

Historic Aussie breakthrough or greenwash talkfest?

Dawn Cohen

Australia's first federal enquiry into corporate social responsibility (CSR) suggests a range of incentives for companies that choose to be more accountable about the way they do business. It does not recommend mandatory sustainability reporting, the telltale element of the enquiry according to some commentators. However, there are a number of other important elements to the enquiry's report, released on 21 June, that further commit the government, and in turn business, to a sustainable agenda. Dawn Cohen asked industry leaders, lobbyists and contributors to the report whether they think it goes far enough.

In a move welcomed by the Business Council of Australia and the Australian Bankers Union, the Joint Committee on Corporations and Financial Services Report has eschewed the introduction of mandatory sustainability reporting. Some are dismayed that after a year of deliberation on 200 submissions — more than any other inquiry in the history of the committee — not one recommendation in the 256-page document legally restrains misbehaving corporations or the 77% of Australian companies that don't provide triple bottom line reports.

In a contentious decision, the committee has not altered directors' duties as set out in the *Corporations Act 2001*. Even after companies such as James Hardie Industries claim the same laws forced the company's directors to quarantine the corporation from liability for the toxicity of its products — the effects of which landed Australia with more sufferers of the asbestos-induced illness, mesothelioma, than anywhere else in the world.

Nor did the inquiry heed an Australian Conservation Foundation plea to remove government subsidies and tax relief for equipment that harms the environment.

So is it all a load of greenwash? Absolutely not, says Dr Leora Black, managing director of the Australian Centre for Corporate Social Responsibility. "All political parties have legitimised corporate social responsibility as an important and commercially sensible path for business to follow with this inquiry," she said.

"The report specifically puts to bed the silly notion that company trustees might be breaking the law if they take social and environmental factors into account. It is now clear that taking sustainability and long-term social impacts into account is not only acceptable, but may be required."

The inquiry aligned itself with the philosophy of enlightened self-interest espoused by most corporate submissions. Therein is an expectation that socially responsible behaviour will generally be in the interests of shareholders. And that

any company planning to be around longer than next week will embrace CSR because it is good for business.

Almost every corporate submission to the inquiry argued against regulation of reporting, fearing it would create a 'tick the box' culture, stifling creativity.

"You can't usefully regulate companies to prepare for the future," said Natalie Toohey, director of government, industry and community relations for Fosters Group, which voluntarily submits sustainability reports with the St James Ethics Centre, trustee for the Corporate Responsibility Index.

"Companies need to recognise social responsibility is core business, not just a nice-to-have add-on.

"If you don't get it, someone in Canberra trying to force it on you won't make that happen."

She praised the inquiry's findings as 'pragmatic and cool-headed' for maintaining report writing as voluntary, and offering rewards rather than punishment to encourage CSR, but did not believe it would impact on leading corporations.

"The incentives may be useful for companies still struggling with the belief that CSR can be tangential," she said.

Committee chairman Senator Grant Chapman told parliament he saw no need for enforcing annual sustainability reports because submissions made to the inquiry were evidence of the many innovative ways Australian companies are managing risk and creating value beyond traditional concepts of core business.

But how representative are organisations that take the time to write a submission? The social responsibility laggards are unlikely to invest resources in providing a response to the inquiry. In fact, most of the 26 corporate submissions came from organisations that provide some form of sustainability information, clearly placing them within an unrepresentative minority.

An international KPMG survey, released last year, reveals only 23% of Australia's top 100 corporations provide standalone

sustainability reports, compared with 80% of Japanese corporations and 71% of UK corporations. Narrow the field to medium-sized public companies, and a CPA Australia study shows just 2.5% complete discrete reports covering more than one factor.

CPA Australia found only 24 of the ASX-500 companies provided qualifying sustainability reports in 2003, and only 10 were not in the top 100 corporations. Just five of the medium-sized corporations conducted an external audit: Sons of Gwalia, Bendigo Mining, Fletcher Challenge, Consolidated Rutile and Henry Walker Eltin. Only one of the smallest 200 listed companies provided a discrete sustainability report: Macmahon Holdings, ranked at 431.

When we do provide sustainability performance information, the quality of our reporting is vastly inferior to British efforts, an in-depth study conducted by Professor Carol Adams and Dr Geoff Frost from Sydney University has found. The CPA Australia survey found most corporations did not use a standardised framework like the Global Reporting Initiative guidelines, making it impossible to compare 'apples with apples'. Government agencies perform even more poorly, with only 3% completing sustainability reports.

The St James Ethics Centre provided one of the few non-corporate submissions

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in support of voluntary reporting. "If all the emphasis is on regulation and surveillance, you eliminate choice. Ethical sinews strengthen each time a choice is made. Without choice they wither, like muscles not being used," said executive director Dr Simon Longstaff.

He believes it's prudent to have some regulations, but there are other influences that create change, and stressed that if companies want to be part of a supply chain that includes large, progressive companies, then it will have to look at its own commitment to CSR.

"...companies are spending vast amounts of time and resources dealing with compliance burden. Increase that burden through further regulation and there is even less time for companies to initiate their own CSR activities," said Longstaff.

Unilever Australasia CSR manager, Sarah Clarrie agreed. "It's good to see the report encouraging government to embrace sustainability reporting," she said. "Corporations are far more likely to listen to an authority saying 'do as I do' rather than 'do as I tell you'."

The report wants government depart-

ments to set voluntary targets for sustainability reporting. Targets and progress made in meeting them are to be disclosed in annual reports.

But Australian Conservation Foundation legal advisor Charles Berger fears the report's rejection of regulation sends a message to corporations to do nothing. "The pressure is off. They can wait until next year, or the year after, before thinking about sustainability reporting again. Nobody argues box ticking in financial reports represses financial creativity. A few ticks in boxes on greenhouse gas emissions could be very helpful," he said.

Berger notes that none of the submissions from corporations, nor recommendations of the report, directly addressed what is arguably uppermost in the community's mind: how to stop rogue companies like James Hardie before they wreak devastation.

But a suggestion from Senator Penny Wong in Labor's supplementary report may bridge the gap. Senator Wong, the initiator of the inquiry, wants a committee recommendation that corporations voluntarily report five major sustainability risks



Dr Leora Black, managing director of the Australian Centre for Corporate Social Responsibility.



Natalie Toohey, director of government, industry and community relations for Fosters Group.



Senator Grant Chapman, Committee on Corporations and Financial Services chairman.



Dr Simon Longstaff, executive director St James Ethics Centre.



Senator Penny Wong.



strengthened with an 'if not, why not' requirement. Companies that don't report will need to provide a reason.

It's a middle ground that Simon Longstaff and Charles Berger are both willing to consider. Compliant companies could be rewarded with freedom from regulation, while recalcitrant businesses are obliged to report, Dr Longstaff argued, much like an offending driver going onto 'P' plates temporarily.

The 'if not, why not' proposal may have a heavyweight supporter: the Australian Stock Exchange. The ASX Corporate Governance Council is seriously considering Senator Wong's suggestion, said Gervase Greene, head of corporate relations for the Australian Stock Exchange. "That option may fit within wider principals of corporate governance," he said.

A working group from the council has been meeting to discuss the Senate enquiry report. Its verdict will be delivered within the next few months. The outcome is expected to tip the scales on whether the report recommendations end up as talk-fest history or scaffolding towards building a universal Australian value of social accountability in how we do business.

Institutional investors are uniquely placed to influence corporate behaviour and have good reasons to do so. They manage about \$955 billion with roughly \$30 billion additional funds coming on line each year. Unlike most individuals, institutional investors can move massive bodies of stock and directly influence board membership. As long-term shareholders, the financial interests of institutional investors are more likely to coincide with quality management of social and environmental risks.

However, a 2005 Australian Council of Super Investors study found that most boards of S&P/ASX-200 companies surveyed did not take a range of stakeholders into account, particularly in regard to conflict of interest and environmental risk issues. They used directors or proxies for stakeholder consultation.

With some notable exceptions, like IAG and the ethical investment funds, the inquiry admits Australian institutional investors have not yet come to the CSR party but the committee has issued some forceful invitations.

If the recommendation for voluntary corporate disclosure of five sustainability risk factors is taken up by Australian businesses, it will provide much-needed information for investors to assess non-financial risk.

Some superannuation trustees believe the *Industry Superannuation Act 1993*

obliges them to focus on profits in making decisions, excluding CSR factors. Not so, said the committee.

To counteract a narrow interpretation of institutional investors' duties, the report recommends the Australian Prudential Regulation Authority issue detailed guidelines clarifying the position of superannuation trustees regarding non-financial variables.

The inquiry also pushes institutional investors in Australia to become signatories to the Principles for Responsible Investment, a new UN initiative obliging adherents to meet CSR commitments. In particular, the committee wants the Future Fund, a newly-established asset dedicated to meet Commonwealth superannuation liabilities, to take a leadership role by signing up.



Dutch-based expert on CSR, Dr Paul Hohnen argues that Australia's abysmal reporting is a measure of a real lag in the integration of CSR values into corporations and community culture. He said, "You can notice the difference even in advertising. You will often see adverts on TV in Europe stressing the sustainability aspects of the corporations. I haven't seen that in Australia."

Digestives to encourage incorporation of CSR into company culture include the possibility of inflated write-off arrangements for the first-year costs of initiating sustainability reports, and regulatory relief to corporations that voluntarily undertake specified CSR activities such as completing the Corporate Responsibility Index or signing the UN Compact or the UN Principles for Responsible Investment.

The specifics of regulatory relief are yet to be decided, but the committee saw a role model in the Victorian Environmental Protection Agency, which reviews company licences every two years instead of annually for companies with a good environmental report card. Possibly, qualifying corporations will be less stringently supervised in meeting current obligations under

environmental or occupational health and safety regulations.

The committee also wants seed funding for the Australian Stock Exchange to provide a web-based tool for sustainability reports. It recommends government money set up an Australian Corporate Responsibility Network, similar to the independent UK organisation, Business in the Community, which helps create a corporate culture embracing CSR.

Once upon a time, a company could sign a cheque for a local charity or two and dispose of its waste products in the local river without jeopardising its image as a 'good guy'. Progressive corporations know those days are long gone. But the report is a government endorsement of a broader definition of CSR that will filter through to the rest of the Australian business world, according to Leeora Black.

The committee fell short of protesting philanthropy used to distract from misbehaviour, but it recommended the Prime Minister's Community Business Partnership, a meeting of prominent Australians chaired by John Howard, "continue to move beyond its initial focus on philanthropy, towards a broader sustainability framework".

Ask Senator Chapman what stuck in his mind after the inquiry and he will tell you about the inspiring philanthropic partnerships conducted by leading companies. But he adamantly denies being seduced by the corporate gloss in his rejection of enforcing sustainability reporting. "I have always been passionate about volunteerism," he said.

His committee's push for voluntary corporate responsibility will bring unexpected challenges to company culture, says Longstaff. "Australian business wants lighter regulations but at the same time it is ambivalent about voluntary commitment. We say we don't need rules to do the right thing but we are also used to thinking if it's not illegal, it's not wrong."

He said a culture of voluntary commitment to CSR removes the convenient excuse 'I was just doing my job' when unethical things happen — that voluntary CSR means you can't switch off your moral life when you walk through the office door.

It's clear that Australian organisations want freedom from the burden of regulation, but are they prepared for the burdens of freedom?

The federal enquiry report entitled 'Corporate responsibility: Managing risk and creating value' can be read at www.aph.gov.au/senate/committee/corporations_ctte/corporate_responsibility/report/index.htm.