was generally agreed that there is a lack of integration between parties and the key challenge and recommendation is to bring them all to the table. Once together parties can attempt to understand the non-financial frameworks. And also understand that even though this is a very uncertain area for many accountants, CSR is not just about number crunching.
- It was also generally agreed that accountants are taking a cautious approach with respect to reporting. More discussion and research is required around who has the credibility to assess reporting, as accounting for CSR is currently very local based.
- Maximising transparency in reporting was recommended with less spin required to achieve engagement with the community.
- Challenges for the future are to understand how commentary information can be used to remark on corporate performance. Further debate is required on what appropriate approach is required in regards to this disclosure.



## Part 3 : The Implications for Business - Round Tables

### Climate Change

Chair: Paul Hohnen, GRI Expert Representative in the ISO Negotiations  
Discussants: Jeff Angel, Director, Total Environment Centre  
Reporter: Éva Varga, Executive Officer, Save the Children-SA

#### Discussion:

Paul Hohnen, Special Advisor to the Global Reporting Initiative and GRI Expert Representative in the ISO Negotiations, Chaired the panel discussion. Paul asked all participants to avoid the temptations to go into 'free for all' and extended the challenge to take off all hats and come to a shared sense of where we need to be and how we can get there.

The panel believed energy efficiency was the first stage to achieve. In the past Australians went into denial mode and failed to get into energy developing techniques therefore were left behind in addressing climate change. Australia needs a clear vision on climate change. At times the Government view seems at odds with different areas of the energy industry.

More community consultation is also needed by Government, some frustration expressed as climate change not holistically supported by government, there was also a lack of sharing information, all impacting ultimately on droughts, air quality, viticulture and tourism. Small companies trying to make a difference, coming up with innovative ideas and technology only to be 'exported' to Asia – with Australia getting only 30% return on investment!

Eco manufacturing was discussed also the need of a forum to show off 'best practice' i.e:

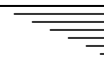
- Fuji Xerox built a whole new plant using energy reducing technology – a perfect model to be extended into other areas of industry- however, so far not taken on by others.
- Suntech - UNI NSW PhD students built Solar Panels now the fastest growing stock on share market – and best kept secret! This Chinese-Australian joint venture company, specialising in research, development, manufacturing and marketing of crystalline silicon photovoltaic (PV) products.
- China recycling paper - the founder of Nine Dragons Paper Industries, now tops the list of the richest people in China
- Bayer reduced 40% electricity consumption and received numerous awards for its climate-related performance
- Westpac reduced energy consumption by 45% and believes that it is only by fully integrating corporate responsibility into the way it does business that it can sustainably enhance shareholder value.
- Melbourne Water already has 2010 energy reduction targets in place.

However, it is still hard to read where leadership should come from; also as to what extent should legislation be driving energy efficiency?

The panel also discussed boundary issues regarding product responsibility i.e. does the product itself increase gas emissions i.e. the carbon intensity of product. Supplier/customer has to be more integrated to work in partnership with supplier, including supplier screening. Closer relationship with customers also leads to good business, CSR becoming a business driver. The need for extensive research was identified as well as the need for industry related uniformity in accurate measurement and reporting processes. There was a broad sense that legislation was a useful and necessary building tool, and that forums for best practices using climate change approach between different sectors should be held as well as the need for practical 'on the ground' development regarding climate change and market regulations.

In conclusion the major issue and concern re climate change overall, was how Australia would move on climate change. The consensus of the panel being that by 2010 all companies should have:

- Green house gas reduction policy in place
- specific targets and timetables
- consensus on reporting of performance
- Forums and lobbying – business and government.



In conclusion the panel agreed that Government, Companies and *everyone* should do something – NOW!

### Part 3 : The Implications for Business - Round Tables

#### Plenary Session – Reports from Round Table Chairs

##### 1) Extended Performance Measurement and Innovation:

Chair: Ms Sarah Hatcher, Executive Director, Society For Knowledge Economics

Discussants: Tim Williams, Senior Advisor, Corporate Responsibility & Sustainability, Westpac; Christina Boedker, Director, Society For Knowledge Economics.

Reporter: Sheila Gowans, University of Melbourne

*Sarah Hatcher reported the following issues raised by the round table:*

- *How are corporations to deal with so many differing standards which require different reports?*  
The idea is to identify and focus on longer-term issues – either value-enhancing or value-diluting.
- *What is actually happening within organisations?*  
Employee training and volunteering is being set up; top executives are being briefed to provide example and “walk the talk”.
- *Is adapting CSR and reporting impacting on organisational culture and performance?*  
In the past corporations have trained stakeholders to think short-term – to deal with CSR and reporting successfully, need to change organisational culture as well as stakeholder expectations to longer-term thinking.
- *What needs to change?*  
Maybe nothing – but with so many reporting requirements – how do we compare with colleagues and against competitors.
- *Short-term to longer-term thinking.*  
Stakeholders have been ‘trained’ to think short-term – need to change temporal focus of both the organisational culture and stakeholder expectations.
- *Better management of crises*  
Crisis issues become the property of the public relations part of the organisation. Wider ownership of crises needs to be channeled via human resources through to the strategic level up to the CEO and Board so they are aware of the issues.
- *A “Carrot and Stick” approach needs to be taken*  
The ‘stick’ – is crisis of reputation loss. What is needed is the ‘carrot’ to provide an incentive for embracing CSR.
- *It is very early days*  
A journey moving from an industrial age-based model.
- *Integration*  
To achieve this successfully, need much more integration of business functions to work together.

##### 2) Engaging Capital Markets

Chair: Mr Bill Hartnett, MD, A'Asia, Innovest Strategic Value Advisors

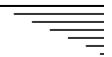
Discussant: Mr James Gifford, Lead Project Manager, UN Principles for Responsible Management

*Bill Hartnett reported:*

- As for the preceding round table, the common theme was one of ‘early days’.
- Need to have stakeholders consider cultural issues not just P/E ratios.
- US – corporations convening ‘general meetings’ for advancing open discussion with all stakeholders.

The *Principles for Responsible Investing (PRI)* were discussed:

- Launched in 2006 – Mr Gifford is a key driver in this initiative: It already has members representing a \$6 trillion investment pool.
- The idea is to be an ‘active’ owner of shares (refer booklet – available at this conference: website: [www.unpri.org](http://www.unpri.org)).
- Stakeholder engagement – most important focus. Need to target asset owners (who have a longer time horizon than fund managers which are driven by the need for short-term profits).



- An example: BHP Billiton – a member – concerned about mining their uranium deposits, wanted feedback from the investment/NGO community. Prepared to open and engage in discussion and be transparent.

The Plenary Chair, Dr Leeora Black, commented that money talks – i.e. pressure is going to come from superannuation fund managers.

### 3) Reporting and Assurance Frameworks and Standards

Chair: Mr Cornis van der Lugt, UNEP

Discussant: Mr John Purcell, Policy Advisor, CPA Australia

*Dr Cornis van der Lugt:*

- recommended participants read the 2006 KPMG/UNEP joint report: “*Carrots and Sticks for Starters*” which notes current trends and approaches in voluntary and mandatory standards for sustainability reporting [see:
  - <http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=486&ArticleID=5365&l=en>].
- noted the tension between activity and entity-based information arising from the difference between empirical (accountancy-based financial reporting) and narrative (non-financial) sustainability reporting - the former being backward-looking, based on historically derived data; the latter – requiring forward-looking projections.

*Accounting/auditing issues:*

- Traditionally, auditing has been seen as providing a true and fair view of an organisations’ financial position for investors.
- For sustainability – cultural issues complicate the value of sustainability reports so how can auditing techniques be used to help compile sustainability reports.
- To help achieve this - two trends are seen for the accounting profession –
  - closer examination of current accounting standards and
  - involvement in the Global Reporting Initiative (GRI <http://www.globalreporting.org>).
- The major accounting firms are now seeing 20<sup>th</sup> Century reporting as redundant. There needs to be a new look at what determines value.
- Contemporary management commentary – directors are seen to be risk averse and so disclose the minimum of information requested.
- There needs to be convergence of the different disciplines (accounting, management etc.) so they communicate with each other to reach a common ground for reporting.

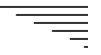
### 4) Climate Change

Chair: Mr Paul Hohnen

Discussant: Mr Jeff Angel, Director, Total Environment Centre

*Paul Hohnen reported* that the round table participants were asked to remove their particular representative identity ‘hats’ off and consider the scenario for 2012. Questions raised by participants included:

- Should any major corporations not have a greenhouse policy by 2012?
- What strategy should be in place to secure a general reduction in emissions?
- What are the quickest and most cost-effective ways to reduce climate effects?
- Should there be specific targets and timetables with respect to consensus in reporting?
- As the boundaries are becoming more complex – what tools should be used to measure emission levels?

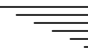


### *Energy and Efficiency –*

- Technologies are key – for example: Suntec, Fuji-Xerox – are currently using best practice and achieving quite dramatic results in reducing emissions
- Need to set up forums to showcase these successes – by using a ‘cluster’ approach to share knowledge
- Legislation will be needed for carbon trading, however legislation is no substitute for tax incentives and building codes
- Australia could and should do more
- Carbon sequestration – more needs to be done
- The unresolved contradiction – the *rising* energy demand with a need to *reduce* emissions.

### Plenary session discussion

- Business needs to combine technology with common sense. It can start by turning the lights off its buildings at night.
- Models of change management and leadership need to come from the top – for example, the CEO may write to the UN Global Compact to commit to the principles but the organisation also needs to engage employees and effect organisation culture change.
- ‘Green’ real estate auctions starting to appear – increased value, reduced costs.
- Fund managers – superannuation funds need to apply pressure.
- Because signing on to the UN Global Compact principles is not compulsory – some companies are free riding. However, if they are not performing, their names are removed from the UNGC website so leading companies are not undermined.
- Community investors can exercise voting on issues of concern – as can mum and dad shareholders.
- Everyone needs to interlink to create a common ‘DNA’ commitment to CSR - and form a ‘supercomputer’ to promote it.
- It is not just the ‘big end of town’ which should be expected to respond – small to medium enterprises (SMEs) have shown great interest and want to become engaged. Big corporations just need to look at their own supply chains to identify and motivate SMEs.



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## **Part 4 : Responding to the Challenge – Responses from Business and Government**

### **Dr David Morgan**

*Chief Executive Officer, Westpac Banking Corporation*

### **Steve Vamos**

*Managing Director, Microsoft Australia*

### **Senator Penny Wong**

*Labor Senator for South Australia.*

*Shadow Minister for Public Accountability, Corporate Governance and Responsibility, and Workforce Participation*

Speeches are available on the ACCSR website (see: [www.accsr.com.au](http://www.accsr.com.au))