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SERVICES

(Subcommittee)

**Reference: Corporate responsibility**

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MELBOURNE

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**JOINT STATUTORY COMMITTEE ON  
CORPORATIONS AND FINANCIAL SERVICES**

**Wednesday, 5 April 2006**

**Members:** Senator Chapman (*Chair*), Ms Burke (*Deputy Chair*), Senators Brandis, Murray, Sherry and Wong and Mr Baker, Mr Bartlett, Mr Bowen and Mr McArthur

**Members in attendance:** Senators Chapman and Wong and Mr Baker

**Terms of reference for the inquiry:**

To inquire into and report on:

Corporate Responsibility and Triple-Bottom-Line reporting, for incorporated entities in Australia, with particular reference to:

- a. The extent to which organisational decision-makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community.
- b. The extent to which organisational decision-makers should have regard for the interests of stakeholders other than shareholders, and the broader community.
- c. The extent to which the current legal framework governing directors' duties encourages or discourages them from having regard for the interests of stakeholders other than shareholders, and the broader community.
- d. Whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders, and the broader community. In considering this matter, the Committee will also have regard to obligations that exist in laws other than the Corporations Act.
- e. Any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and/or their directors.
- f. The appropriateness of reporting requirements associated with these issues.
- g. Whether regulatory, legislative or other policy approaches in other countries could be adopted or adapted for Australia.

In inquiring into these matters, the Committee will consider both for profit and not-for-profit incorporated entities under the Corporations Act.

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**Subcommittee met at 10.46 am**

**BISSETT, Ms Rosemary, Group Manager, Corporate Social Responsibility, National Australia Bank**

**CLYNE, Mr Cameron, Executive General Manager, Group Development, National Australia Bank**

**CHAIRMAN (Senator Chapman)**—Welcome. This morning a subcommittee of the Parliamentary Joint Committee on Corporations and Financial Services will continue to hear evidence regarding the committee's inquiry into corporate responsibility and relevant and related matters. This is the ninth public hearing of the committee in this inquiry. The committee expresses its gratitude to the contributors to the inquiry, including those who will be appearing before us today as witnesses. These are public proceedings and as such the public is welcome to attend. However, the committee may agree to a request from any witness to have evidence heard in camera or may itself determine that certain evidence should be heard in camera.

I want to remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to the committee, and such action may be treated by the parliament as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request, as I have already said, may also be made at any other time.

I now welcome the representatives from the National Australia Bank. I invite you to make a brief opening statement, at the conclusion of which I am sure the committee members will have some questions for you.

**Mr Clyne**—We would like to thank the committee for the opportunity to contribute to this very important inquiry. On behalf of the National Australia Bank Group, we would like to provide a very short overview of our bank's journey in the area of corporate social responsibility and briefly summarise our response. We began to incorporate corporate and social responsibility considerations into our strategy and business decision making activities around three years ago. It has become even more important for us, and a very important part of our strategy, as we have begun to rebuild our business and the trust and confidence of our stakeholders following the events that happened to our bank two years ago.

For the NAB Group, CSR means creating long-term value for shareholders and the communities in which we operate by delivering sustainable business growth and building a great reputation. We have three main objectives for our CSR strategy, to help us achieve that goal: the first is making balanced decisions; the second is building trust amongst our employees, customers and other key stakeholders; and the third and final one is enhancing our reputation. With these objectives in mind, we are integrating environmental and social considerations into our day-to-day business decision making and operational practices, and we are always looking for ways to use our resources more efficiently.

Our approach to CSR also includes building an open and honest culture. CSR reporting is a part of this, and we believe that to build trust with our stakeholders we must have timely, open and honest disclosure. In December last year, we were proud to release our second CSR report.

Finally, we want to be recognised as a customer-focused and ethical business that engages in meaningful dialogue with all of our stakeholders. We believe that stakeholder engagement leads to better decisions, improved business performance and opportunities to develop better products and services to meet the needs of our customers.

With regard to the terms of reference of the committee, based on our direct experience we believe that the current legislative environment in Australia does not prevent companies from considering the broader interests of stakeholders; in fact, we see that it makes good business sense to do so. That is our statement.

**CHAIRMAN**—Thanks very much. In your submission, you say:

The NAB Board has a number of mechanisms in place to ensure that it has direct, line of sight in regard to broader stakeholder interests.

Could you outline what those mechanisms are?

**Mr Clyne**—Certainly. Our board of directors have not established a specific committee at the board level to look at CSR, because the entire board feel that it is important that they are involved in this. There are a number of mechanisms, as I said. The board address matters of CSR very closely on an annual basis in terms of the preparation of our report but also undertake a quarterly analysis of our CSR report. Because we are a global organisation, we also have subsidiary boards in other territories that we operate in, such as New Zealand and the United Kingdom, and members of those boards are also members of our principal board. They in turn are assessing CSR at a local level. Finally, our group executive committee, of which I am a member, regularly assesses CSR and reports to the board on a frequent basis. So we feel there are a number of mechanisms to give the board considerable insight into how we are progressing.

**CHAIRMAN**—I am sure there are times when different interests are in conflict, when you are looking at broader interests. How does the board resolve or manage those conflicts and determine which interest it will elevate over the others in making a decision?

**Mr Clyne**—In a broader context, that is the nature of what the board and our executive committee are grappling with every day: we are making a series of choices about how we allocate resources, capital and talent. The key thing for us is that the experience we had two years ago, which was obviously very well publicised, was a wake-up call to us that we needed to build trust with our stakeholders and build a business for the long term. So I think, when we are attempting to resolve any form of conflict in the way that we allocate resources or make a decision about priority, sustainability is one of key criteria—how we actually build a sustainable reputation. The bank has existed since 1858 and we are rather keen for it to exist for a similar period going forward, so we would use sustainability as a key decision criterion.

**CHAIRMAN**—Given the NAB's experience with the forex trading issue, which resulted in a substantial loss of company and shareholder funds, how effective do you believe corporate



responsibility governance frameworks are in preventing offending behaviour by company officers?

**Mr Clyne**—I think the experience we had with the foreign exchange currency options issue brought home to us the importance of having the trust of our stakeholders. What we have embarked on, which is an important plank of our CSR strategy, is rebuilding our culture. We have placed a lot of emphasis on that. That culture is a key component of how we assess performance at all levels of the organisation and, therefore, we think that has certainly helped us to rebuild trust with our stakeholders.

**Senator WONG**—Can I just follow up. That was not really the question, Mr Clyne. I think the issue the chairman was asking about was to what extent governance structures failed. Was it a failure of the current legislative framework around governance or was it really an operational failure of your own internal safeguards and mechanisms?

**Mr Clyne**—It was an operational failure, to answer the question. I was just expanding on my previous answer with regard to the culture because one of the issues that perhaps led to that operational failure was a culture where people did not feel comfortable raising issues of operational concern. What we see underpinning things like CSR is our whistleblower framework that we have now put in place. We feel that we now have those safeguards in place. But it was clearly an operational failure on our part.

**CHAIRMAN**—You referred to changing your corporate culture. What have you learnt in relation to corporate responsibility from the recent period of change in corporate culture and governance structures?

**Mr Clyne**—Could you be a bit more specific?

**CHAIRMAN**—Obviously, the issues that surround that, or led to you recently trying to develop a change of culture and in your governance structures, came about as a result of some of the shortcomings that were discovered which obviously had implications for corporate responsibility. Have you learnt anything out of the issues which arose and out of the subsequent process of trying to change and improve your corporate culture and your governance structures? That might be of broader significance to us.

**Mr Clyne**—I would come back to the point about sustainability. That is what we have learnt. That is why we have been quite deliberate in developing the three key objectives of our CSR strategy. The first one is about making balanced decisions, and that is something we have clearly learnt. That comes to your earlier point with regard to how you resolve potential conflicts. We look at that issue of making balanced decisions. The second one is about building trust. Clearly, we lost the trust of a range of important stakeholders in our community and among our customers, and we have learnt that we have to have in our framework the maintenance of trust.

It is clear that what we suffered was enormous reputational damage. Therefore, we consider the third plank in our CSR framework to be the enhancing of our reputation. That has all sorts of elements to it, such as how we engage with our work force and our customers and how we engage in our corporate and community investment programs. We have learnt a lot out of that and used it as quite a powerful tool to transform the way we operate within the bank.

**Ms Bissett**—That also goes to how we engage with stakeholders, so we have deliberate programs for engaging stakeholders in dialogue. We measure that. In our sustainability report—and we provided a copy of that to the committee—we undertook for the first time in Australia a piece of research based on the relationship index which was developed by Grunig. That is run by Edelman, and we did that in 2004. We are measuring the quality of the relationships that we have with our stakeholders, particularly looking at trust but also at other elements of the relationship. Last year, that was spread to our operations globally, so we repeated the survey in Australia and we undertook the survey in the United Kingdom and in New Zealand. We will repeat that again this year to monitor how our stakeholders are looking at the relationship they have with us and how that is impacting on the trust that we have with them.

Internally, it goes to other stakeholders, like employees. Our report showed that we are surveying our employees and looking at what is happening with employee satisfaction and engagement as well. It is monitoring, across a range of areas where we have stakeholder involvement, how our performance is changing.

**CHAIRMAN**—And that is a change from the previous regime?

**Ms Bissett**—Yes.

**CHAIRMAN**—In your submission, you recommend that government and industry bodies may undertake voluntary measures to reward excellence in stakeholder engagement and public reporting to raise the awareness of corporations about the benefits of CSR and to provide guidance for business in implementing their CSR programs. Are you suggesting that this is not adequately undertaken currently, particularly through the Prime Minister's Community Business Partnerships? Should that program have a different structure? Are you looking for additional initiatives to that program from the government? If so, what might you suggest?

**Mr Clyne**—We would not be suggesting anything. That would be inappropriate at the moment. We were just making the suggestion that any additional recognition of companies that are attempting to thrive in this area would raise awareness. There are a variety of different mechanisms—the Australian reporting awards, for example, and a series of other things. We felt that that was a good way for the government to potentially raise awareness and recognise those corporations that are in fact attempting to raise their profile in the area of CSR.

**CHAIRMAN**—Is there any link between executive or management remuneration and corporate responsibility measures? If so, what is the link? What component of remuneration relates to performance in that area? How far down the management chain does that link go in terms of its effect on remuneration?

**Ms Bissett**—It starts right at the top of the organisation. Our managing director and chief executive, John Stewart, has in his performance scorecard elements that relate to corporate social responsibility, to engagement with stakeholders and to our performance in the areas that are particularly relevant to corporate social responsibility. That folds down to our executive and through to particularly key people who are working in areas where there is specific relevance. All employees are required to live the culture and the values. Throughout the organisation, everybody's performance is looked at in terms of whether we are living and actively engaging in the behaviours that support our values. That is the basic factor that determines whether you are

successful in your performance. Then there are specifics. As the group manager for corporate social responsibility, I get measured on the quality of our stakeholder engagement. I get measured on improvement in our CSR performance.

**CHAIRMAN**—One of the issues that has been raised with us is, for want of a better description, ‘short-termism’—a focus on the short term welfare of the corporation and shareholders rather than a longer term focus—and that this is in part caused by the relative short-term of executive contracts. Do you agree with that? If so, is there a way in which executive contracts can be more appropriately framed to overcome that problem?

**Mr Clyne**—We have a balance. We have a short-term incentive program and a long-term incentive program, as was just outlined. That has a number of components through it. What we have in the organisation are two quite clear statements. The first is a statement of what we call our compliance standards, which indicate that these are non-negotiable ways in which we will behave in terms of the regulatory environment, which is obviously critical in our industry. We also have a statement of what we call our corporate principles, which again has a strong underpinning of CSR principles. We ask our employees to collaborate, to be open and honest, to raise issues and to counter some of the cultural problems we have had coming out of our issues two years ago. We feel that provides quite a good mechanism to get people to take a longer term view. You are assessed twice a year. Unless you receive a green light on both of those standards, you receive zero.

We feel that that provides a good balance. It allows people to make what are sometimes very important short-term decisions to meet a series of objectives while telling them that they need to balance those decisions against the longer term. If you do not behave in a fashion that meets our compliance standards and our corporate principles, you will be receiving nothing in the short term and nothing in the long term. We feel that that provides an appropriate balance between the market expectations and the longer term sustainability.

**CHAIRMAN**—Despite all the talk about culture and the importance of incorporating corporate responsibility into the company’s culture and the like, do you think it is true that a company’s statements about the importance of corporate responsibility are only taken seriously when they are actually written directly into the key performance indicators of management?

**Mr Clyne**—We think that symbols are very important in cultural transformation. We reinforce things like those corporate principles on a daily basis—for example, by having those things embedded in people’s performance scorecards. That is within our organisation. We obviously have some way to go in terms of building external awareness of our CSR, although we are very pleased with our second report, as our external performance ratings have stepped up greatly. We have moved well above a range of benchmarks—certainly globally. We feel that we are starting to get some external recognition. Internally, there is a very good understanding, brought about by some of those symbolic actions, that CSR is very much on the agenda for our organisation.

**Ms Bissett**—That sort of change takes time. There will be some people who, because of their personal values, will always want to conduct themselves in that sort of way and consider those sorts of issues. And there will be some people who will not have an interest in doing that unless they have an incentive. In tying things in to incentives, you cover everybody and you make sure that everybody is working in the same direction.

**Mr Clyne**—I will add that CSR is not a side issue in the sense that organisationally my responsibilities as a member of the group executive reporting to the group CEO include the strategy for the group globally and the CSR. By having CSR embedded into our group strategy function, we are saying that the two are intertwined and that we cannot look at strategic issues, such as how we expand, without taking into account CSR. We have not made it a side function; we have integrated it with our group strategy activities and given it significant prominence organisationally.

**CHAIRMAN**—How do you think the financial markets and other stakeholders have responded to NAB's sustainability reporting framework?

**Mr Clyne**—We are confident, following the release of our second report, which was favourably received and has been externally benchmarked as having been quite a step forward. We can certainly provide some statistics on how we have gone. Because of their strong focus on our culture and the need to see us regain their trust, they have been interrogating us quite closely, as we talk to institutional investors and the community. Their response has been positive to date in that they are seeing some of this evidence. This is a long journey. We are building this bank for the long term. We are not going to make short-term decisions. We are confident, and we are seeing that, after the release of our second report, they are responding well.

**Ms Bissett**—Mainstream analysts, you could say, have a general tendency at the moment to not look at the nonfinancials as much as the financials. Some of the feedback that we have from talking to them is that it can be the way the information is presented. They are quite interested in the information. We have had one-on-one discussions with some of the analysts, talking to them about the value of the information that we are providing in the CSR report. They have said that it gives a good lead indicator of management and the quality of the management of a company and therefore its potential future growth. So that is important for us. We still have a very important role in educating mainstream analysts about the value of this information, so they are able to get a good assessment of our performance as a business now and in the future. There is a significant amount of interest particularly in areas where people are looking at socially responsible investment.

Our report serves two functions: as well as informing our stakeholders, it informs the community of investors who have significant interest in how we are performing in the area of corporate social responsibility. When they come to us with questions about our performance in that area, that is the primary document that we are able to provide them with and then we supplement that with additional information. There is growing interest in the whole area from the whole investment community, but we still have a role to play in getting people more interested. We invited analysts to our report launch in December last year. About three or four attended on the day. We will continue to invite them and continue to do other things to engage them around that.

**CHAIRMAN**—Given the absence of a standard reporting framework for non-financial information, how seriously do you think the financial markets take the reporting that is currently undertaken? Would a standard reporting framework lead them to take the information more seriously?

**Ms Bissett**—In the global environment, we have an evolving global standard and that is the one we have decided to use, which is the Global Reporting Initiative Sustainability Reporting guidelines. For us, it is important that it is a global standard because we are operating in markets other than in Australia. We have operations in New Zealand, Asia and the UK. Therefore, we want to have something that is developed through a consultative process with stakeholders and has meaning for all of our operations. It is evolving and it is early days. The G3, as they are calling it now, is the third generation of the GRI, which you have already heard about. We think it is important to have some guidelines so that, when stakeholders are reading these reports, they can compare apples with apples and understand what one company is reporting, versus another. It is important for us too, if we are benchmarking ourselves against our competitors, that we understand when we report on a certain thing that we are able to compare our performance directly to that of our competitors in that area.

**CHAIRMAN**—Ha there be any impact on your international competitiveness through the adoption of your approach to corporate responsibility?

**Mr Clyne**—Yes. There has been in the sense that our operations are relatively small, for example, in the UK. The advantage of having substantial operations around the world is that we have been able to share a lot of best practices. If I take the example of the UK, where we own two banks—the Clydesdale Bank and the Yorkshire bank—although they are relatively small in the scheme of the banks in the UK, we have found that by sharing best practice we are market leaders in financial literacy and building awareness amongst community in things like financial literacy. So that is one tangible example where they have benefited from being part of a group, and they are able to bring that best practice. We are quite advanced in our New Zealand bank, the Bank of New Zealand, in environmental programs. We are a strong supporter of a number of environmental recovery trusts there, so, again, there is a strong advantage in sharing those practices and also having them tailored to what we see as being the unique characteristics of that market.

**CHAIRMAN**—Was it international competitiveness or some other rationale that was behind your becoming signatories to programs such as the UN Environment Program Financial Initiative, the OECD Guidelines for Multinational Enterprises and the Carbon Disclosure Project?

**Ms Bissett**—We joined the UN program for financial organisations because we thought it was important to participate with our peers in developing answers to some of the issues that we see. There has been active work within UNEP FI around climate change and some of the emerging issues in the corporate social responsibility area. So is about joining together to work on some of these issues and getting a shared understanding of what the risks and opportunities are. We participate actively in one of the UNEP FI committees, on reporting, here in Australia. That gives us a chance to work through some of the issues around public disclosure and some of the indicators that might be used, so again we can share best practice, develop our understanding and assist each other.

**Senator WONG**—The first question I have is about motivation. People could see CSR as being a soft and fluffy or a radical agenda. I have to say, from your submission and the evidence today, it seems to me that one of the issues that have been high in NAB's thinking on this is the

risk management aspect of corporate responsibility, sustainability or however you want to describe it. I wanted to confirm that with you.

**Mr Clyne**—I think that is an accurate observation. Clearly, in managing a financial institution it is really all about risk, and what we have learned is that it is actually beyond financial risk; it is the risk associated with a whole series of other factors. So we do take a strong risk management approach to it.

**Senator WONG**—In the appendix to your submission, you talk about being ‘on the journey’. Given the reasons why NAB decided to embark on CSR, I am interested in the difficulties that you have faced as an organisation in changing your operations and changing your culture. What I am trying to get is a bit of an insight into the barriers that you have faced in trying to implement CSR.

**Mr Clyne**—I think you touched on it in your earlier question—that is, the perception perhaps that CSR is a soft or less-than-important issue. We are a substantial organisation of over 40,000 people operating in a range of different territories, so getting that message out to people takes a long time. That is why we have deliberately talked about a ‘journey’. I think probably the major barrier has been trying to explain to people that there is, we believe, a strong correlation between superior business performance and the embedding of some of these CSR frameworks. That does take time, because we have traditionally operated under a very business type framework, which is not unusual in a bank! It is a very numerical, analytical approach. But the message, the strong symbolism from our board and our executive committee, is that we are on this journey, and we believe it is actually part of being sustainable.

**Senator WONG**—Sure. When you say there is resistance, I assume that is at the below-board level—through your organisation, from managers down to frontline staff? Is that what you meant?

**Mr Clyne**—Absolutely. That is obviously the bulk of the organisation. I would not categorise it as resistance. People are not actively resistant, but in any organisation there is—

**Senator WONG**—Maybe philosophical resistance.

**Mr Clyne**—active and passive resistance. It is more: ‘How does this make sense to me if I am sitting here as a branch manager? What does this mean?’ A simple example of what we have tried to do—and it is actually referred to in the *Australian* newspaper today—is our retail bank. The retail bank is a very important part of our franchise because it is the part that a lot of our customers touch. We talked about establishing that into 70 local areas, and any one of those 70 regional executives may have 10 or 12 branches in their area. We are trying to personalise it for them: ‘You now have those 12 branches. You’ve got to engage with your community at a practical level.’ We are trying to give them that sense of ownership, whereas traditionally that was somewhat more diffused. That is a tangible way of saying, ‘Here is a community you’re supposed to engage with.’

**Senator WONG**—Apart from identifying stakeholders, which is essentially what you just described, do you do capacity building or best practice models? Do you say to your regional

manager, 'These are your stakeholders'—I understand that part—'and these are ways in which we think you could engage with them' or 'these are the things that we want you to prioritise'?

**Mr Clyne**—Absolutely.

**Ms Bissett**—And the honest truth is you cannot do everything at once—

**Senator WONG**—True.

**Ms Bissett**—so what we are doing is biting off bits and pieces at a time and slowly working on them. Our corporate community investment area is a great example of us saying, 'Okay, let's have a look at this area and then let's fold it out.' What we have done is a complete review of our corporate community investment, which some people would see as philanthropy but it is more than that in that it is a partnership with the community as well. It has also been reviewed by the board. They have set down some principles and objectives to guide that. Now we are actually rolling that out into training, defining what it means. We have reached the stage in that process where we have put those principles and objectives up on our website so that is public information, and they will go into our report this year. We are building the manual that will help people to do this and to guide them.

Each of the businesses has worked out what its key areas of focus are. For example, we have volunteering programs. In New Zealand, as Cameron already mentioned, we have a focus on biodiversity: we fund and help, in partnership with the Department of Conservation, the Kiwi Recovery Trust. Once each of the businesses has worked out their area of focus, we implement the tools to help them deliver on that, providing the training and the education. Each time we do that it is running the message through the organisation down to the people who matter. Given it is a big organisation, it is also about working out who are the people who need that particular information around that aspect of CSR. So it is a process of change for the organisation.

**Senator WONG**—You raised the philanthropy issue. It seems to me that is perhaps a subset—

**Ms Bissett**—It is a subset.

**Senator WONG**—of CR rather than actually being CR.

**Ms Bissett**—It is very much a subset.

**Senator WONG**—And, in the rethinking of the principles against which the board might assess the philanthropic activities, has that been a process of saying, 'We want to use philanthropy,' or, 'We want to engage in philanthropy but to these ends; we want to have a clear objective'?

**Ms Bissett**—Yes.

**Senator WONG**—Very briefly, what is that?

**Mr Clyne**—You are quite right that the philanthropy is just a component of CSR. We have been very clear about saying there are a number of underpinning elements of CSR; philanthropy

is one of them. Then we go to the next level and we actually debate with our board a whole series of categories in which philanthropy can be exercised. For example, there is arts and culture, there is environment biodiversity, there are initiatives like financial literacy and access to financial services and there are sport related activities. We debate about what we feel is the most appropriate spread of those philanthropic activities. It is quite a structured process about getting them to engage.

**Senator WONG**—I am more interested in the principles.

**Ms Bissett**—Off the top of my head, I cannot remember all of the principles, but I am quite happy to provide a copy of those.

**Senator WONG**—I would be interested in that. The other thing was resistance—active or passive. I am not trying to be pejorative, Mr Clyne. Was there resistance by the board or did the board lead this change? What generated this? Clearly, you had the forex problem, but what led to the board taking this view? Was this led by the executive? Was it a push led by particular directors? I do not want you to disclose confidential information, but I am interested in the genesis of the cultural shift.

**Ms Bissett**—The bank had actually started on the CSR journey slightly before the foreign exchange losses happened. I have been with the National now for about 14 months, so I came in asking myself those questions. The importance of that journey that they had started to embark on became crystallised and really clear in people's minds when that incident happened.

**Mr Clyne**—What the foreign exchange issue precipitated was a wholesale change of the board and the executive committee.

**Senator WONG**—Yes, I am aware of that.

**Mr Clyne**—I am one of the new ones, having come in 18 months ago. The executive committee and the board were almost entirely replaced. What we have now is a very strong board with quite a degree of diversity in terms of industry experiences. We have a number of board members who have either worked in or are on boards of companies in other industries, particularly manufacturing and mining. They bring perspectives on CSR which are more advanced. A number of us have come onto the executive committee, of which I am a member, having worked in other environments, such as overseas and in other types of organisations. What you have is a much broader series of perspectives because of the fact of us having this quite new board and new executive committee. They have continually raised the awareness of CSR.

**Senator WONG**—Changing topic slightly, what about capital gains tax? I do not think the Chairman asked you about this. In discussion about our short-termism issue, a couple of witnesses have suggested that we consider looking at some of the taxation incentives and disincentives around short-term and long-term focuses. Capital gains tax has been one of the issues raised. Do you have any comments on that, or is that beyond—

**Ms Bissett**—It is not something that I have thought about.

**Mr Clyne**—No, it is not something that we have given consideration to.



**CHAIRMAN**—If we had a different capital gains tax regime that perhaps rewarded length of ownership of an asset, would that encourage the institutional shareholders in particular, as well as the mums and dads, to have a longer term view?

**Senator WONG**—To try to give a tax advantage for long-term shareholding is the idea.

**Ms Bissett**—Whatever incentives they might be, things that will get people to look at sustainable growth over the long-term and not just the short term would be good. But we have not considered those sorts of issues at this point in time.

**Senator WONG**—I come back to the role of government. You make some suggestions about recognition, which is reasonably consistent with what other witnesses have said. I wonder if you have anything to offer us in terms of the role of government in capacity building.

**Ms Bissett**—You are hearing from the Centre for Public Agency Reporting this morning. That is a very good example where you have a partnership between the government, an NGO and the DRI that is helping build capacity within public sector agencies to report that sort of activity and to facilitate bringing together best practice, so that you actually take the leaders and bring others along with you. That is very critical in developing capacity, skills and understanding in this sort of area. That is a key role that government can play.

**Senator WONG**—How would you extrapolate from the public sector to the private sector?

**Ms Bissett**—You could probably do something similar for listed companies or for business in general. Developing a centre of excellence for Australian reporting would be quite valuable.

**Senator WONG**—And/or best practice models for cultural change, stakeholder identification, engagement—those sorts of things?

**Ms Bissett**—Yes.

**Senator WONG**—And you think that would be of benefit?

**Ms Bissett**—Yes.

**Senator WONG**—Obviously, one size does not fit all, but there are lots of companies doing lots of things, and I am not sure what the flow of information or sharing of knowledge about that is like in different sectors.

**Ms Bissett**—The Victorian EPA chairing UNEP FI in Australia has provided huge assistance to the finance sector in Australia in bringing everyone together and getting them to engage and participate in the United Nations finance initiative.

**Senator WONG**—Sorry, what is that?

**Ms Bissett**—The United Nations Environment Programme Finance Initiative. That has brought all of the finance sector organisations together. We are also participating with some of our Asian counterparts through the Asia-Pacific task force connected to that.

**Senator WONG**—Apart from the risk management imperative or rationale that you have described, to be honest some might argue that NAB's journey started later, perhaps, than some of your competitors' journeys. Do you think that there has been a cost to NAB from that in terms of competition or reputation?

**Mr Clyne**—Absolutely. I could not put a figure on it, obviously, but there is no question about it. Trust is a fairly intangible thing but it is important. And it is a critical component in a financial services institution, and we lost that trust. I think your observation is correct: we started later. I think we are moving at quite a speed at the moment—

**Senator WONG**—Breakneck speed!

**Mr Clyne**—I would not say breakneck speed!

**Senator WONG**—I suppose cultural changes are not very fast.

**Mr Clyne**—I think we are. There is a suggestion, certainly, that the progress between our first CSR report and our second CSR report was substantial in terms of the level of disclosure and transparency and that sort of thing. We recognise that we started late and we are attempting to catch up at a fair pace.

**Ms Bissett**—We recognise that it is a continuing journey too. It is evolving all the time. The benchmark for what is good disclosure is moving all the time and so we have made a commitment to basically take ourselves on a continuous journey, improving where we can as we go.

**Senator WONG**—Sure. I am happy if you want to take this next question on notice, although it is an intangible question to some extent. When I asked what some of the barriers were, you identified resistance, passive or active, to cultural change. Are there any other internal barriers, or any external barriers, to what you are trying to do? I do not know if you have any comment on that or if you want to have a think about it first.

**Ms Bissett**—I can give you two other examples. Some of the barriers to doing things like environmental improvement are structural. Just because we are a commercial business and we lease a whole range of buildings does not mean we necessarily have a direct link—although this might sound surprising—to information like how much water we use. If you look at the CSR reports put out by the banks, you will see that each of them discloses that there is difficulty in managing aspects of our environmental performance that we directly control, because we lease buildings where that is tied up in rental outgoings and we do not necessarily control the building itself. So, although we see that it is critically important to implement programs to change the way we utilise resources like water, it is difficult; and it takes time because it means you have to bed it into all the rental agreements that you have in order to make that change. It is very much an incremental and slow process.

Another example is around information. Climate change is a particularly important issue, and we see that it is important to us going forward. It comes into the risk management equation for us in terms of risks and opportunities, such as new products and services. But at the moment the level of disclosure around risk—

**Senator WONG**—This is the risk of exposure on climate change?

**Ms Bissett**—by companies who we might lend to is relatively low, and everyone's understanding of the risks and opportunities is relatively low, so there is a huge need for information, discussion, learning and capacity building in that area—and that is an internal need as well as an external need. All of those sorts of things create barriers to instantaneous change, if you like, and any cultural change takes time as people get used to new ideas and new ways of doing things.

**Senator WONG**—That is very helpful, thank you. Finally, just on the government role, you talked about trying to find ways in which governments might assist. We had some evidence from CSR Europe; are you familiar with that network?

**Ms Bissett**—Yes.

**Senator WONG**—Is that a model that would be useful or that you suggest could be utilised?

**Ms Bissett**—I think any knowledge exchange and best practice sharing activity where organisations come together—and an example is what is happening with the public agency reporting with UNEP FI—is always useful, particularly when organisations are first starting on that journey. And then you can raise the bar through the sharing of best practice.

**Senator WONG**—Thank you.

**Mr BAKER**—You mentioned that you followed the GRI model. We have heard institutions being quite critical about it, saying it is too complex, that it does not relate to Australian practices. I am interested in hearing your view. It is quite refreshing actually to hear a positive report about it.

**Ms Bissett**—I think you will find, if you look at the banks' reports, that either we are using the GRI as a guideline or, as a couple of us have done, we have now reported in accordance with it. I think it has been misunderstood. A lot of people think that when you pick up the GRI you have to do everything that is in it—whereas, if you understand how to use it, it is not a one-size-fits-all document. It says, 'Here is a range of indicators; talk to your stakeholders, understand the issues that are important to them,' and then, if you are going to report on those indicators, it gives you some guidelines on how to do that. The G3, the third iteration of the GRI, is actually more helpful in terms of how to report on a range of different issues. It also gives you a suite of indicators that you can discuss with your stakeholders in terms of what might be important to them if you do not know where to begin.

At one end, very clearly, you can pick up the GRI and borrow ideas from it. So a really small SME—and in some cases they have spoken negatively about the GRI because they have been overwhelmed by it—can pick it up and use five or 10 indicators that are key to their business from that guideline and then pick up the principles for reporting, like materiality, completeness et cetera, and apply them to how they report. At the other end, which is where we chose to go in our 2005 report, you can report completely in accordance with the GRI, which is responding to each of their core indicators with an 'if not, why not' response—if for some reason you cannot

report on a particular indicator, you are not expected to as long as you can explain why. To me that seems like a reasonably fair approach.

**Mr BAKER**—Obviously, with the shift towards and the movement of CSR, its success will be led by industry and not by regulation. As Senator Wong mentioned, we met last week with CSR Europe, and CSR there seems so much more formalised compared to Australia, where currently there seems to be a shotgun approach. There is no communication between companies—hopefully, you can dispel that—and each one is operating from its own individual CSR perspective and philosophy; the companies need to meet on a regular basis. Is there a role for the government from an encouragement point of view?

**Ms Bissett**—I think there is a role for government in encouraging companies and bringing them together. As we have already said, the Victorian public agency reporting example is a good one.

**Mr BAKER**—The Victorian what, sorry?

**Ms Bissett**—The Victorian public sector agency reporting example—the Centre for Public Agency Sustainability Reporting is an example of that happening, of bringing together people with an interest in reporting and encouraging others to do it. There are industry bodies in Australia that have looked at this in a specific sector. For example, in the mining industry, the mining companies have come together and looked at sustainability reporting as a sector. Under the banner of the United Nations financial initiative, the finance sector is doing that. The Australian finance sector organisations are participating in pilots of finance sector reporting supplements—indicators specific to that sector. So there is some activity, but it tends to be sector specific. At the moment, nothing has really brought cross-industry activity apart from going to workshops and conferences and sharing in that sort of informal way. So I think there would be benefit in having some sort of formal group that encouraged that sharing.

**Mr BAKER**—It is interesting when we talk to specific companies and institutions like yours: you have one perspective and then, say, the BCA, from their representations, are at the opposite end of the scale.

**Ms Bissett**—We are members of the BCA, and we talk to and share information with a number of other colleague organisations within the BCA.

**Mr BAKER**—I am just saying that your industry representative at the top, though, was quite negative about CSR. It is just interesting to hear from different members and hear their different philosophies about how they are approaching CSR.

**Mr Clyne**—I will not comment on what the BCA's view is, but from our perspective this is still an emerging issue.

**Mr BAKER**—Yes, exactly.

**Mr Clyne**—We clearly see it as important. We have found that, even over the last two years, the collaboration is increasing. There is a lot to be said for peer pressure in this equation. We actively look at our competitors' CSR reports. We did that in our first year; that is why our

second one is substantially improved in terms of disclosure and the level of the program. I think you will find that, as this evolves, people will naturally start to gravitate towards forming more collaborative bodies and naturally gravitate to a best practice type of arrangement. It is in its infancy.

**Mr BAKER**—As a financial institution, when did NAB first develop product specific CSR as an investment—so, if I came to you as an investor and said I wanted to invest in CSR instead of a balanced fund, a couple of stable funds or a share based fund? The other part of the question is: where are they at in the cycle as far as investment returns go? Has there been any study of the correlation between CSR and returns?

**Ms Bissett**—I am not in a position to answer some of those questions; I do not have the information. But can I clarify: you are talking about socially responsible investment funds?

**Mr BAKER**—Yes.

**Ms Bissett**—We do offer a small portfolio of socially responsible investment funds and they tend to be more the ‘green’ sorts of funds. They have grown over time. When they first started is a question I do not have an answer to because that was before my time at the bank.

**Mr Clyne**—We could take that on notice and come back to you about when those funds started. We will also happily provide data on the comparative returns. Bearing in mind that that could be distorted by the fact that they may be mid-cycle of whatever longer term investment is going on, we would be happy to provide some returns data for you.

**Mr BAKER**—NAB is to be commended for its philanthropy. But what often occurs is that CSR does not come into the equation until after the profits of a company are determined. Has there been a shift in the culture of the decision making process? When you think back to the eighties and nineties, there were many closures of businesses through regional Australia, even though some were profitable. Is it that companies are saying, ‘We can make more money here,’ through the social impact of this decision making, instead of just, ‘We’ve got our profit; now we can invest in arts and culture, or we can give some money to sport’? For example, turning back to the eighties and nineties, we saw the emergence of Bendigo Bank in regional Australia.

**Ms Bissett**—What the board have done in establishing the guiding objectives and principles is set out a deliberate strategy, which had not been there before, to align our corporate community investment strategy with areas where we can get shared outcomes. It actually makes business sense to support communities in certain ways. They have also acknowledged that it is important for staff to feel that the bank is supporting things that are important to staff. So some of our CCI, both partnerships and pure donations, are going to areas where staff feel it is important for us to contribute, to their communities.

**Mr BAKER**—So it is proactive and not reactive; it is not after the profit line has been established? That is what I mean.

**Ms Bissett**—The other aspect of that is that one of the things that the board have made a commitment to is to increase our community spend over the medium term to one per cent of pre-tax profit. So they are actually making a commitment to a certain amount of investment in our

communities. The planning around our partnerships in communities is following those principles, so it is more strategic and forward thinking than reactive. It is looking at how we do that to add value to the business and to add value to the communities—and how to engage our employees as well, because NAB contributes quite significantly to local communities through our volunteering program: there were over 5,000 days of volunteering in Australia last year through NAB staff engaging in community activities.

**Mr BAKER**—Thank you.

**CHAIRMAN**—Mr Clyne and Ms Bissett, thank you very much for your appearance before our committee today and for your assistance with our inquiry.

**Mr Clyne**—Thank you.

[11.40 am]

**GREY, Mr Francis Eugene, Research Manager and Founding Principal (Australia), Sustainable Asset Management (SAM) Research**

**CHAIRMAN**—I now welcome the representative of Sustainable Asset Management Research, Mr Grey. Do you have any comments about the capacity in which you appear?

**Mr Grey**—Good morning. I am representing SAM in my research capacity, but I am also appearing for myself, because I have had 15 years of experience in this area—in fact, longer. I also have an economic background.

**CHAIRMAN**—The committee has before it your submission which was numbered 137. Are there any alterations or additions you wish to make to the written submission?

**Mr Grey**—I would just like to emphasise that this is outside our normal range of activity at SAM Research, and I have actually put this together on the back of my experience. I have not cleared it with my colleagues; I am sure they would all agree with me. But I would like to thank you, because you have forced me to stretch my thinking here about the role of government and where government fits in. So I have drawn on the huge sustainability background of SAM and then tried to address the issues that I believe you guys are thinking through.

**CHAIRMAN**—Thanks. I invite you to make an opening statement, at the conclusion of which I am sure we will have some questions.

**Mr Grey**—Once again, thank you for the opportunity, because I think this is one of the most critical developments in capitalism that we will ever see and we will look back one day and see this as something like the development of the stock market or the development of democracy itself in politics. I think it is of that order of change, and these are the very earliest days of this change.

My role at SAM as head of research means I run the research assessment of the top 200 listed companies in Australia, including the National Australia Bank, and try to identify the leaders in that. We put those leaders together into the AuSSI, the Australian SAM sustainability index, and also for the Dow Jones sustainability index, which is a global index that we run at SAM. In my past role as an economic consultant to NGOs, I had to deal with these issues head-on, and that is how I got to be here at SAM—because I could see an opportunity here to integrate this model a lot better.

SAM is a Swiss based company, started in 1995. It does three things. It is an asset manager; that means it takes people's pension funds and invests them, using sustainability as a guideline. It was founded on those principles, which is why it is called Sustainable Asset Management, and that is sustainability as defined by the Brundtland commission—so, looking after the interests of both present and future generations. It also does private equity. We actually invest here in Australia, in a wave pound machine in New South Wales and in soil moisture probes in South Australia. We do about \$US200 million worldwide of private equity investments in sustainability

technologies of all kinds. We are probably the largest private equity investor in this field in the world at this point.

We also do SAM indexes—that is the American; SAM indices to all of us. We create sustainability indices that are used around the world. The leading one is obviously the Dow Jones sustainability index, which is the largest, with 2½ thousand companies. We analyse those, within 58 industry sectors, and we take the top 10 per cent of companies and put 300 together to create the Dow Jones sustainability index. So it is like a corporate Olympics of sustainability, if you like. The AuSSI here in Australia which we created last year is the same process, but that process has actually been running since 2001. In fact, we did our first assessment here in Australia in 2000. We just converted it to an index last year to give it greater publicity and carriage and get it published in the *Australian* every day.

We have just recently done a United States sustainability index and a Dow Jones Islamic market sustainability index as well, a growing field. The Dow Jones sustainability index is a licensed index, so we have 55 licensees of that index—in Australia you do not buy an index but overseas you do—and those 55 licensees are merchant banks and investment banks of all kinds. Westpac, for example, has a license for the Dow Jones sustainability index.

That is a brief background. Sustainability is the crucial element in all of this, though. We do not use the concept of CSR in the way that it is used here. CSR is a parallel concept but perhaps part of the scepticism around CSR is that it is perceived in a more lightweight context. We tend to see it as interchangeable with sustainability. However, the sustainability concept as we see it starts with the fact that every organisation is dysfunctional—government, NGOs, small business, big business et cetera. They all have their negative externalities; their negative impact on the environment, society, the economy and the wider world. And they are all there to create some sort of value in some way. What we see sustainability as is an attempt to integrate value creation with a reduction in those negative impacts.

A simple example is a chemical plant. A chemical plant discharges into a river. It decides to eliminate that discharge but in a way that creates profit—maybe that means a lower cost product for them. They eliminate the discharge and lower the cost of their product. As a result of that simple action, staff morale rises—when they go home, their children do not hate them as much as they used to because of them being in the chemical industry—the company feels more positive and their competitors are forced to follow them because the product is now competing with them in the marketplace. Through that simple action, that company has started to deliver the environmental outcomes that our society wants to see and actually created more wealth in doing so.

That is why organisations like the Victorian Environment Protection Authority have taken what I consider farsighted approaches in backing things like the UNEP FI initiative and so on, because they see this as a way of getting to their regulatory outcome without actually regulating. That is sustainability as we see it: a process of creating wealth while reducing our negative impacts. So it is not a fluffy exercise; it is not feel good. It is real and, as has just been demonstrated, they take it very seriously.

Just to quickly wrap up—and I know I only have five minutes so please call me up, because I will talk for hours otherwise—on the issue of the role of government, the first thing I will talk



about is the fiduciary responsibility of directors. We are not into prescriptive approaches to doing things. You give people the principles. You have a competitive market for corporations. You let them get on and figure it out, and Devil take the hindmost. That is our approach.

The directors of companies need to understand that the context of their fiduciary responsibility is in terms of the long-, medium- and short-term aspects of their operation—and that includes the long-, medium- and short-term negative externalities of the operations and the long-, medium- and short-term impacts of their profit making. If they can account for those impacts and how they are managing them and dealing with them—and be in a sense required to do so—then you shift from having them simply reporting on their fiduciary responsibilities, which allows them to decide where they want to fit, to emphasising the requirement to think in a short-, medium- and long-term way.

From a shareholder perspective, there will be greater wealth creation. From an environmental, societal and economic perspective there will be a greater reduction in negative impacts and a focus on those issues.

In terms of government facilitation of this process, firstly, governments should be role models. Government organisations are some of the most dysfunctional organisations in the world, here and everywhere. They have a huge responsibility to set the standard, and they fail to do so regularly. I can quote some wonderful statements from government officials on that point.

Government can also facilitate straightforward assistance, such as the UNEP FI program. There are quite a few things like that that government can do to help whole industry sectors get together. This concept is so new that most sectors do not know much about it, and they do not have the resources. Government can help their a lot.

A third way the government can help is structural. I will pick on the family and community services area of the federal government as an example. They have taken a very strong interest in the whole concept of sustainability, CSR and so on, because their role is work and family life balance. They see this as another way of delivering on that outcome. Obviously, from a corporation point of view, they struggle to figure out how to do this better, as everyone does. There is an opportunity for partnership there. I suspect that, from the ACCC to ASIC to waterways to air emissions, there are dozens of areas where government is interacting with business and industry where a similar partnership approach could be built around this sort of concept as well. There are structural opportunities there. I will leave it at that; otherwise I will be here all day.

**CHAIRMAN**—There was a recent study undertaken by academics in the UK, from two universities, I think—I do not have the details of the study with me today. According to their parameters they believed the parameters used in previous studies showing the benefit of corporate responsibility were incorrect. The companies viewed as being the least socially responsible performed 27 per cent better than those that were regarded as highly socially responsible. From your experience, what is your view of that conclusion?

**Mr Grey**—That is at the heart of the whole SAM business. We manage \$2.5 billion at the moment globally and have \$5 billion invested on the DJSI. Our presumption is actually the opposite of that conclusion. I do not know how they got to their conclusion.

**CHAIRMAN**—You said your presumption, but is it being borne out?

**Mr Grey**—We would say that this is a medium- to long-term concept—medium-term being five years and long-term being 10. In the financial markets medium term is one year or two years, and that is completely wrong; that is short term. In terms of being borne out, I would say it is too early to say. In terms of a Dow Jones sustainability index, when we did our back testing the reason Dow Jones undertook it as a concept was, firstly, it was intuitively incredibly appealing. It is about value creation, and Dow Jones knew nothing about sustainability when it came in the front door. They thought we were talking about socialism for five minutes, so we had to disavow them of that. But when we ran a back test we got a huge outperformance. In terms of what our indexes do, I have sent some material through by email which I have not printed for you today but which I am sure Kelly will be happy to forward to you—there are four of them, and the graphs are there.

We track the mainstream indices extremely closely. Sometimes we outperform and sometimes we underperform in the mainstream indices. With the one I deal with, the AuSSI, we outperformed for the first year and a half, we underperformed for the next year and a half or so and we are starting to climb back now. To give you an example of a problem, we had invested in our banking sector of a Dow Jones sustainability index. We have 330 banks in the whole sector. We put 30 banks in the DJSI, of which Westpac is the leading bank globally for sustainability. ANZ and NAB are in there as well, just for interest. At this point, we do not have any Japanese banks in there, and we have not had any Japanese banks for a long time. Their corporate social responsibility performance and sustainability performance in our view are appalling.

However, at some point in the last two years, the global financial market decided that Japanese banks were a buy because the Japanese economy was rising and they were getting themselves out of their pickle. So they bought them. What happened was the Japanese banks value rose and the value of our sustainability just fell because that is the market working short term day to day. Locally, we had the same experience with the Commonwealth Bank. We do not have a Commonwealth Bank in our AuSSI index. We dropped them in October 2003. We have a ranking-by-score process. At present we have the three big banks in our index. Within weeks of dropping them, the Commonwealth Bank share market price started to rise, and it has risen strongly ever since, although it has stood still for the last few months. Not holding that one bank—because they are so big in terms of the top 200 listed companies—meant that we underperformed. You could basically put all of our underperformance in this last two years down to that one bank not being held by us. We have questionnaire process: we rank and score them. When we scored the Commonwealth Bank across all of the different questions we asked, they did not score sufficiently to come in. Ours is a corporate Olympics. There is a top 20 per cent in Australia and a top 10 per cent globally, so you have to get into that. There are always going to be losers and there are always going to be winners. Obviously, our investors want winners, so we back the winners. Our investors said to us, ‘Why have you underperformed?’ and we said it was because of this.

The cover of BRW mentions an article about morale problems at the Commonwealth Bank. They have problem after problem. We see that in our questionnaire responses and that comes through in our scoring; hence they have not ranked as high as the other banks. Today NAB was talking about their situation and trying to improve their bank’s culture. Westpac, in our view, ranks at the top at the moment. There is a competitive race there. I will put it into an economist’s

framework. It is a question of logic. If your organisation is better organised, more capable, more flexible, your staff morale is higher, you are more plugged into your environment, your stakeholders, you know what is going on in your wider world and you know that the new technologies are that are coming up. So you look at them and you exploring them better than your peers so, all other things being equal—*ceteris paribus*—you would expect that this better organised bank ought to weather the storms and the vicissitudes of life better than its peers and come out better in the medium to long term.

**Senator WONG**—Could I make a suggestion, Chairman?

**CHAIRMAN**—Yes.

**Senator WONG**—Mr Grey, would you like the opportunity to look in detail at the report to which the chair has referred and perhaps give a response to it?

**Mr Grey**—I would be delighted.

**Senator WONG**—It has come up a number of times, and I would quite like people to be *ad idem* and engaged with the details. Ms Paxman can forward that to you so you could provide us with your response as to what you see as positives, negatives, problems or strengths with the research.

**Mr Grey**—I would be delighted to. The bulk of the evidence actually goes the other way in that there is value creation. We do not see SAM as being part of the SRI industry; we see the SRI industry as a precursor to what we do. In sustainability it is a mainstream product and not a niche product. Certainly in the SRI world it is considered that SRI does not harm your investments and it may add value. So that particular study is interesting.

**CHAIRMAN**—On page 8 of your submission you say that all organisations perform at a less than optimal rate but that what matters is that the organisation is more effective than its peers in maintaining competitive advantage. With regard to corporate responsibility and sustainability practices, what is your view of the effectiveness of market forces alone as opposed to some sort of legislative-prescriptive approach, particularly in bringing along what you might regard as the slow movers on corporate responsibility?

**Mr Grey**—I have been asked this question by NGOs as well. My humorous answer is that, in my job, we have to find the 70 leaders out of the top 200—or, as in my colleague's job, out of the top 2½ thousand—and it really helps when the government does not prescribe to do this or that. When you do that, you then have 200 companies that have got their lawyers to fill in the environment report and they all look the same. You have to burrow deeply through that. As it stands right now, those that do not believe, do not believe, and they do not do anything and the rest do what they think this is of a value, like NAB, do.

**Mr BAKER**—It is totally transparent.

**Mr Grey**—Yes, it is very transparent. And it makes my job a lot easier. You do not have to wade through a lot of low-quality material to get to the answer. But, having said that, it is also quite clear that directors and companies respond positively to being asked to provide

information. I think the most profound problem we have in financial markets in terms of short-term, medium-term and long-term issues—and in life in general—is lack of information. The model of financial markets that we are all familiar with, and which presently is the dominant paradigm, is from Milton Friedman from 1970. He basically said that, if you take an investment universe and narrow it down to a small series of stocks and then invest in those, you limit your investment possibilities and you limit your growth possibilities. That is the dominant paradigm in the mental framework of the financial markets. It is based on the assumption in Milton Friedman's paper that you have perfect information in the financial markets. And it is true: if you have perfect information—and that means that you know the future, it is that profoundly perfect, and know which stocks are going to outperform—then of course if you limit your stocks then you are going to be in trouble. Poor performing companies might not outperform, like Japanese banks, for a brief period and I should have been in there and then sold them out and bought Dubai oil companies or whatever is the next one. But the fact is that in life perfect information is an impossibility.

The Milton Friedman framework is fundamentally flawed by that lack of perfect information in this assumption; hence we have to rely on the fact that in our markets, when companies are making decisions about what to invest in—banks and people like us who make these decisions—we do not have all the information. So the entire process is about dealing with the reality of no information. That means that, if you are the director of a company, essentially your information problem is vast. What really helps them is to have somebody give them a productive list like the GRI that says, 'These are the sorts of things that we think you should be considering as a director under your fiduciary responsibilities,' or for a company, 'If you are interested in sustainability and adding value to your organisation, this is what we think you should consider.' Then they have the list and they can work out themselves which ones apply to them.

Because that list is there, impertinent journalists and others like me will ask questions like, 'If this is on the list why haven't you answered it?' That forces them to say yes or no. In my experience the dialogue is the most valuable tool for getting change around these issues. You have to get that dialogue going. That is how I would see that being played out.

**Senator WONG**—Mr Grey, I enjoyed your written submission and I agree with you on one of the things—that the public sector is actually lagging in some ways, and certainly certain aspects of the private sector too, and I think that has been coming through a fair bit in some of the evidence we have had. I want to first talk about your index, the AuSSI—you have your own system for assessing sustainability that you have developed internally?

**Mr Grey**—Yes, that is right.

**Senator WONG**—To what extent do you utilise, for example, the GRI parameters? I am just trying to work out the integration of reporting against what you do.

**Mr Grey**—SAM's original head of operational research was actually one of the co-chairs of the GRI process, so we have been involved with GRI from the very beginning as sort of parallel players and we work strategically with all of these organisations. We think GRI is a good process; however, in our assessment we are looking for leadership behaviour by companies. Take any group of companies: we want to know who the leaders are and who the laggards are, so we ask our question specifically so that only the leaders can answer it and the laggards cannot.

We think it is great that NAB, for instance, is following the GRI or using it as a tool, which is exactly what they should be doing; that is actually leading behaviour in our view. You could ask of all of the Australian banks, 'How many of you are using the GRI this year to assist you in this area?' You would then rank them and then, on that order, they would probably rank with our scoring overall. It would probably tell you immediately who the leading companies are from our point of view. We see it as a tool for all corporates to use and we encourage them to use it, and there are dozens of other ones out there that we also encourage them to use and we incorporate them into our assessment. At the end of the day our job is to represent our clients and their investment money, and to find the leaders and invest in those, and therefore we want answers to questions about who is a leading company.

**Senator WONG**—That leads to my next question which is about comparability. You also referred to the financial markets as not being perhaps as tuned into this stuff as you would like. One of the issues that have been raised with us is the importance of getting some degree of comparability between companies' sustainability reporting. I wonder if you have any views about how that might be achieved. SAM clearly, from what you say, has some expertise in being able to compare information which might not be comparable to somebody who perhaps had less expertise in the area. Do you have a view about how you might encourage more comparable reporting?

**Mr Grey**—Yes. On the background of how we do it, our questionnaire gives us a chance to ask questions and compare, say, mining companies or whatever, one against the other. SAM were doing this before my colleague and I arrived there in March 2000 which is why we liked their process. They have an amazing capacity to take the most fluffy issue and turn it into a very hard-nosed question which is basically has a yes or no answer, or 'here are five options and tick the box' or whatever. And obviously we had to do that for our process. The financial markets are not just not tuned in; they are not turned on—and they are not even plugged in. The radio is not even in the house. It is somewhere else, down at the shop. They have not gone down and bought it yet. They do not know where the shop is and they do not know it exists. If they went past it, they would think it was a baby-wear shop. So they are seriously not involved.

**Mr BAKER**—They are a bit confused then?

**Mr Grey**—Confused, yes—but beyond confusion: it does not exist in their mind-set. They would see CSR as some sort of philanthropic, nice fluffy thing. I am talking about the bulk of the market share, 99 per cent of them. For them to use it, they need to see companies using it and those companies need to explain how it creates value. If I were in government, I would be encouraging corporations to use frameworks like the GRI. I would get your various agencies to work through those, make them available, host workshops with companies about them et cetera.

From the company point of view—and this is the resistance you were talking about—the issue then becomes: 'What has this got to do with my job?' That is it. I can talk about resistance because I am not NAB or anyone else. It comes down to the: 'I've got a job to do. I'm on this mine site, and I've got to get so much ore out of this thing, and I don't see how any of this has got to do with me getting ore out of this and getting bonuses.' That is at the worker level before you get to managers, CFOs, directors, shareholders and/or financial analysts, who all share this perspective to varying degrees.

What is good about organisations like NAB, BHP, Tabcorp and so on is that they have said, 'This is how we create value in our company,' and that is the message that you need to get out from these larger corporations to the others who have not picked up the story yet that this is a competitive tool. NAB is not doing this to be nice to St. George Bank; it is doing it to beat St. George Bank, and similarly for other leaders.

How do you get that message out? That is the obvious question. To be quite honest, that is where your role as government comes in in terms of being role models. If you think sustainability has some value for organisations in improving their performance, then government is a major role model. It sits at the top of the pack. Everybody watches what it does. You need to ask yourselves how it can be deployed in government so that others can see it. It will get a dialogue going, and it is dialogue that is lacking.

In my role, I ring each of the 200 companies in our universe—and I have done that every year for the last six years—personally to convince them to participate in our assessment. I will ring whoever I can get hold of—CEOs, CFOs, the chairman, the guard on the gate, the cleaner; I get all sorts of people. Normally, the issue is that they do not really know about it. They think it is vaguely CSR—this is now, not five years ago. Five years ago, the issue was hostility. The present management team of NAB, who you saw, are new. The previous ones were more hostile, if I can put it like that.

It has been a slow process of change. In the banking sector, what happened is that Westpac set the pace, ANZ followed and NAB got into trouble. NAB decided to change, and this is how they have bought into sustainability. Others have not necessarily bought into it yet.

**Senator WONG**—Very briefly, I understand capacity building, information, best practice, role modelling and all of those issues. Do you think there is a benefit in privileging a particular type of reporting mechanism like the GRI?

**Mr Grey**—There probably is in a sustainability area, given that GRI seems pretty dominant and there is no other framework that is comparable to it for companies to pick up to my knowledge—others may disagree. You probably do not necessarily need to privilege it too directly. You can just put them out as a hierarchy. 'This is the one that has the most impact for corporations. It has the most relevance in sustainability.' You would put them by their relevance to their corporation. The balanced scorecard approach for environmental sustainability, for instance, is an adaptation of the process.

**Senator WONG**—There has been some discussion about a 'green wash'. Because we are short of time, I do not want to go into a long discussion about it. One of the issues that in particular Senator Murray, who is not here today, has been raising is an audit function in relation to sustainability reporting. Do you think that is needed? Do you have any suggestions about how that might be encouraged?

**Mr Grey**—It is impossible for anyone to have an external agency audit all of them. The reason for that is because the issues are so vast. Even in one organisation, the things they have to deal with in sustainability terms are vast. Getting your head around it and understanding what is a green wash, what is real and what is too hard is too difficult. What you need to do is stimulate the competitive aspect of this. This is valuable information. In our view, it is information of

value to the financial markets, to shareholders and to others. Therefore, it is in the company's interest to put that information out there and to have it audited by someone with credibility.

**Senator WONG**—I was not suggesting some sort of public sector audit. I am asking whether or not you think there is benefit in encouraging companies to get external benchmarking of their reports.

**Mr Grey**—Absolutely. They should. In our questionnaire process, we used to ask, 'Do you have an environment report?' In the mining sector, you can ask, 'Do you have an environment report?' and they all give you reports 5,000 pages long that take up warehouses, so we do not ask that question in mining so much now. We ask these questions: 'Do you get it audited? Have you set targets? Is that audit report done by an independent auditor? Is it publicly available? Do you allow the auditor to comment?' You start to raise the bar. That is where all of this is going. Transparency, accountability and trust are at the heart of sustainability—and organisational dysfunction as well, I might add. Improving those things reduces the dysfunction within the organisation. Auditing is critical to that.

**Senator WONG**—There is a web based tool, the LSE corporate responsibility exchange. We have had some submissions suggesting that Australia develop a web based tool. Are you aware of this initiative? Do you have any views about it?

**Mr Grey**—It sounds familiar. Is this the one where all the companies put their information up so that everybody can see what they are doing?

**Senator WONG**—I think that is it. People can then compare—

**Mr Grey**—Companies put their information there. There was an attempt to do that in Australia. Australia led the way back in 2002-03. SIRIS, the organisation down the road—one of our competitor and sometimes one of our partners—tried to get that up. I used to argue that it gave you the floor. It told you that these organisations were willing to do better and that the rest who were not there were probably not as willing to do better. From our perspective, the exchange was put up as a way of saving corporate time and making it easier for corporations, but basically I do not think there is a way out of this. This is like financial reporting. You cannot put financial reports up in that sort of framework, and no-one does. If people want a consolidated data list, they have to compile it themselves.

As a way of saving corporate time, it does not work. It does not work because the issues are too complex and there is too much information to be put in there. What it does is give you that floor. But from our point of view the crucial aspect, and what we all need—and when I say 'we' I mean 'our society'—is for organisations to compete against each other to do better at this. Therefore, a cutting edge company will always be ahead of where that platform is.

**Senator WONG**—How do you harness that competition as a driver? Is there anything that government can do? Isn't that an issue of the market, which then comes back to the issue of information and approach? If the financial markets are not valuing those activities, that approach, that culture and the reporting of that sufficiently, then the competition to which you refer is not really going to drive behavioural change.

**Mr Grey**—Yes. That is where you need to get the dialogue up about organisational performance. That is where the role modelling comes in. This is the world as I see it today: ‘If I am in an organisation, I always tell the boss the positive news that he or she wants to hear.’ I call them sunshine corporations. If you look at annual reports—and I have read dozens of them—they are always about the good things that they are going to do and how they are leaving behind the bad things: ‘That was yesterday. We’re moving on. It is different now.’ Government departments are no different; politicians are no different. We have a society in which organisations focus on passing sunshine up the ladder of their hierarchies. The broader public sits back watching TV at night and thinks, ‘This is just ...’—you know the expression; I will not quote it here. This is why the public disconnects with all of our organisations—it does not matter whether they are government ones or corporations. They work in those organisations, and their friends at the BBQ work in those organisations, and they know about the bad things and the good things—they know how human they are and what their failings are. The organisations are unable to talk about them.

Sustainability reporting is very much about bringing those issues out and talking about the good, the bad and the ugly of that organisation and what they have done. It would be such a shock to the system for more organisations to report about the good, the bad and the ugly and do it properly that that alone would be a major driver for other corporations to be more transparent about the bad things that are happening in their companies.

**Senator WONG**—I understand what you are saying there, but I think my focus was a bit more on the competition as driver.

**Mr Grey**—Yes, absolutely, but the competition comes from that. For example, if you are BHP versus Rio Tinto, and you say, ‘Yes, we had a big problem here and this is what we’ve done about it and this is how we’re fixing it and this is what won’t happen again,’ and Rio Tinto—I am just using them as an example—have a problem but they do not talk about it, it is not there—

**Senator WONG**—But, if people do not know about it and the markets do not know about it, why is that going to make any difference in the short term?

**Mr Grey**—Because the more that others report their problems and the more those people do not, the more new pressure grows, and people start looking at them and saying, ‘Here’s a sunshine report from this corporation A and here is a sustainability report from corporation B; where is the contrast here?’

**Senator WONG**—Which comes back to your comment, ‘Analysts don’t even have the radio in the house; they have only driven past the shop.’ That has been a reasonably recurrent theme from witnesses across a range of sectors. We are short of time, but I was wondering if you had any views about how that might be impacted on. One area, obviously, is institutional investors, as opposed to analysts or retail investors. Do you have any views about how that might be impacted on? It seems to me that there is a pull factor there which is not operating in relation to non-financial performance.

**Mr Grey**—Yes, and there is a disconnect for the financial analysts. First, they come from a very numerical background, as you have just heard from the NAB submission. A numerical background does not necessarily allow you to factor in the very human parts of organisations



and whether they create value or not. So they are coming from that background. Second, they do not get from companies an explanation of how the human side of the organisation actually helps to generate the numbers that they deal with and how bad practices have led to poor numbers and so on. So the disconnect is in there, within the organisation, and in how people see organisations as a whole.

**Senator WONG**—Can you impact on that, though?

**Mr Grey**—I think that you can, and I think that is where the sustainability reporting comes in, because you have to start talking about it. Until people sit down and talk together, they do not actually know that, say, bad practices in human resources have led to these sorts of outcomes. And there is a huge role for the government in explaining this. In the context of the new workplace environment that we now have, and so on, this is front and centre in people's minds. If the government provided a lead here and said, 'This is the sort of thing that needs to be talked about,' that would help to drive this process—if government itself said, 'Because there are better human resource practices in Foreign Affairs and Trade, we have achieved these outcomes.' Now, it is really hard. It is not an easy task and it will get screwed up badly by a lot of organisations, but we have to start.

If you look at a sustainability issue in the superannuation industry, one of the biggest problems that they have, which they are not really aware of, is that lots of their members are retiring early. If you do surveys of people retiring and ask, 'Do you want to go back to work,' 85 per cent of these retirees say: 'We don't want to go back to work because we don't like work. It is not because we don't like working; it is just that it wasn't a pleasant place to be. We would much rather live in semi-poverty, fading away, than go back into that place we just spent a lifetime in.' That says we have a problem, because first of all we need more people to work and to work longer and, secondly, superannuation funds need them to stay in superannuation longer—contributing, not withdrawing. And it all stems from these problems in the workplace: how people get on with each other and how they work together et cetera.

I think this is where some work should be done, around who the good companies who are doing this are. And good companies are always happy to talk about what they are doing, obviously, to provide more role models to others. Perhaps there could be a program to explore this issue, funded by government. I am working off the top of my head at this point, Senator Wong, because I was not expecting to go down the path. If I have some more thoughts, I will write them down.

**Senator WONG**—Yes, do that. Perhaps you could also have a think about some other things. One of the things I am interested in, and SAM probably is an organisation that could do this, is looking at what are the key sustainability challenges on a sector-by-sector basis—

**Mr Grey**—Yes, okay.

**Senator WONG**—and I wondered if you could provide us with some of that. You have commented on this to some extent, but are you able to make any comments about what you believe to be the key factors contributing to the gap between the leaders and the laggards in various sectors? Have a think about it; if you have any more information on that I would appreciate it. Thanks very much.

**Mr BAKER**—Thank you for your submission.

**Mr Grey**—I will supply you with the key sustainability challenges. We have them for 58 industry sectors in a publication which was launched at the World Economic Forum by the CEO of PricewaterhouseCoopers last year. We do it annually. I will drop a copy over to the secretary of the committee.

**Senator WONG**—That would be great. Thank you, Mr Grey.

**CHAIRMAN**—There being no further questions, thank you very much, Mr Grey, for your evidence, your submission and your assistance with our inquiries. They have been most valuable.

**Senator WONG**—Yes, very useful.

**Mr Grey**—If you need any more help, please let me know.

[12.21 pm]

**SHEEHAN, Ms Catherine Ann, National Manager, Corporate Responsibility, General Motors Holden**

**CHAIRMAN**—I now welcome the representative of General Motors Holden. I invite you to make an opening statement, at the conclusion of which I am sure we will have some questions.

**Ms Sheehan**—First of all, thank you for the opportunity to appear today and provide comments and answer questions about this inquiry. We think it is a very important issue and a very important process to go through. I will just highlight some areas from our submission, and I also need to highlight the fact that I will be answering questions from the perspective of our programs—how they are evaluated and how our priority areas were developed. Unfortunately, I am not really qualified to answer questions in the area of Corporations Law and things like that.

As you would have seen in our submission, the General Motors Holden community support program is integral to our overall business plan. It reflects the core company values of integrity, innovation and teamwork while attempting to creatively address complex educational, environmental and community safety issues. General Motors Holden shares the mission of its parent company, General Motors, to enhance the quality of life in the communities where we live and work. Prior to 2001, our community program was really quite ad hoc and basically followed a chequebook philanthropy approach. But in 2001 we adopted a new community relations strategy, and the revised approach involved the formation of a number of key community partnerships, together with support for lower-level grass-roots projects and an increased level of involvement between the company and its partners. Our community support investment efforts are concentrated in areas which link to our strategic business plan. These include local communities and social services, the environment, community safety, technology, innovation and education.

We are committed to contributing to the vibrancy and wellbeing of the communities in which we operate. Our attitude towards responsibility and sustainability, while it encompasses the mitigation of risk, also focuses on capturing and creating value for all of our stakeholders. Over the years we have developed a reputation for being a responsible employer and partner, which is something that we are very proud of and intend to grow. I would be happy to take any questions.

**CHAIRMAN**—Firstly, in your submission you say:

The revised approach involved the formation of a number of key community partnerships together with support for lower level 'grass roots' projects, as well as an increased level of involvement between the company and its partners.

What drove the revised approach? Why was the revised approach required?

**Ms Sheehan**—Corporate social responsibility is a journey. As I said, prior to 2001 our community programs were fairly ad hoc—it was basically chequebook philanthropy. What we wanted to do was try and come up with something that was better aligned with our business strategy. When we reviewed our community relations programs we decided that we should try

and develop priority areas that were actually linked to the brand and to our business strategy. As we go down that corporate responsibility journey, that will get a better buy in from our stakeholders, including our internal stakeholders—our employees and the board. Decisions about which programs we are likely to support make more sense.

**CHAIRMAN**—To what extent do you think corporate responsibility goes beyond corporate philanthropy? How do you draw a distinction between corporate philanthropy and corporate responsibility?

**Ms Sheehan**—Corporate philanthropy can just be chequebook philanthropy. Corporate responsibility is looking at a whole range of stakeholders. We are not a publicly listed company in Australia, so we do not have local shareholders. But we have many local stakeholders, from our employees to consumers to the communities in which we operate. We feel that we have a responsibility to those people and a responsibility to make sure that all of our actions are conducted with integrity and in accordance with our values and code of ethics. To us, that is really at the heart of our approach to corporate responsibility: adopting those attitudes around all of our activities.

**CHAIRMAN**—To what extent has your application of the Global Sullivan Principles assisted with your overall corporate responsibility strategy?

**Ms Sheehan**—With the submission, I attached a copy of the Global Sullivan Principles. As you know, they support economic, social and political justice at all levels of employment. That is what we try to do with all of our programs, and also with the way that we conduct ourselves as employees of General Motors Holden. We have a policy called ‘winning with integrity’. Every person who joins Holden is briefed on ‘winning with integrity’. It outlines the behaviours and attitudes which are expected of people when they work at General Motors Holden. That sets the bar for people about what is expected of them in the way that they interact with other employees and also external stakeholders. It is very important to have something like that.

**CHAIRMAN**—Given that, how effective has Holden’s corporate responsibility activities been in preventing potentially damaging behaviour by one or a group of either company executives or company employees?

**Ms Sheehan**—As I said, we view ourselves as an employer of choice, and we are very proud of that. Things like ‘winning with integrity’ and the Global Sullivan Principles have applied not only to the way that we interact with our external stakeholders but also to the way in which we treat our employees. For example, we have very strong diversity policies and programs. We have very strong support for women in the workplace—we have 14 weeks of maternity leave, which was introduced in 2002. When the company is using all of those kinds of things and demonstrating that they have embraced those types of principles, that flows through the culture of the organisation. Employees then also adopt those types of attitudes.

**CHAIRMAN**—Is the remuneration of either senior executives or management linked in any way to achievement of corporate responsibility goals? If so, what is the link and what proportion of remuneration is linked to that area?

**Ms Sheehan**—I am not really familiar with the detail of remuneration for senior executives. But I can say that specific directors do have objectives in this area, particularly the executive director of corporate affairs, which is the area that I am in, and the executive director of HR. They have specific objectives to do with corporate responsibility and employees. The manufacturing area has specific objectives to do with the environment. All members at Holden are expected to adhere to the GM code of ethics, which sets out principles designed to result in correct behaviour, which is what I was talking about earlier. We are all expected to comply with the ‘winning with integrity’ guidelines, which also look at the codes of practice. As I said, I am not familiar with the exact detail and level of remuneration for board level executives so I cannot comment further.

**CHAIRMAN**—To what extent has your development and inculcation of corporate responsibility into GMH been driven locally and to what extent has it been driven from General Motors, the parent? Perhaps leading on from that, have you detected any difference between GMH and General Motors, or between the American as against the Australian environment, with regards corporate responsibility?

**Ms Sheehan**—When we looked at reviewing our strategy in 2001, one of the first places that we looked at was GM’s corporate social responsibility strategy and their principles and guidelines for that. We have adopted some of those priority areas into our program, but we have adapted them as well. For example, as I said, we have tried to link our programs back to the brand and to our overall strategies. We are in the same business as General Motors, so there are going to be links there. We have priority areas around, for example, child safety in vehicles, which is very closely tied to a General Motors program. We support youth in technology, education and innovation, which is again tied to similar programs in General Motors. We also support local communities around our local facilities. We are not anything like the size of General Motors, so these adopted programs have been adapted for the local environment.

**CHAIRMAN**—How many employees do you have in Australia?

**Ms Sheehan**—It is about 8,500.

**CHAIRMAN**—I noticed that in your community and workplace report of 2003 you indicated that 600 hours of time had been volunteered by employees. That does not seem a lot of hours for a large number of employees. I assume that is 600 person hours. That does not seem to be a lot for 8,000 employees. What is being done perhaps to encourage more of that?

**Ms Sheehan**—Compared to some of the other corporates, it probably is not a huge amount. But it is something that you need to develop and work upon over time. In 2004, we launched the GM volunteer plus program, which is a program where if an employee spends time outside of work in excess of 50 hours a year then the charity that they are volunteering with becomes eligible for a nominal grant from the GM Foundation of \$US250. That is one way of encouraging employees to volunteer their own time. We have a range of employees across the organisation. Our employees are mainly split between Melbourne and Elizabeth in South Australia. We have a large number of plant based employees. Some of them are on night shift; some of them are on afternoon shift. Volunteering is something that we certainly encourage but it is really up to the individual. We do not have a program where people can volunteer during their

work time, unless it is a very specific item that is linked to one of our key partners. That is probably the big difference.

**CHAIRMAN**—Are there any other things that you have noticed in terms of the broader approach to corporate responsibility in America as opposed to in Australia? Are there any differences that you have distilled?

**Ms Sheehan**—I think GM's program is probably more mature than ours. GM, you may or may not be aware, has adopted the Global Reporting Initiative framework and they report according to that. They have been quite actively involved in its development—since, I think, 1997, they have been on one of the committees. In terms of our reporting, as you have seen there, it is really evolving over time. We do not actually follow the Global Reporting Initiative. We probably will at some time in the future, but we do not have a set time line for that at the moment. So that is probably one area where GM is far ahead of us. But I do not think you can jump into these things too quickly; I think there is a bit of a cultural change that you need to adopt as you travel down that path.

**Senator WONG**—I have a question on just one area, Ms Sheehan. You have two South Australian based senators here, so we are well aware of Elizabeth—but I will not ask you about those issues. One of the aspects of the Sullivan principles, which you talked about in your submission, was environmental. How do you deal with issues such as resource use, waste and pollution, product stewardship?

**Ms Sheehan**—The Holden Community and Workplace Report that you have there was the next evolution from a community report, which just outlined our community programs. The next step was the community and workplace report, which outlined our community programs but also looked at employees, the workplace and those types of things as well. In the next report, we have also included an environmental section—and again I think it is part of that journey. We are a member of the Greenhouse Challenge and have been since 2000. We have found that to be quite an effective program in helping us reduce the emissions from our plants. We are also tied into General Motors in terms of their research and development looking at new technologies. So, environmentally, we look at it from a couple of different points of view: it is about product but then also about emissions from manufacturing.

**Senator WONG**—So it is a reasonably early stage in the process of looking at that in a more systematic way?

**Ms Sheehan**—In terms of reporting, we have been reporting with the Greenhouse Challenge since 2000, but that was our only real method of environmental reporting. We did do an environmental report for the Elizabeth site—I think it was in 2001—but now we are trying to bring in that Greenhouse Challenge reporting as well as some other information and incorporate it into our community and workplace report, taking that report to the next level.

**Senator WONG**—Is the reporting initiating any change, do you think?

**Ms Sheehan**—I think it is, yes.

**Senator WONG**—What are some of the major challenges or impediments to change in this area? Is it primarily cost, people not wanting to internalise costs which are currently external, such as those associated with product stewardship? Or is it cultural? What are some of the major impediments?

**Ms Sheehan**—Do you mean the impediments not to reporting but to environmental change?

**Senator WONG**—Yes.

**Ms Sheehan**—I think we have changed quite a lot. A lot of it is about awareness, and it is a cultural change similar to quality and safety—

**Senator WONG**—I am not suggesting you have not. I suppose I am interested in what is difficult as opposed to just what you have done.

**Ms Sheehan**—Some of it is about investment. We have a new engine plant here in Victoria, but a car plant is not something that you just go and reinvest in overnight. Over at Elizabeth we have invested over \$400 million over the last three years for our upcoming model, and we have incorporated some significant environmental technologies there. But I think it is a combination of cultural and financial issues—yes, I think it is mainly those two issues.

**Senator WONG**—Thank you.

**CHAIRMAN**—Last week we met with the chief executive of a body called CSR Europe, which is an industry funded body designed to develop and promote corporate responsibility and establish a bit of a network between corporations with regard to corporate responsibility. Do you think such a body would be useful in Australia? Is there a need to network between corporations on this issue, or is it better left to the individual corporations to develop their own approach as a competitive issue?

**Ms Sheehan**—I am not familiar with that particular organisation. In Australia there are some networking and other groups that talk about these types of issues. There are business industry groups like the BCA and the Australian Industry Group, and most industries also have their own industry group; we are part of the Federal Chamber of Automotive Industries. And there are some groups that are particularly looking at corporate social responsibility. I know Deakin University is quite involved in that sort of area. I think it is important to have networking opportunities and workshop opportunities. In terms of a formal group, that is something that could be considered, yes.

**CHAIRMAN**—Have you done any cost-benefit analysis of your approach to sustainability?

**Ms Sheehan**—That is one of the issues with CSR: it is very difficult to determine the benefit of the programs that you are investing in. We think that we get a competitive advantage from our programs, but it is hard to measure it. It is a bit like trying to measure marketing; it is very difficult.

**CHAIRMAN**—You indicated, I think, that the parent company uses GRI. What is your view of the desirability or otherwise of having those sustainability reports externally audited, with those audits being made publicly available?

**Ms Sheehan**—We have endorsed a voluntary approach to corporate social responsibility. I do not think we would endorse going down the audit path. It would make it more of a compliance issue, which I do not think is the sort of approach or attitude that you really want linked with CSR. You do really want it to be a positive, voluntary type of activity rather than a compliance activity. There is a risk that, with auditing, it could become about compliance. If you are trying to develop a culture that embraces CSR at the same time you have to go down an audit path, it could perhaps be detrimental.

**CHAIRMAN**—Thank you very much, Ms Sheehan, for your appearance before the committee and for your assistance with our inquiry.

**Ms Sheehan**—It was a pleasure.

**Proceedings suspended from 12.43 pm to 1.42 pm**



**BISINELLA, Ms Julie, Head of Corporate Responsibility, Australia and New Zealand Banking Group Ltd**

**BROWN, Mr Gerard, General Manager, Corporate Affairs, Australia and New Zealand Banking Group Ltd**

**NASH, Ms Jane, Head of Government and Regulatory Affairs, Australia and New Zealand Banking Group Ltd**

**CHAIRMAN**—The committee has before it your submission, which we have numbered 101. Are there any alterations or additions you wish to make to the written submission?

**Mr Brown**—No.

**CHAIRMAN**—I invite you to make an opening statement, at the conclusion of which I am sure we will have some questions.

**Mr Brown**—I will make some very brief opening remarks reflecting the approach to the broad issue of corporate responsibility at ANZ. We will be happy to expand on that through questions. The core point from ANZ's perspective is that what we have sought to do at ANZ is infuse our business strategy with corporate responsibility issues or perspectives as opposed to the reverse, which is to have a stand-alone corporate responsibility strategy. We have sought to integrate the relevant issues into our business strategy and make them a very important part of that approach.

It is worth noting that ANZ, and I suppose the other major banks as well, have a particular insight into some of these issues as we are still recovering from a range of very difficult issues which the banking sector in general grappled with as a result of financial services deregulation in the late 1980s. To some extent we are still recovering from that, and the work that we can touch on today is an important part of the response to those issues and that environment.

I will talk briefly about the manner in which we infuse corporate responsibility into the business strategy. The three principal pillars of the approach are around the way we treat our people, our staff; the way we treat our customers; and the way we treat the broader community. As our submission touches on, ANZ has established a national reputation for the manner in which it works with its staff. Staff engagement at the bank—and engagement is a widely accepted standard for staff support in the corporate sector—is the highest for a major organisation in Australia, and there is a range of programs to facilitate workplace flexibility and associated issues which lead to that result.

The centrepiece of that work in relation to our customers—and you may be aware of this; it is touched on in our submission—is ANZ's customer charter, which has been in place for several years. It sets audited benchmarks for the manner in which our retail customers are treated, and it is externally audited and reported on every year. It is generally regarded within the financial services sector—and I am not expecting you to be experts in financial services performance and regulation—as the benchmark.

**Senator WONG**—Our committee actually handled that legislation, Mr Brown.

**CHAIRMAN**—We probably know more than anyone about it.

**Mr Brown**—Let me explain what I meant by that remark. ANZ is very conscious that it is only one part of the market; it is not the principal part of the market.

**Senator WONG**—It has probably had quite a lot of hearing time in the life of the committee in recent years.

**Mr Brown**—I take your point. The last pillar is in relation to community. Again, as you may be aware—and I am not expecting you to be particularly intimate with our work in this area—the financial literacy and inclusion research and a range of associated programs are the principal elements of that work at the bank. Finally, it might be worth noting that all of this work has occurred on our own initiation. There have been a number of changes at the bank in recent times in relation to governance which, again, were self-initiated by the organisation. They have included changes to the broad charter, the directors code of conduct, employee code of conduct and a range of other measures which were changed by the bank to explicitly reflect corporate responsibility issues. It is worth noting that those changes were made off our own bat, to use the vernacular. They are the only opening remarks I wish to make, thank you.

**CHAIRMAN**—Do your colleagues wish to add to that?

**Ms Nash**—Not at the moment.

**CHAIRMAN**—In your submission you recommend that the government encourage discussion and debate of corporate responsibility issues, including facilitating the exchange by corporations of their experience of good practice in corporate responsibility, and promote best practice and innovation by investing in and publishing research into the contribution of corporate responsibility to corporate success. Last week we met with the CEO of CSR Europe, which is an industry funded body that, in a sense, fills the role that you have suggested the government might fill. Do you think there is a role for, if you like, a private sector peak body funded by industry that would fill that role, and if so how would you distinguish that role from what the government might do?

**Mr Brown**—There would be a role for a privately funded organisation but we recognise that the moral authority, if you like, that government brings to discussion is a lot weightier in a range of stakeholders' minds than an organisation funded by ourselves, for example. It also brings a greater level of independence to its work. We are already involved in a range of private sector organisations that play somewhat the role you outlined. For example, I have just recently returned, as has Julie, from the UK and the EU. The role that governments play in those jurisdictions promoting discussion of these issues is a very useful one. From ANZ's perspective we would welcome, broadly speaking, a similar approach in Australia.

**Senator WONG**—You say, 'government promoting discussion'. Are you able to drill down a bit more in terms of what specific measures government could do? I do not wish to put you on the spot, Mr Brown, but we have wanted to hear that sort of evidence in this inquiry. I am not being critical of the submitters—it is not necessarily your role to draft government policy—but

much evidence has been fairly much at the rhetorical level. I would be interested if you want to draw on the UK or European experience to suggest what seems to work or what does not seem to work.

**Mr BAKER**—Not just the initial collaboration—the ongoing, too. Can you expand on it?

**Mr Brown**—Our thinking around what role government could potentially play in this area has three things to it. One is around intellectual leadership; the second is around, broadly speaking, encouragement, for want of a better word; and the third would be around recognition. In terms of intellectual leadership, I am sure you are aware that great volumes of work have been published, particularly in the UK and the EU. I am not suggesting that that necessarily be replicated here but it has been very useful for the corporate sector in those jurisdictions to have that level of intellectual leadership being shown by those governments. That does not necessarily mean that company A will agree with what a particular policy paper might put forward, but it is very useful in encouraging a high level of discussion of the issues as opposed to milling around on particular specific approaches that company X or company Y might take.

The UK is probably the most relevant example. I am not suggesting that Australia necessarily needs a minister for corporate responsibility, like they have there, which I do not think has been particularly helpful. But there has been a range of policy and discussion papers issued by that government and the EU, which have broadly speaking been a ‘light touch’, if you like, but have nevertheless encouraged the debate. I think that is a very useful thing. I met with a range of our peer institutions while I was there, and I have done that for a number of years now. Broadly speaking, the UK government’s approach has been welcomed there by banks like Barclays and others, who are very similar to us. The government plays a useful role in that area.

The second part—and these things are all interlinked—would be around encouragement. Corporations have an ego like anybody else and like to be encouraged, if you like, by corporations that have moral authority, like governments. It is very useful for the corporate sector to receive encouragement or a pat on the back, to use the vernacular, by governments and other third parties if that is what those bodies think is appropriate. Recognition, which is also related to that, is very important and can play a useful role in the debate by setting out that this is an action or organisation which has been recognised as better, or best practice, or practising new models. That is very useful for encouraging developments in the private sector. They are the three areas.

**CHAIRMAN**—Given the current absence of a standard reporting framework, how seriously do you think the financial markets take the reports of those companies that do currently report on corporate responsibility and sustainability issues?

**Mr Brown**—I want to add one other thing to my previous response. Chris Pearce, the Parliamentary Secretary to the Treasurer, has been playing a very active role in relation to encouragement and recognition already and has made a range of speeches which are directly relevant to the financial services sector, which we very much welcome. He has already been very active, and if one was looking for an immediate model here, that is certainly one that we would identify.

In relation to standard reporting, notwithstanding that a clear leader is yet to emerge, it is reasonable to say that from our perspective—and Julie is our expert here—that the GRI is likely to emerge as the leading reporting framework globally. We have already adopted it and its next version will be the framework within which our next report will be produced.

In relation to the financial market regard for these issues, there is a range of answers to that. Our experience has been that they have not paid particular attention to the issues as viewed through the corporate responsibility framework until quite recently. Broadly speaking, they still tend to regard the management of a range of these issues through a risk perspective. They want to see that the companies in which they are investing are managing these issues but more from a risk perspective, although that is starting to change. For example, ANZ's performance in staff engagement has been examined quite closely by the financial markets and has been written up in their reports as a reason to invest in the company, as has the financial literacy and inclusion work, but in the latter case that was looked at with a risk perspective and the markets were saying that it was a very intelligent thing for the bank to do because, if it is pursued, then ultimately it should lower its regulatory risk. That is broadly their perspective and it is starting to change.

If you went offshore and spoke to our international investors you would get a different answer depending on where they were based. In the EU, you would get a much stronger perspective from the corporate responsibility side. If you went to the states it would be less so because it is a less advanced agenda there.

**Ms Nash**—I can add to that. I think the analysts here in Australia are building this into their ratings of management competency and capability in a sort of qualitative sense but of course they are struggling to build it into their financial models because they cannot quantify it.

**Mr BAKER**—How you measure it from a fiscal perspective.

**Ms Nash**—Yes, exactly.

**CHAIRMAN**—What is your view of the request by Minister Campbell to ASX Corporate Governance Council to consider the inclusion of a standardised voluntary reporting framework in the council's principles of good corporate governance and best practice guidelines?

**Mr Brown**—We were talking about these issues amongst ourselves earlier on. Effectively, ANZ has already taken action on a range of issues that are in front of this committee and other bodies. Were voluntary reporting standards to be included we would have no objection to that. The effect of some of these issues would not be so much on the top 10 companies because broadly speaking—without being intimately familiar with all their operations—they are already a long way down this path. The companies that these sorts of measures will affect are the middle order companies that, broadly speaking, have not gone down this path as much as the leading companies have. If the ASX did that, it would not cause us any issue whatsoever.

**CHAIRMAN**—What is your view on the desirability or otherwise of having externally audited sustainability reports?

**Mr Brown**—We have commenced external auditing. Our previous report was externally audited and our next report will be audited to a new international standard, which is emerging. Julia is more familiar with that than I am. We have already taken that step.

**CHAIRMAN**—Have you done any cost-benefit analysis thus far of your involvement in corporate responsibility?

**Mr Brown**—We have done a cost-benefit analysis of our business strategy. The easiest one is: what is the share price? The share price is at a record level currently. I am not trying to be a smart aleck about that but we infuse these issues into the business strategy. We do not look upon them as a stand-alone program. We do not have a stand-alone corporate responsibility project. We have a stand-alone corporate responsibility function, which broadly speaking is responsible for governance and reporting but we cannot submit to you a corporate responsibility strategy. We can submit to you a business strategy, which has corporate responsibility integrated into it. If we look at how we are performing then we look at our staff engagement, customer satisfaction, how we are regarded in the community and ultimately our share price.

**CHAIRMAN**—Is there a component within the remuneration package of senior executives or management at any level—and how far down the chain does it go—that is specially dependent on their performance with regard to corporate responsibility issues?

**Mr Brown**—Yes, there is.

**CHAIRMAN**—How much of the package? Is it a fixed percentage?

**Mr Brown**—There are key result areas—KRAs—for customer, people and community for the top 200 executives. The details of what a particular executive would be required to achieve under that matrix will differ depending on what sort of business they are in, and the weighting will depend on what sort of business they are in. If I were a retail bank executive there would be a weighting towards the customer and community in particular, I imagine, and an institution would have a different form of weighting just by the nature of what it is that people are doing.

**Senator WONG**—To get some specificity around this—and the chairman has asked that question of a number of companies—I would be interested in looking at how the tool operates and what the detail of it is. Obviously you would want to take out any confidential information. Perhaps you could provide a range of examples at a range of levels in the business.

**Mr Brown**—Sure. We can provide figures to the committee on a confidential basis for the CEO for the previous financial year.

**Senator WONG**—It is probably on the public record, isn't it?

**Mr Brown**—No, it would not be. We can give you that information for the CEO and a couple of layers below that.

**Senator WONG**—How far down does that kind of performance remuneration go?

**Mr Brown**—That goes to the top 200 executives. I am not sure after that.

**Ms Nash**—I think it is the top 400 now and then for relevant businesses further down the line as well.

**Senator WONG**—I would be interested in also seeing as close to front line as it goes.

**Ms Nash**—Yes, we can do that.

**Senator WONG**—That would be great; thank you.

**Mr Brown**—We can go CEO to branch manager level, and a couple of layers in between.

**CHAIRMAN**—One of the issues that has been raised through the inquiry is the problem of, for want of a better term, ‘short termism’. One aspect of that is the attitude of the financial markets to share price and the like. One of the issues that has been raised in that context is the short-term nature of a lot of executive packages and contracts these days. Is ANZ giving any consideration to the impact that has and whether there is a way of developing a longer term view on the part of management?

**Mr Brown**—That was one of the ingredients in the decision to move away from six-monthly performance bonuses about a year ago. All senior executives are now rewarded on an annual performance basis. From memory, certainly for the more senior executives in the bank, the weighting towards three-year performance objectives is now over half of their annual remuneration. More than half of my total remuneration for a year is based on two- or three-year out performance objectives for the organisation—the performance objective being share price. I would not call it long term; it is two or three years. That alters the further you go down in the organisation, but at the most senior levels it is more than half the remuneration. It will be the same for all the other senior executives.

**Senator WONG**—I presume that the performance objectives are more than just the share price.

**Mr Brown**—The share price.

**Senator WONG**—It is just the share price?

**Mr Brown**—Yes. It is basically an option package which is set out on two- or three-year horizons. It will alter the further you go down in the organisation. It has made a difference. I was a bit sceptical about some of the changes, particularly going from half year to full year, but I do think it has made a difference.

**CHAIRMAN**—It is still relatively short term, isn’t it? Even three years is. You would probably want to look at things in the five- to 10-year framework.

**Mr Brown**—Two or three years in the private sector is pretty long term.

**CHAIRMAN**—I think that probably reflects a bit of the problem. Maybe within the organisation you see that as long term, but for a lot of mum and dad shareholders it would still be relatively short term—perhaps not from the point of view of the institutional shareholders.

**Mr Brown**—That is a reasonable observation. There is a different perspective there between the private sector and a mum and dad investor.

**CHAIRMAN**—How do we change that?

**Mr Brown**—I do not know. We are reporting half yearly. We will be reporting in several weeks time. That is what drives the agenda within these organisations—reporting to the market. That will require root and branch changes to the way the financial markets operate in this country. To some extent we should just thank God it is not the States, where they report quarterly. I do not know how they have any time to get anything done.

**Senator WONG**—Turning to customers—one of the groups you identify as stakeholders—you have a reasonably high level of customer satisfaction. Do you think any of your sustainability or responsibility agenda has impacted positively on that?

**Mr Brown**—I think that is very much the case. The centrepiece of the customer agenda is the customer charter, which came into place about four years ago. Is it a series of very specific commitments about service levels, which are reported to the board of the organisation every month and have driven an enormous amount of change in the organisation about the standard of customer service.

**Senator WONG**—What prompted that—a suggestion that people might want to reregulate the banks?

**Mr Brown**—Absolutely, Yes. I was about to say that. As I am sure you will recall, about five years ago the political and regulatory heat around retail banking was extremely high. It was without any question a response to that. We became aware that if we did not take robust action to improve customer performance of the bank the government would act. That was made fairly clear to us at the time.

**Senator WONG**—Apart from the defensive strategy—I am not interested in just the charter—do you think that the way this culture has been ‘infused’ through your organisation—that was the term you used—has had an impact on customer satisfaction levels?

**Ms Nash**—I do not think the experience of our customers can be divorced from the way our staff feel about working at ANZ. Our staff engagement is at high levels. I think Gerard mentioned in his opening comments that it is possibly the highest for any major corporation in Australia. It is at 60 per cent. If you have engaged and happy staff then that has to flow through into the sorts of interactions that they have with the customers.

**Senator WONG**—There is a range of things in which I think the ANZ has been a leader, in particular the part-time work has led on that front. Coming back to focus on customers, has that altered significantly the design of service delivery models and the sorts of products? Obviously, financial institutions respond to the market and you develop products according to what the market thinks, but do you think that focusing more on who your customers are and the different segments and characteristics informed your product development and service delivery approach?

**Mr Brown**—Yes.

**Senator WONG**—How?

**Mr Brown**—As a result of the conversation within the organisation that resulted from the development of the charter, we began to look more closely at the flagship banking products, like the transaction accounts that the bank was offering. At that time we had a retail banking fee booklet for customers, which ran to about 70 or 80 pages. Funnily enough, our research told us that our customers were confused by what it was they were purchasing from the bank and objected to the complexity of it.

**Senator WONG**—I am not sure that that is funny, Mr Brown. I think it is quite normal—most people would say that.

**Mr Brown**—Precisely. In retrospect, the size of the booklet is absurd. It was 70 or 80 pages, which was aimed at banking customers. It would be ridiculous to think anybody would ever read it. As a result of this conversation within the bank, we reshaped the suite of banking products so that there are now simply two transaction banking products. One is called an ‘all you can eat’ account with a flat fee, basically, and the other is a ‘pay as you go’ account. These were launched about three years ago and it has been the most successful retail banking product launch the bank has had in living memory. We have gone from being the smaller of the retail banks to now being, I think, number three, having overtaken one of our competitors. There is little doubt within the organisation that one of the reasons for that is these two accounts, which have been subsequently copied by all the industry except one of the four major banks. You cannot get any more fundamental. They are the two most important products in the bank and they are a direct result of this work.

**Ms Nash**—The accounts are simple for the customers to understand and they are simple for the staff to sell, as well.

**Senator WONG**—Mr Brown, you said in an earlier comment that you did not think the minister for corporate responsibility in the UK was particularly useful. Can you explain that?

**Mr Brown**—I think that minister is so far down the food chain that it does not carry any particular weight. As I mentioned earlier, the Parliamentary Secretary to the Treasurer has been making remarks about these issues and has become involved in the debate and provided leadership and recognition on these issues. That has been extremely welcome.

**Senator WONG**—It is a comment about where the minister is.

**Mr Brown**—And the weight you are able to bring to the table.

**Senator WONG**—The Prime Minister’s Community Business Partnership Awards are nominally the Prime Minister’s but operate within FaCS, which is clearly not an industry or economically based portfolio. Does the same argument apply there—it might be better to utilise the departments and the agencies which deal with what the financial or business sector might see as the core issues for business activities?

**Mr Brown**—I would agree with that observation. The awards which are managed from FaCS deal with a relatively narrow and specific range of issues, which are business and community



partnerships. In saying that, I do not want to degrade them in any way, but they are simply a piece of the puzzle here; they are not the overall framework within which these issues need to be considered.

**Mr BAKER**—I just have a couple of quick questions, because most of what I wanted to ask about has been covered already. I would like to congratulate the ANZ as one of the leaders, especially because, as you have set out on page 2, you have opened 15 branches in the last year, with the intention of opening another 65. A lot of the witnesses in this inquiry seem to perceive corporate social responsibility purely as a philanthropic situation where, after the profits have been dealt, you say, ‘Okay, where do we spend the money?’ Lost in the argument has been the social impact out there in regional Australia, where through the eighties and the nineties there have been closures, one after another.

Many of the conversations that I have had in the last six months or so have been with managers—and I must put on the record that I am an ANZ customer—and there is a complete humanisation change within the culture, so I do congratulate you. That is not just words in a submission; that is coming from people on the ground. So it is flowing right through. Are there any other practices that you can foresee that could continue down the track of looking at the social impact within communities, within the banking sector, that are not currently being practised in Australia but are being practised overseas? The human side of it is wonderful—‘We will support this charity’ or that charity—but it is actually a real culture change which you have been able to lead in the financial sector in this country.

**Mr Brown**—I am certainly not aware of examples in the most similar economies—the UK, Canada and the United States—where high-street banks have in some instances sought to re-engage with their communities as have some organisations in Australia. So, whilst I am sure there is more we can and should be doing, we have not been looking offshore any longer for examples of how to do that. A lot of it would probably be about furthering the empowerment of local branch staff and further decentralising the decision making of organisations. That is something which we started doing about three or four years ago. Simply embedding that and furthering that would be the most useful thing we can do, so the staff in West Wyalong, for example, can make decisions which are the right thing for their customers in West Wyalong as opposed to fitting into some framework out of 100 Queen Street, which is head office.

**Mr BAKER**—That has been one of the frustrating aspects from some of the regional centres—all the decision-making has been taken away from the bank managers: ‘I’m just waiting for this form to come back from head office in Melbourne or Sydney.’ They do not understand the local demographics et cetera.

**Mr Brown**—Organisations like ANZ are supertankers and they take a long time to turn around. Whilst we have started down that pathway, we still have a long way to go. A lot of things we have been talking about here today have really only been getting up a head of steam in the last 12 months. The customer satisfaction numbers that we are starting to see are really the result of things that happened two or three years ago. So there is a real head of steam building up, but things take a long time to flow through.

**Mr BAKER**—From an industry perspective, would you promote a secular approach or a whole-of-financial-sector approach?

**Mr Brown**—The banking industry in Australia is an oligopoly, as you well recognise. We cannot agree on what day of the week it is, so any—

**Mr BAKER**—I know if you put three economists in a room you get three different—

**Mr Brown**—It is exactly the same: any attempt to try and achieve any consensus at the top end of town in the financial services sector is very difficult. My boss was the chair of the ABA for the last two or three years and we thought it was good if we could get him to organise a meeting on a given day and get all the CEOs to turn up. It is extremely difficult to get the industry to agree, because despite the oligopolistic nature of the industry it is extremely competitive and we share very little information about what we are doing. A lot of the things that we have talked about here today are integral to the competitiveness of the bank and we do not share them with other people in terms of the microdetails of what we are doing.

**Mr BAKER**—They are the competition.

**Mr Brown**—Absolutely. Personally I think that is an extremely good thing. That is the way it should be.

**Mr BAKER**—From the government's perspective, we are looking at ideas for how we can facilitate, promote and encourage this, and it is refreshing that you say that the Treasury and the parliamentary secretary are already doing it.

**Mr Brown**—It is very much welcomed because it sets a benchmark which people pay attention to. Boards of banks, in particular, and boards of large organisations pay attention to those sorts of things when they happen, and they do little but important things like say to their senior executives, 'Bank X is being recognised and encouraged by the federal government; why isn't that happening to us?' That, of course, promotes a whole other discussion inside the organisation: 'How do we catch up with that other organisation or leapfrog them?'

**Mr BAKER**—Yes. The most counterproductive thing that we could come down with would be a prescriptive set of guidelines that has to be followed.

**Mr Brown**—Yes. You would just get a lowest common denominator outcome.

**Mr BAKER**—'We have ticked the box and have satisfied our obligations.'

**Mr Brown**—'We have done it. It is fixed. We've done our corporate responsibility for the year. Tick.'

**CHAIRMAN**—As there are no further questions, we thank each of you for your appearance before the committee and for your assistance with our inquiry.

**Ms Nash**—We would like to leave you some examples of work that we are doing. One is our corporate responsibility report and the other outlines our journey on corporate responsibility, which in hindsight looks fairly well planned, but we can assure you that it was not; it just unfolded as we went.

**CHAIRMAN**—We will table those as official documents. Thank you.

[2.17 pm]

**HUNDY, Mr William Michael, Company Secretary, Origin Energy Ltd**

**WOOD, Mr Tony, General Manager, Public and Government Affairs, Origin Energy Ltd**

**EAMES, Mr Martyn Edward James, Vice President, Corporate and People, Santos Ltd**

**CHAIRMAN**—We welcome representatives of Origin Energy and Santos. We have before us your submissions, which we have numbered 131 and 138 respectively. Are there any alterations or additions you would like to make to your written submissions?

**Mr Eames**—No.

**CHAIRMAN**—I invite you to make opening statements, and from there we will proceed to questions.

**Mr Wood**—I will make a couple of comments, to some extent picking up from where the conversation with the bank left off. I guess one of the characteristics of this industry, particularly of what we call the downstream industry in the energy sector, where Origin participates as much as we do in the upstream sector, is that it has been in recent years largely privatised across Australia. That has resulted in a whole range of functions that were previously carried out by government-owned or even heavily regulated government monopolies being passed to a competitive private sector. That has resulted in quite a degree of change over the last six or eight years. Those issues to do with the way in which essential services such as electricity and gas are then delivered inevitably hit up against all these questions about corporate social responsibility or sustainability.

I think in our case we have also found that the complexity of the interfaces with various stakeholders means that we have had to go back and actively engage with those stakeholders. Like a lot of other companies, we produce a sustainability report. We attached that reference to our submission and we will leave some hard copies of it today.

The key points we want to emphasise from that process is that we recognised reasonably early on—as most people do—that corporate philanthropy is not necessarily the right thing to do and it hardly ever is. We did a lot of survey work with our stakeholders at the very beginning of the process and they told us where they thought we should be spending money. That included surveying our customers, our employees and our shareholders. Therefore, we focused on those things that are relevant to them. They are the sort of things that we now do in terms of broad partnerships or corporate community involvement or sponsorships.

I think the other side of it is that we are finding that we get recognition for these things in an absolute business sense. It also means that if we are being seen by the community representatives as behaving in a responsible way, we are less likely to get heavy regulation, which often is a blunt hammer rather than a fine tool. So there are lots of reasons why we do this and, like most organisations, we now participate in a number of these surveys and are finding

that through the ethical investor type indices—the FTSE for goods and the SAM type indices and some of the other sustainability awards—that recognition does flow through and people make comments to us about the fact that they see our company as behaving in a responsible way. Inevitably that means that we see impacts with customers, shareholders, employees and local communities. We have found that this process has a fundamental business underpinning.

**Mr Eames**—Firstly, thank you for giving us the opportunity to present our thoughts on this subject. I have prepared some words that I would like to go through, and I hope they add to the submission and help the conversation that will follow. As I indicated on the record, I am the Santos Vice-President for Corporate and People. That includes a responsibility for environmental health and safety, human resources, corporate affairs, shared services and government media. It is effectively the corporate centre. Like most of my colleagues, I have a background in the upstream oil and gas industry. In fact, before joining Santos I worked for BP for 25 years—pretty much all the way around the world.

As you are probably aware, Santos is a major Australian oil and gas exploration and production company, with interests in every major Australian petroleum province as well as overseas in the United States, Asia, central Asia, South-East Asia and the Middle East. Santos is one of Australia's largest gas producers, supplying gas to all the mainland states and territories, ethane to Sydney and oil and liquids to domestic and international markets.

We have a growth strategy that is focused on our core business here in Australia but also growing beyond that as and where the hydrocarbon price matches what we are looking for. With that strategy, we are also on a journey that is changing the culture and values of the company. I think those new values can be summarised in four words: 'delivering', 'discovering', 'collaborating' and 'caring'. Historically, Santos has been recognised for its corporate governance. Indeed, it received the fourth consecutive score of five out of five in an independent report prepared by a leading accounting and management firm, Horwath and the University of Newcastle.

Today we are building on that by adopting the principles of sustainability and embedding those in our operations, values and, indeed, our business decision-making processes. For Santos, this means sound environmental management and efficient use of natural resources; it means the wellbeing, skills and capabilities of our people; it means Santos contributing to and sustaining the communities that it is part of; and it means sound corporate governance. I think there are many examples of projects that Santos has been involved with and decisions taken that reflect the interests of a diverse number of stakeholders.

In our submission we cited four examples. I will mention those, but I would like to add to them. One of those, the Coongie Lakes wetlands system, was officially declared a national park by the South Australian government in mid-2005. I was there on the occasion. Santos probably played the central role in securing this by brokering a memorandum of understanding with the South Australian conservation groups, with which we and the industry had previously been at loggerheads. This memorandum of understanding excluded new petroleum activity from the area.

We have made a significant contribution, both financially and in kind, to the establishment of a camel farm at Undurana, about 400 kilometres west of Alice Springs, which is adjacent to

some of our operations. This has created a sustainable business for the Indigenous community there and, I think, demonstrates how sustainability can be put into practice and indeed how we can successfully work with local communities.

We facilitate research into whale activity in the southern waters of Australia by working with scientists on aerial surveys and recording ocean noises to monitor the interaction between petroleum exploration and whale behaviour. We have been a long-time supporter of arts activity, and we are the major sponsor of the ASO in South Australia.

I would like to add one more thing, which was not in the submission, and that is that our safety and environmental performance in 2005 was the best ever recorded. The frequency of injuries has been reduced by about 50 per cent in the last four years. Results like that do not happen by accident, and they really do not happen as a result of legislation either. They result from a multifaceted approach focusing on education, leadership and all the sound practices that one puts in place to manage environmental health and safety.

Turning more directly to the issue of legislation, I would like to leave you with three points. The first one is that we believe the interests of the shareholders and other stakeholders are inextricably linked. Our stakeholders give us the licence to operate in the environment that we do, and that gives us the licence to grow our business. There are numerous examples where events that have negatively impacted stakeholders have subsequently negatively impacted shareholders as well. In our industry many of those are things that hit the front page. I am sure you can all remember things like *Piper Alpha*, *Exxon Valdez*, *Brent Spar* and community uprising in Nigeria. All of these are issues that impact stakeholders and impact shareholders as well.

The second message I would like to leave you is that we actually already have a myriad of legislation at the federal, state and local levels that addresses many of the stakeholder issues. In fact, we counted nearly 150 pieces of legislation that are directly applicable to us as a company, and that excludes all the regulations that underpin those high-level pieces of legislation. Many of those pieces of legislation come with significant reporting requirements. An example of that would be security of supply in South Australia, where we are required to report on an awful lot in order to demonstrate the security of supply. Sometimes those reporting obligations can get in the way of the sorts of things that we are aspiring to do in the examples that I have given you.

The third point is that we believe that the stakeholders will be best served by the inherent flexibility and innovation within the company and that further regulatory guidelines, whether they are generic or not, could indeed stifle some of the innovation that actually creates the very best solutions.

**CHAIRMAN**—Thank you. I have a question for Origin. In your submission you indicate that you created a National Customer Consultative Council to meet your regulatory obligations as a retailer in New South Wales and that it is an ongoing mechanism to understand issues of importance to residential and business customers. Why did you decide that such a council was required? Was it purely the legislative imperative or was this part of your overall corporate responsibility approach?

**Mr Wood**—There were a couple of reasons. The first was that in the environmental area—we are talking about environmental impacts a lot—there are quite a lot of places where you could have a very structured dialogue with environmental NGOs who represent that constituency. There are industry associations that represent large energy users and we have dialogues with those. But in this area, where we are impacting on customers beyond providing a customer service—and doing that efficiently and sending our bills out on time—there has been very little. Whilst we could interface with the government, I think it would be a pretty poor surrogate for that.

We initiated this activity, as we said in our submission, initially because it was a requirement in New South Wales. We took on that committee and asked a number of organisations whether they would be interested. We ended up with about half-a-dozen. There are also some environmental NGOs represented on our consultative committee. We found it particularly useful as a mirror more than anything else. Despite the best will in the world, getting a response from end-use customers in the energy sector, a low-interest category, is very difficult. On issues like how we are responding to questions of disconnection for non-payment of bills, how we might offer a different range of products and how we might respond to the question of community hardship with regard to the provision of essential services, the representatives of ACOSS or organisations in Victoria that represent various social groups—the Brotherhood of St Laurence has been on our group—quite often give us pretty good feedback. Initially we were dumping a lot of information on them but as they have come to know the business more they have given us some very constructive feedback. We have incorporated many of their suggestions in the way we have gone about communicating what we are doing and the way we have responded to some of the publicity about energy, energy prices and energy hardship—not necessarily just the products.

**Mr BAKER**—Can you give us some examples of the ideas they have given you, what you have implemented and how you have implemented it?

**Mr Wood**—We got together with a couple of these organisations, a couple of other utilities and the essential services commissioner in Victoria in a more formal sense and we began an active program of looking at what a good hardship policy would look like. For example, one of the initiatives that came out of that was that we started to offer what we call copayments when someone was getting behind with their bill rather than just putting them on the payment plan. Many people would meet the payment plan and that would be fine, but others did not. What do you do then? We found we were eventually writing off the debt.

One of the things we found that was quite effective—and we did not think of it; one of these guys did—was to offer to pay one dollar for every dollar they paid. In theory we were writing off a dollar but the way we communicated it was that we were giving them an incentive. We found that we started to collect debt that we would not otherwise have collected. So we kept people in the loop, there was no problem with having to put them back on some of the social services and the amount of debt we wrote off, even though we still wrote some off, was a lot less than we would have otherwise written off. The mechanism sounds fairly basic but it was the language in which it was communicated that was important.

**Mr BAKER**—So you were basically recuperating a loss, anyway.

**Mr Wood**—Yes, exactly. We can now look at the money we have collected through that process. At any one point in time there are about 2,000 customers in Victoria—we have two million customers—who are in one of these programs, but it is turning over all the time. It works and we have now collected through that program, which has been going about 18 months, about \$1.5 million that we would not have otherwise collected.

**Mr BAKER**—How do they qualify for that program?

**Mr Wood**—This is an interesting point because it came out of the work with the social groups. We thought, as the regulator did, that the way to identify customers in hardship was to look at them in terms of their demographic, the number of kids and the amount of energy they consumed. In fact, most of those do not work. The only way someone can identify themselves as being in this potential situation is that they have to self-identify. We had a representative of one of the social groups come in to our customer call centre and teach the operators the language they should use to help people self-identify that they were in financial hardship. It is a difficult conversation to have. There are people who are just trying to get out of paying their bills but most people are not—most people are in financial hardship and are embarrassed by it and all sorts of things.

After they have initially identified that they have a problem paying their bill through the appropriate questioning, instead of being dealt with by a normal customer contact officer in the call centre they are taken over by one of the specialist people who can then start to look at what the issues are. Are they a person for whom a payment plan is appropriate? Are they a person for a copayment plan? Or are they people for whom, fundamentally, their expenses exceed their income and they have to be put in contact with one of the appropriate social support groups. That is where the government CSR type arrangements come in.

**CHAIRMAN**—Your submission says:

We believe that to improve the sustainability of activities, we must identify, implement and measure the key indicators of and drivers for sustainable performance and set objectives based on these indicators and drivers that are most capable of being influenced significantly within our own activities.

You have now produced three annual sustainability reports. Which drivers and indicators have you selected and what are the reasons for selecting them?

**Mr Wood**—As most people have done in this area, we have tended to look at social, environmental and economic indicators. The environmental ones have tended to be in hindsight the easiest. In our industry there are environmental issues which are associated with the use of scarce resources such as water, so we can measure quantities of water. But the biggest elephant in the living room of our industry is climate change. We are starting to measure that actively. Not only do we measure the greenhouse gas emissions that come from our own physical operations but we measure the greenhouse gases that come from the entire supply chain. We look at the amount of energy we buy from others, what we produce ourselves and the energy we sell to customers and where all the greenhouse gases are emitted in that entire supply chain. Our sector's total emissions represent more than 10 per cent of Australia's emissions. By the way, some of those emissions are created in the gas we buy from people like SANTOS. There are a lot of relationships in this business.



Everyone in management school comes across the statement, 'Until it is measured you don't do anything about it.' So we measure and then put in place targets each year. We have a series of objectives, a series of targets and a series of measures. In some cases we have not quite got there. We have reported in our sustainability reports a couple of cases where we have fallen short of those quantitative targets.

The safety side these days is very well measured and most companies know how to do that. Martyn referred to the sort of work SANTOS does and the different levels of performance. The area that we are still grappling with is this question of putting in place measures and real performance targets around our other impacts. We do not have quantitative measures in relation to our impact on issues such as native title and cultural heritage, for example. We do report the number of agreements we put in place, the number of complaints we get and those sorts of things. We are trying to provide at the moment a real environment where we can give our managers guidelines as to when it is appropriate to go beyond compliance, which is often a tricky area. You are at the coalface and you have the issue of how much it is going to cost, what you are legally obliged to do and when do you go beyond compliance, and if I do that will I be rapped over the knuckles.

Providing that flexibility in a structured way is one of the other things we are trying to do—giving managers on the site some good feedback as to what appropriate things they should be doing. We measure such things as complaints and quantities of material that go from our sites at various levels of severity. In an economic sense we measure how much tax we pay. We measure our overall corporate community involvement sponsorship activity as a percentage of total net profit. Is that number the right number? I do not know. We look at that and at other companies. Some measures we are very comfortable with; other measures have some way to go.

**CHAIRMAN**—I take it from your submissions that both Santos and Origin Energy are of the view that any sustainability and responsibility reporting should be entirely voluntary?

**Mr Wood**—Our view would be yes. We certainly see some real value in reporting. I can see some value in certain obligations of transparency. In terms of our other reporting, it is difficult enough to get the annual report to a narrow group of stakeholders—shareholders—right. You think it would be easy to define what a profit is and what a loss is and what an asset is. That is difficult.

**Senator WONG**—Not if you talk to an accountant.

**Mr Wood**—So just to contemplate how you could regulate or put an obligation on people to do the right thing seems to us difficult. Should we encourage companies to be more transparent and, as a consequence of that, get the reputational benefits that come from doing this well? I think the answer is absolutely yes. Encouraging transparency in reporting and engaging with stakeholders seems to be a fundamentally good idea. As for trying to prescribe how you do that, I think we are a long way from thinking about how we would even begin to do that.

**Mr Eames**—I certainly agree that the reporting is a good idea. The danger with prescribing it is that that prescription then starts to tell you how you exactly do that, and with that prescription you lose a lot of what this is about. The freedom to express this in the way that we feel is best and most informative is actually quite powerful. So for that reason the answer would be that we

do not think prescription is the right way forward. On what Tony was talking about at the end, I would say that there are plenty of incentives for people to go down this path. There is a lot of investment money that is geared towards companies that do these sorts of things, the size of these investment funds is going up year on year and increasingly this will become apparent to more and more companies and they will recognise the benefits of doing what both Origin and Santos—and indeed, I think, about 24 per cent of the top 400 companies in Australia—are already doing.

**CHAIRMAN**—Given that, what is your view on the need for comparability between corporate sustainability reports and having a standard index like the GRI or some other standardised reporting index?

**Mr Wood**—I cannot speak for Santos, but we certainly use the GRI as a reference point. The advantage of it is that it forces you through a process of asking yourself a whole series of questions and deciding for yourself which ones are relevant to your business. In this area it is very difficult to make comparisons. Even when we try and do benchmarking internally around the different parts of our operation it is difficult enough to work out. Often when you find a difference between two entities, when you start to investigate why there is a difference, you find all you are doing is identifying the fact that there is a difference, like the resource is different or the plan originally was built differently or there is a different piece of industrial relations legislation, and those sorts of things are what is behind it.

Is it useful to think about checking things? As I said before, you can look at a number which might be your corporate sponsorship totalled up as a percentage of net profit and say, ‘How does that look compared to what other people are reporting and does it feel as though we are in the right ballpark?’ But even within the same industry our businesses are so different. Martyn was going to the same point, that the complexity of our business means you would be just ticking boxes and you would not be focusing on what is important. What is important for us might be very different from what is important for Santos.

**Mr Eames**—I would just add to that by saying: yes, we also use GRI, but not exclusively. We obviously look at that and follow it as necessary, but we also look at what other people do. In an area where this is changing and more people are doing things, we look at what we see as best practice by others as well. If we see something that will benefit us, we will use it. I think that flexibility really is beneficial at this stage.

**CHAIRMAN**—What is your view of the request of the Minister for the Environment and Heritage, Senator Ian Campbell, to the Australian Stock Exchange to consider the inclusion of a standardised voluntary reporting framework in the ASX Corporate Governance Council’s principles of good corporate governance and best practice recommendations?

**Mr Wood**—I think guidelines are very useful in many parts of industry. I was talking about hardship before, for example. One of the things we have been working on with the government here in Victoria and South Australia is providing a framework that says the regulator should ensure that companies have hardship policies, that they broadly adhere to a certain level of guidelines. How they then implement those guidelines provides a degree of flexibility that is specific to that company’s particular circumstances. I think you would certainly find some sympathy for that sort of structure.

**CHAIRMAN**—What is your view of the desirability or otherwise of externally audited sustainability reports?

**Mr Eames**—Let me start by saying that we do not do that today. My former company did that and they have done it extensively. I think you have to weigh the benefits up fairly carefully. There probably are some benefits because I think it gives an objectivity that can be seen by others. They are objective anyway, but it demonstrates that objectivity. So there are certain advantages. There is a cost component to it. There will be a higher workload associated with that as well, so I think people should be free to choose on that one.

**Mr Woods**—We do selectively audit.

**CHAIRMAN**—Externally or internally?

**Mr Woods**—Externally. We indicate in our report which areas have been audited and which areas have not been audited. First we decide we should audit the stuff that seems to be the most important, the things that are hard numbers—for example, confirming that the data is right and confirming that the mechanism by which we calculate our greenhouse gases is audited. Progressively we have been extending, each year, those things that are audited. So the key measures have been audited. It does not look like a financial audit to the same extent as what we do in an annual report, mainly because we are still learning, as the auditors are, what you can and cannot do here. But I think, if you are going to report this stuff, there is a fundamental logic in auditing it externally. I know that some organisations have actually gone through this process and have decided that the auditing process is so arcane that it is hardly worth continuing with, because they have got to the point where they are happy that it is robust. I think it sends a strong message to stakeholders that if you are going to report this, it will have been subject to some degree of external scrutiny.

**CHAIRMAN**—Do either of you link executive and management remuneration to achievement of corporate responsibility goals and, if so, what is the nature of the link? What percentage of remuneration is dependant on that issue and how far down the management chain does that sort of link occur, if it does?

**Mr Eames**—I will have a go first. Everybody in the company has part of their remuneration linked to the corporate performance. It is at a higher percentage at, say, the vice-president level and at a much lower percentage as you go deeper into the organisation. Within those corporate goals, they are not simply financial—in fact, the financial are just a relatively small proportion of them. But they will include aspects of sustainability—safety is one very obvious one, as is the environment—which make up as much of the total score, if you like, as the financial matrix. So they are incorporated and they really do go down the company via that mechanism.

**Mr Woods**—We are similar. One interesting example is safety. We believed we needed to raise the level of safety in the company. We put a process in place where, if the company meets its overall safety target, then every employee in the company gets an allocation of shares on an annual basis. There is a combination of two measures: safety performance and profit earnings per share. We are continuing to find better ways of integrating the sustainability objectives into the financial objectives. Some of them are literally the same. All the objectives that are in our sustainability report are integrated back into our management's responsibility. As with most

companies, the percentage of their at-risk remuneration varies across the organisation. At the middle manager level the objectives on which their incentives or at-risk payment would be made would be in the order 10 to 20 per cent. Of that, it would not be at all unusual to find that one-third to one-half is what you might call more sustainability objectives than financial objectives.

**CHAIRMAN**—Last week we met with the Chief Executive Officer of CSR Europe, which is a private sector funded organisation that promotes and develops CSR in Europe and the UK. What are your views on the utility of such an organisation to promote a concept and application of the concept? Or should it be left to individual corporations to plough their own path on a competitive basis?

**Mr Woods**—A bit of an industry can develop out of this. Not long ago it was quality, and then it was something else. You get a feeling that there is a bit of a cringe about this, then it gets a language, people write books about it and you go to seminars—and people have corporate parliamentary committees investigating it!

However, as we develop this there is an advantage in learning and getting some common language, such as what do we mean by certain terms and, when Santos says something and Origin uses the same words, do we mean the same thing? As Martyn said, we shamelessly steal from each other at times. Companies look at what other companies are doing. At the moment we are in a phase. We are learning how to do this better, and learning from others is an advantage. We participate in these various indices and in various workshops. We are paying consultants to tell us how to do this.

**Mr Eames**—On our side, we have indeed engaged some consultants over time to help us do this. Some of that is using them to share with us what they perceive as best practice from having served a variety of clients, in the same way that you would use any consultants. So in that context I am very happy to have the companies around. However, there is a sense of a growing industry here, which kind of concerns me because that industry needs to be fed in a format that it wants. That can then get followed up with us being required to do that, suddenly a whole new industry is generated and the real value comes down to how it is applied on the ground, not in the consulting community.

**Senator WONG**—I am sorry I missed the beginning of your evidence. I want to go back to Mr Wood—both of you, actually—when the Chairman said, ‘I presume you are suggesting that voluntary reporting is the best way to go.’ It seems to me that in your answers you are conflating prescription of how you might report with perhaps a requirement that there be reporting of non-financial matters, which I think are two different things. I think we had sufficient evidence from a range of companies in a great many sectors of the economy that put very cogently to us that obviously what ANZ report on is going to be very different to the way in which Santos or Origin might want to look at non-financial matters. Do you have a view about ways in which government might encourage better reporting of non-financial matters and do you have a strong view about a requirement to do so without prescription as to how that is undertaken? You made the point—and I think it is basic management theory that what is measured is acted upon. It seems to me that there is a bit of inconsistency between that statement and saying, ‘Don’t make us report.’

**Mr Woods**—To simply say that you should report something does not seem to add a lot of value to the process. If you are going to require someone to report something, you better be able to give them some guidelines, a basis or some rules. Of course, once you go down that route, I do not know where you would go. That is more the reason why we are concerned about some sort of prescribed reporting. Just to say, ‘You should report to a wider range of stakeholders’ is—

**Senator WONG**—You could report how you manage your social and environmental risk, for example.

**Mr Woods**—I think, in terms of risk, in our annual reports we would always, because risk comes to the heart of what shareholders are interested in—

**Senator WONG**—Yes, and you would do that.

**Mr Woods**—Then you start to do that.

**Senator WONG**—Yes, you are, but arguably reporting of non-financial risk is not actually obligated by law.

**Mr Woods**—We could have a good argument about it. The argument about the risk that can arise—for example, carbon risk—

**Senator WONG**—Correct.

**Mr Woods**—I think there is a view developing that companies need to be thinking about it in their financial reporting.

**Senator WONG**—I agree with that. What I am saying is that that is not required by law.

**Mr Woods**—You could argue that it is required under the Corporations Act. It comes back to this whole question of directors’ liabilities for the corporation and so forth. I think it is at the heart of what we are talking about.

**Mr Hundy**—The *ASX Corporate Governance Council Guidelines* have said that companies should report on the effectiveness of their risk management systems. In that guideline it does not actually prescribe that it is only financial. That has, however, been interpreted as being essentially financial. I think what a lot of companies have done—and I guess this is what Origin has done—is to interpret that broadly and report on non-financial as well as financial risk management systems.

**Mr Wood**—One of the questions we have debated internally is whether or not we keep the reports separate. We find they get tangled up at times, and we find that we have reported the same thing in both places. This is one of the challenges we have. We are keeping them separate at the moment purely because we are trying to make sure we are focused on these more social and environmental issues. Our view is that over time they will become one report. Once we have got a bit further down the track in this whole issue of measurement and relevance, we will be in a better position to integrate reports more effectively. In that case, I think then you would find a

report which would be, from our perspective, more comprehensive in addressing the point that Bill was making in relation to our responsibilities.

**Senator WONG**—Before I follow that up with Mr Wood, do you want to add anything, Mr Eames?

**Mr Eames**—I have a number of concerns about formalising and legislating for reporting in these areas.

**Senator WONG**—What about the ASX developing the risk disclosure guideline a bit more?

**Mr Eames**—We already report in our annual report on corporations' best practice of corporate governance, so we report against that anyway. Actually causing everybody to do exactly the same thing—whatever example you wish to choose—is dangerous.

**Senator WONG**—It is an 'if not, why not' approach through the guidelines.

**Mr Eames**—Saying that things have to be done in this particular way, which certainly has an advantage because then you can compare apples to apples—I recognise that advantage—can also have some unintended consequences. It can cause people to go down a path that is actually not the best path for them to go down. It causes them to focus on the reporting that has been set out. We have got numerous instances of where there are reporting regulations at state level, for example. You were not here, but I think I mentioned at the start that we have at least 150 pieces of legislation, and that is excluding all the regulations that we have to follow in our industry. We feel that some of those reporting regulations are really not appropriate. That tends to be what happens. It may be appropriate for somebody else, but for us it is actually a bit of a burden, and it is not easy to see the benefit, other than recognising the potential for comparing apples to apples and everyone reporting on the same basis. That would be my concern here. Here we have—for example, in sustainability—an area in which a number of companies are leaping away and finding ways of doing it and improving. I would be concerned that that would end up actually stifling it.

**Senator WONG**—Which is a legitimate argument.

**Mr Eames**—Yes. You mentioned one other thing, which is what the incentive would be. I actually think there is increasing incentive. As I mentioned earlier, the number of funds being geared by shareholders towards companies that meet certain criteria of sustainability or environmental aspects is increasing. There is certainly a great correlation between companies that do well in those indices and those that do well in their own financial metrics. I think that will increase. It may not cause everybody to do the same thing, and there will always be some people who will not do that.

**Senator WONG**—Sure. I do not want to spend too much time on this argument. I think we are still conflating things. My proposition is this: we are trying to look at ways in which we might encourage companies to address this, and frankly it seems to me that Origin, Santos and the resources sector—for a range of reasons, circumstantial and otherwise—have probably had to deal with these issues. But from a policy perspective I tire a little of the argument, 'Don't do anything to us because we're doing it anyway,' when it is quite clear there are a range of areas

within Australian business that are not engaged with these issues or with the concept of sustainability. Governments cannot fix everything, but equally you cannot simply wait for the market to do everything. That is a philosophical position, and clearly Santos does not agree with that. Mr Wood, can I return to one of the issues you raised? You thought there were some obligations around transparency, and I wondered what you meant by that.

**Mr Wood**—If you are going to report then I think you have an obligation to be transparent about that, and one way to do that is to have the external audit process. I do not think that we ourselves will necessarily be transparent. We can easily be selective in the way we look at things. I know within our own company, when we look at some issues, we have to think about the way we are going to report something—particularly an incident that has occurred in a negative sense. It is wonderful to report all the good stuff you have done, but if you have had an incident you have to think about how you are going to report that.

We want to know that this has been audited and emphasise the fact that we want to be transparent. All these companies have lovely things called ‘values’ and so forth, but one of the things we have been saying to our guys when we are looking at this stuff is: ‘How will you feel if your decision is in the sustainability report or in the newspaper the next day?’ So I think that transparency issue is a fundamental part of sustainability and the whole reporting process. I do not see how you can have one without the other.

**Mr Eames**—Can I say something on transparency: I actually think it is the same philosophical debate. You may be aware of the Extractive Industries Transparency Initiative, EITI, which many companies in the upstream industry are part of. It is about transparently showing revenues—ins and outs—for the countries in which they work. It is to do with the thesis that that transparency will actually help the country to benefit from the resource sector, not the opposite. Again, it is a voluntary thing and our assertion is that for the moment this is the right way to go about this. I think it is the same philosophical debate that we have just had.

**Senator WONG**—I will be clear with you. A lot of your submissions—certainly that of Mr Wood of Origin—are directed at whether or not there should be any mandated duty. I think the arguments against that are pretty cogent from a legal perspective; I think it would just confuse people. I do not believe that you create solutions to complex economic and social problems just by changing one aspect of the law. You may disagree with this, Mr Eames, but it seems pretty clear to me from the evidence today that some Australian companies are doing very well and which one might argue are world leaders or certainly up there. But, as an economy, in our approach to sustainability, there is an argument that we lag behind the UK and Europe. That has been put to us. Now, what do we do about that—leaving off the table mandated and perhaps rather simplistic knee-jerk responses? What are the ways in which government can actually impact on that and how can government more effectively encourage companies to consider long-term risks such as carbon risk or social environmental risks for stakeholders? Certainly, the extractive industries have had to deal with that.

**Mr Wood**—One could spend the rest of the afternoon just discussing climate change policy, the role of government, the role of industry and how you influence those externalities. Some of the social issues are in that same category; they are a bit more intractable, I think, in terms of coming up with numbers. I think the impact of corporate activity on society is just as significant but we do not see it as easily. Some of the work that the industry associations are doing in this

area is quite interesting. The question seems to come back to what is the role of government in trying to cause people to behave better.

**Senator WONG**—Cause, encourage—whatever verb you want to use, I suppose.

**Mr Wood**—Yes. And is that the role of government or is that the role of the broader community—including the shareholders but also the communities in which we operate? If people see that some companies are doing things better than others, they tend to gravitate towards them.

**Senator WONG**—Government is not the sole guardian of good, clearly. We are a parliamentary committee so we are looking at one aspect of it. How do investors respond; how do shareholders respond; how do particular stakeholders respond? There are a number of driver of behavioural change, and government is one—sometimes a very minor one. But that is our job.

**Mr Wood**—Governments have an important role in terms of all the safety net processes across environmental issues, social issues and so forth. I think that is where there is a role to make sure that the safety nets are maintained and are progressively being moved as societal norms evolve.

**Senator WONG**—Is that an argument around specific legislation? Is that what you are suggesting?

**Mr Wood**—Yes: for example, the legislation around some of the environmental issues. Look at legislation on emissions—not just carbon emissions but any emissions to air or water. The legislation has changed from where it was 20 years ago in response to changing circumstances. All the measures we are talking about—having good community hardship policies, what do they look like, what are you allowed to do, what are you not allowed to do—are areas where legislation comes in behind to make sure that each time the community moves it is locked in.

**Senator WONG**—Yes, there is a regulatory role. I am actually talking about something different. Rather than talk about this esoterically, because we have other witnesses waiting, could I deal with it by looking directly at the issue you raised about carbon risk. I was interested in the fact that Origin actually tracks its greenhouse gas emissions down the supply chain. That is a reasonably unusual decision. What drove the decision to do that?

**Mr Wood**—Our view is that climate change is the biggest issue Origin Energy has to face in the coming years. We might argue in our industry, but this is an issue we fundamentally have to address. It was probably the thing that started us down the route to where we are now in terms of sustainability and corporate social responsibility, even though it has branched out. With regard to that, the first thing we said was: ‘What are these emissions? Where do they come from?’ We identified quite quickly that in our business most of the emissions do not come from the stuff we actually do. They come from either the way in which our customers use the product or the way in which our suppliers provide the product. So we have to influence all of that. If we said, as we said in our submission, ‘Our focus is on doing those things in relation to corporate social responsibility that Origin can actually do something about, as opposed to worrying about stuff that as members of the community we might be concerned about,’ then that is the supply chain; that is the gate.



**Senator WONG**—Which is the correct approach. It seems to be quite clear. Certainly we are not talking about philanthropy. I am interested in companies doing precisely that—looking at what the externalities are, how they are impacting and what they can do about that.

**Mr Wood**—Again, what we do and what is in our report is that we look at three things: what do we do about the supply side, what do we do about our own operations and what do we do about the consumer side? One of things that we therefore do is sell green power. We are the largest retailer of green power in Australia now, and people are picking it up. It is a voluntary program, but we offer the product. We are doing things to try and influence the emissions that our consumers create. We are doing things to influence the emissions we create, and we are doing things in the way we source energy, which is related to the supply side. It logically flows.

**Senator WONG**—How does the measurement—whatever policies the company implements in respect of consumers, including product or energy streams that you are selling—impact on your supply chain?

**Mr Wood**—When we look at things like the absolute emissions and the intensity of those emissions—

**Senator WONG**—No, just measurement. Has it resulted in any action or operational change?

**Mr Wood**—We look at what will be in any particular plant and determine what we can do to reduce our emissions. In some cases, for example, we have a plant where instead of venting the methane we flare it—burn it—so the greenhouse impact is significantly less, because we now emit CO<sub>2</sub> rather than methane. So the actual measurement process results in changes at a physical level, both in our own operations and in the products we are selling. As I said, we have aggressively gone after that, and it has turned out to be a great success commercially for us and a competitive advantage.

**Senator WONG**—You have talked about what you have done with regard to carbon risk. I do not necessarily want any debate about what the government's policy on climate change should be, but, hypothetically, are there things governments could do around market signals, incentives for change, facilitation or whatever to try and reduce emissions, in terms of your sector, through the various aspects of the supply chain?

**Mr Wood**—Governments are the ones that certify the green power product as having integrity.

**Senator WONG**—Is that state government?

**Mr Wood**—It is a combined state government process—the state governments together have a national authority that legislates and regulates that side of things. At the other end of the spectrum is to do two things. One is to do with the sort of funding that the government is currently providing under the low emissions technology fund for research and development. The other one, which I think is the biggest issue we are facing, is to determine how you employ those technologies, and whether government can provide the investment framework within which carbon risk can be confidently factored into our investments.

**Senator WONG**—How do you do that?

**Mr Wood**—You have what we would argue is the base program. We would argue it is a clear carbon pricing signal, most likely some form of market mechanism—for example, emissions trading.

**Senator WONG**—So that is something government could do?

**Mr Wood**—Correct.

**Mr Eames**—We would say exactly the same as that.

**Senator WONG**—So we agree on something at the end of all of that.

**CHAIRMAN**—I thank all of you for your appearance before the committee and for your assistance with our inquiry.

[3.11 pm]

**McCLUSKEY, Ms Amanda, Manager, Sustainability, Portfolio Partners Ltd; and Adviser, Corporate Social Responsibility, Australian Council of Super Investors**

**SPATHIS, Mr Phillip, Executive Officer, Australian Council of Super Investors**

**CHAIRMAN**—Welcome. You have lodged a research paper with us. I invite you to make an opening statement, at the conclusion of which we will have some questions.

**Mr Spathis**—A number of superannuation trusts that belong to the Council of Super Investors are currently considering the best way to monitor companies and how they deal with corporate social responsibility issues as part of their ongoing operations. It is fair to say that only more recently trustees have become better equipped to deal with what you might call the more traditional corporate governance issues. We are using the improved the disclosure rules and, under the Corporations Act, the ASX listing rules, the ASX Corporate Governance Council guidelines and our own guidelines to basically start behaving like owners of companies. One tangible example of that is utilising and exercising our vote, with proxy voting not being an end in itself but actually a tangible step in exercising the rights of an owner.

More trustees would like to enter into this space, and I would like to put it to the committee that the challenge on trustees with respect to assessing a listed company's approach on CSR issues is not one that only applies to trustees but also across the investment food chain, and I guess that means that there is a shared responsibility on our industry: the trustees, the fund managers—one of which is represented here today—the asset consultants, the brokers and their analysts. Overseas experience and some emerging Australian outcomes are pointing to trustees increasingly requiring their fund managers to assess how social and environment risks could impact on their long-term investments. This then requires brokers and analysts to be properly equipped to ask companies the right questions in this regard.

We recognise that, without any direction on addressing CSR issues from the ultimate owners, management, boards of companies, fund managers and analysts may continue to overweight short-term gains at the expense of the longer term health of the company. Amanda will elaborate, and that is one of the reasons why, with your indulgence, we invited her here today—to bring to the fore some of the cutting edge developments that are occurring in the market overseas and are starting to find their way here in Australia. We will really focus on the buy side emphasis from the fund managers. You have a copy of the Monash study, and that is one of many resources that we are currently utilising to more or less engage within our community to start the debate that was catalysed last year at an ACSI conference that involved a number of major corporates and other stakeholder organisations. It was called 'Finding the balance—managing risk, returns, reputation and responsibility'.

So, in the course of this year, we have aimed to develop a framework around these issues. Having said that, I will address some issues that are specific to the terms of reference of this committee. We do not support making it mandatory for directors to consider stakeholder issues. How a company is perceived and deals with its stakeholders should already be part of their

normal business considerations and is consistent with acting in good faith with and promoting the success of the company for the benefits of the shareholders as a whole. I think your previous speakers conveyed that quite succinctly. Therefore, we do not believe that the law at the same time does inhibit these sorts of considerations either. I note that there have been many submissions to that effect.

To add to that body of knowledge and response, part of our views are influenced by some of our concerns about how mandatory stakeholder provisions have been used in various US state jurisdictions and manipulated by some boards to diminish their responsibilities to shareholders. I would be happy to elaborate on that if you would like, in the course of the questions. We are not averse to recognising or providing some explicit comfort in the Corporations Act for directors who consider the stakeholder impacts of their decisions in the context of discharging their overriding responsibilities to shareholders.

**Senator WONG**—This is the safe harbour provision?

**Mr Spathis**—Correct. It would be more or less an encouragement or recognition, not a mandatory mechanism. I would like to respond to one specific area that may have created some angst in the area of what are the responsibilities of a super trustee in the context of CSR. I would like to share that with you today. We have noted from the deliberations that there have been some questions about whether existing superannuation laws, and specifically the sole purpose test that emanates from the Superannuation Industry (Supervision) Act 1993, SI(S), would allow investment decision making by trustees to give appropriate weight to financial returns and non-financial considerations of investing companies.

Our view is that under the sole purpose test a fund's activities must bear a relationship to the purpose of providing a retirement benefit to members. That is pretty clear in the way the law is structured. In that context, we would assert that the review of CSR practices of investee companies can sit comfortably with prudent investment decision making policies of super funds, especially where such considerations are utilised as risk mitigation tools. That is the hook—the risk mitigation tool. We believe that the sole purpose test has been and can be couched and interpreted in broad terms and could reasonably embrace such an activity. This would allow the trustee, through the advice from fund managers, to seek to militate against potential failures that may arise because of the CSR weakness, which could in the long term have a detrimental impact on the fund's investment in the company.

The notion of mitigating risk is not a novel idea and it fits within the framework of investment decision making on the part of the trustee. Effectively, trustees are seeking to maximise their return in the context of an acceptable level of risk. A trustee in conjunction with their manager can make a commercial judgment about these issues. Having said that about the sole purpose test, there are also some additional considerations that emanate under section 52 of the SI(S) legislation that need to guide trustees in this regard. These are covenants, by the way, within the provisions of section 52 that require, one, trustees to ensure that their duties and powers are performed and exercised in the best financial interests of all beneficiaries. I raise that because the obligation on the part of the trustee is to maximise the return for all members, not just a segment of members—let us be upfront—or utilising the background of a specific trustee to basically pursue or extend some other proxy argument that is not necessarily relevant within the context of trustee investment decision making.

The second aspect to it, and this goes back to the issue of risk, is under the covenant of section 52, to formulate and give effect to an investment strategy that has regard to the whole of the circumstances of the fund, including the risk involved in making, holding, and realising a likely return from, the fund's investments having regard to its objectives and its expected cash flow requirements.

I realise that within the context of CSR considerations the timelines we are talking about can be much longer. We are talking about much longer sorts of timelines in terms of the investment horizon and the potential for the externality to eventuate, depending on the sort of issue. These sorts of covenants have something to say in relation to directing the trustee in this regard.

The point is in relation to the importance of being able to have access to appropriate expert information. Under the SI(S) Act itself there are overriding duties on the part of directors of superannuation funds to more or less require trustees to act prudently, with reasonable diligence expected of the ordinary person of business dealing with the property of another person. In that context, there is a real challenge on trustees to make sure that they do ask the right questions of their advisers—and they do basically challenge that expert advice in a range of areas, including CSR. I would like to table a paper that summarises these sorts of considerations, not only within the Australian jurisdiction but within jurisdictions right across the globe under the banner of United Nations Environmental Program that looked at the legal framework for integration of ESG issues. Essentially a number of major fund management and law practices looked at this specific issue. That is for your reference.

**CHAIRMAN**—Thank you—it is so ordered.

**Mr Spathis**—Where to from here? We would like to encourage trustees to work more closely with their fund managers and to pose a simple question to them when they are negotiating their investment management agreements. This is the espoused view from our sector. We would like to think that, in future, trustees will be able to insert into their investment management agreements something along the lines of the following question: how will the companies that you invest in on our behalf manage their top five non-financial risks? If more super funds are asked this question then this will have a flow-on effect, as it has in the US, the UK and in Europe, of ensuring that brokers and analysts in turn pose these questions to companies. That again in turn may have the flow-on effect of demanding improved disclosures or even bringing some companies to the table in this regard. Amanda will elaborate on some of those developments overseas to bring that to the fore for the committee.

**CHAIRMAN**—Thank you.

**Ms McCluskey**—There are some key points that need to be made in looking at how, as Phil put it, superannuation food chain looks at ESG issues—environment, social and governance—or what I will refer to as sustainability issues. The first point that needs to be made is that sustainability is increasingly a mainstream investment issue. We heard in the session previously about this 'pool of money' that is referred to for companies that meet the criteria on sustainability issues. They are the socially responsible and ethical type funds and it is true that they are growing year on year. More critically important is the point that mainstream investors are increasingly considering sustainability issues as potential financial issues, especially over the

longer term. I will point to some examples, both domestically and internationally, that evidence that.

Internationally, we have seen the formation of the enhanced analytics initiative. This is an initiative with a number of UK and European based fund managers that have committed to allocate five per cent of their brokerage to brokers who produce research that adds value over the long term, especially on areas relating to sustainability. To give you an idea of the pool of capital this creates for sustainability research, that five per cent of brokerage in the UK and Europe represents about \$8 billion to \$9 billion worth of brokerage. That has seen the formation of ESG units in brokerage houses including Goldman Sachs, Credit Suisse First Boston and UBS Warburg. These are not your typical fringe green, fluffy type names. These are mainstream investment banks that have employed people specifically to look at sustainability issues and how they impact on company performance. I point to the enhanced analytics web site if you want to see some examples of that. I think that is the first real carrot we have seen for the mainstreaming of sustainability.

**Senator WONG**—To clarify, the allocation of money is towards developing research capability to try to come to some indicators or some tools for analysing long-term risk and value?

**Ms McCluskey**—When fund managers decide what company they want to invest in they will often look to their brokers to advise what companies to invest in. These brokers will often make buy/sell/hold—

**Senator WONG**—I understand that.

**Ms McCluskey**—So this is making sure that these buy/sell/hold recommendations are based on sustainability issues from the broker research—not external research done by—

**Senator WONG**—You misunderstood my question; perhaps I was not making myself clear. Is the initiative about where they must make those recommendations in relation to long-term performance or is it on research around how you might go about analysing that?

**Ms McCluskey**—It is the actual research itself. The other initiative which is more a voluntary initiative is the United Nations Environment Program Finance Initiative materiality series where a number of asset managers have formed an asset management working group and they have requested brokers produce sustainability research. The [unepfi.org/stocks](http://unepfi.org/stocks) web site will give you a list of two rounds of reports that were done by brokers on various sustainability issues across various sectors and how that impacted the mainstream valuation of those companies.

In Australia, there is also the mainstreaming of sustainability. My appointment at Portfolio Partners is evidence of that. My role is to look at what impact sustainability is going to have on the value of companies both for the sustainability fund that we have in house and also for the rest of the portfolios that are managed by Portfolio Partners. Also, when I engage with a company to understand how they are managing their sustainability risks or what the sustainability issues are for their business, I am engaging for the whole of Portfolio Partners' investments, not just for our sustainability fund.

**Mr BAKER**—Can you give us the definition of ‘sustainability’ from your perspective?

**Ms McCluskey**—When we talk about sustainability we talk about social and environmental risks that impact company performance. We have four parameters that we look at, including climate change and energy use; sustainable consumption, which is where water and those types of issues come in; quality of life, which is your social impact on the communities in which you operate and also the social impact of your products; and human capital and corporate governance—how companies are managing their own staff and their corporate governance structures.

**Mr BAKER**—How do you measure that?

**Ms McCluskey**—This is an important point. At the moment we measure that by what is available publicly—the public reporting of companies—and our meetings with the companies. As a fund manager you are regularly meeting with the companies that you are a shareholder in or possibly looking to become a shareholder in. What makes sustainability analysis difficult is the lack of consistent information reported by companies and the variance in the quality of reporting amongst the listed Australian companies. We rely on what companies report and what they tell us about how they are managing those various sustainability risks to benchmark them both in an absolute sense—that is, what is their exposure to risk and what are they doing to manage that risk—and benchmark them relative to their peers and the other listed companies in terms of what is the impact that this risk could potentially have on shareholder value.

Super funds and fund managers are increasingly looking at these issues. So we will see a push on companies to report more because we are asking them so many questions that they are going to have to report. I spent the day on the phone today following up ASX 100 companies on the carbon disclosure project, which is a survey we have sent to ASX 100 companies and NZ 50 companies as part of a global initiative asking them to please respond to these questions because there is not enough information publicly available for us to understand how they are managing climate change and carbon risks. So there is a real push, and eventually the message will come through. I think there could be some more facilitative guidelines or regulations along the principal seven that Senator Wong was referring to earlier to get some of the laggards up the chain, so to speak, in how they report on their sustainability risks and how they are managing them. Origin and Santos that were here talking to you are not the types of companies we are worried about that are not giving us enough information. It is other companies that we would really like to see made to report things because we have no idea what is going on. They are the key points that I wanted to make.

**CHAIRMAN**—Thanks very much. From your perspective as a representative of a group of investors and given the current absence of a standardised format for reporting, how seriously do you think the financial markets take the reports that are currently being produced?

**Mr Spathis**—In the context of CSR?

**CHAIRMAN**—Yes, CSR reports.

**Mr Spathis**—I think it is a real mixed bag. The extractive industry is showing the way in that regard, but there are some other industries that are lagging behind in CSR. The point was made

in the Monash study—I think it was on page 59—that one of the issues that trustees have is the issue of access to information to be able to identify material issues. Most of those who were interviewed in that Monash study held the view that the information on the material risks was either unavailable or difficult to obtain. So it is a real mixed bag.

**CHAIRMAN**—Going from there to the financial markets themselves—how seriously do they therefore take those? Do they vary according to the report?

**Ms McCluskey**—They vary according to the report. The joke around the office once I started was: ‘So you’re the person they write all those sustainability reports for! We always wondered who read them.’

**Mr BAKER**—How much influence does it have on your final investment decision?

**Ms McCluskey**—That varies along the scale. For a day trader who is just getting in and out of a company in one day: not at all. For a socially responsible or ethical fund, that is pretty much 100 per cent where they are going. The point is that the day traders are never going to change how they behave, but the mainstream bit in the middle is starting to take more notice. In the UK there is a lot more going on.

**Mr BAKER**—As in SRI funds?

**Ms McCluskey**—More mainstream funds. There is a big fund that has been launched in the UK recently and has been selling to Australian fund managers, called Generation Investment Management. That does not class itself as an SRI or an ethical fund; it is a mainstream fund that considers sustainability issues. So there is a difference. A socially responsible or ethical fund tends to screen out uranium, alcohol, tobacco, contraception and then is left with an investable universe. How it makes the investment decision is usually just through typical financial criteria. It does not consider sustainability in that investment universe that is left.

**CHAIRMAN**—On the part of investors—

**Mr Spathis**—Which ones?

**CHAIRMAN**—I am going to get to that. Given that—even taking corporate responsibility into account—the primary responsibility is to investors, how do we get investors to take a longer-term view of what is in the company’s interest? You talked about day traders; they obviously have no interest in it. But even institutional investors tend to be traders to some degree. It is probably the mums and dads who are the real long-term investors. One of the things that have been raised is the issue of capital gains tax. If we had a capital gains tax structure that diminished the longer the ownership of equity was retained, for instance, that would encourage people to be investors for a longer term. Therefore, there should be an emphasis but how do we get this attitude to become longer term?

**Mr BAKER**—That becomes a really complex situation of determining the type of funds. It is the risk of the investor as to whether it is a capital stable fund or a balanced fund, which takes it to a whole other level.



**Mr Spathis**—With superannuation funds, the notion—as I think Erik Mather put it—is permanent share ownership—

**Mr BAKER**—Like risk and return and that sort of thing.

**Mr Spathis**—over a longer period. I think there is a slow awakening in our sector. Whether it be five, 10 or 15 years down the track, if there is another major disaster coming out of the behaviour and practices of companies that we actively invest in, not only will our members hold those directors responsible but they will also go and ask: ‘Well, if you were aware of the potential risks that emanated from these corporations, what did you do about mitigating those risks?’

I think we are on the cusp of something significant in our sector. A lot of our like-minded organisations across the UK, Europe and even America are shifting from a fringe vehicle to a mainstream vehicle. To date, a number of funds in Australia have used investment choice as a mechanism to give their members a chance to invest in an area that has a heavy overlay in ESG considerations. But there are examples like VicSuper that recently have underpinned 10 per cent of their equity investment with specific ESG considerations. I think, as empirical research builds up in relation to the linkage between performance and risk mitigation, there will be movement. Again, that hopefully will have a flow-on impact on the companies.

**Ms McCluskey**—Given that the superannuation pool of investment is where your growth is coming from, the reason the fund managers are starting to respond, take a more long-term view and have structured processes for looking at sustainability issues, is that they are responding to the fact that superannuation is growing and the superannuation trustees are demanding these issues be considered in the way they manage money. That the Institutional Investors Group on Climate Change has been formed is further evidence of that. There is a core group of superannuation funds and fund managers who are getting together to ask: ‘Climate change is going to be critical to the performance of the companies we invest in and the various asset classes we invest in, so how do we make sure we understand that impact and get our underlying managers to change the way they manage money to abate and adapt to climate change risk?’ So it is starting to happen and we are starting to see the change in behaviour. The capital markets sit up and take note.

**Mr Spathis**—That was my point about the investment management agreements. If you have a parade of fund managers who are trying to differentiate themselves, then in future they may need to address how they deal with ESG issues. The big mandates could be \$50 million and upwards. There is always incentive for these fund managers to respond accordingly.

**CHAIRMAN**—What is your view of Minister Campbell approaching the ASX Corporate Governance Council to consider the inclusion of a standard voluntary reporting framework within the council’s principles of good corporate governance and best practice guidelines?

**Mr Spathis**—It is a step in the right direction, but I think we still need to address the issues of bringing companies to the table. There was some mention of guideline provision No. 7. The anecdotal feedback I am getting from our and other representatives on the ASX Corporate Governance Council is that the feedback from corporations on principle 7 has been pretty light on. That belies the real problem: bringing people to the table. There seems to be a better

disclosure on the more traditional corporate governance issues—maybe because there are organisations like ours that are taking more active steps to deal with board composition, remunerations and those sorts of things.

But I think as we equip ourselves in this area we should then be able to use improved disclosure provisions to engage companies. That is where there is a reasonable role for government to set the framework—set the scene—but there is a responsibility on our part to utilise those mechanisms to then engage. I will use a parallel: when some of the provisions of the Corporations Act were introduced back in 1998, it basically went ‘Bang!’ to disclosure of the top five executive remunerations in each listed Australian company. That information was used in all sorts of ways, mainly by remuneration consultants who tried to push up the price of executive labour.

Institutional investors really did not have their acts together to ask the basic question: ‘How is that remuneration outcome linked to performance and outperformance?’ We were not doing that then; we are doing that now. We are doing that because of the framework that has emanated from work that committees like this do on improved disclosure provisions and on giving shareholders access to a remuneration report. Although we do not have a vote, it is an expression to be able to convey our views. It is not really about expressing our concern about remuneration issues, for example, just at the ballot box; we use that information with companies prior to the AGM. We engage with them and talk to them because we are long-term investors; we are here for a number of years. I only use that to illustrate that we have to work in tandem across the industry with what government can offer.

**Ms McCluskey**—I do not think we need more guidelines. There are many guidelines out there already. The GRI covers every single sustainability issue you can possibly imagine. We need more facilitation of the principle 7 risk management statement to include social and environmental issues, what the risks are, what they are doing to manage them and some performance data associated with that. So, in the case of Origin, they would say, ‘We consider social and environmental risks as part of our risk management system; here’s our report to prove it,’ so you are not worried about them. But then the laggards are forced to address social and environmental risks in that risk management statement that, as Phil has observed, is pretty light on. They are forced to at least put their toes in the water and start to think about the issues from a mainstream perspective. Not just the community relations person who sits in the back corner of the office and who nobody listens to but the mainstream audit committee has to look at social and environmental issues. I think that would help.

**CHAIRMAN**—What is your view on external auditing of sustainability reports?

**Ms McCluskey**—When I review a report and it is externally audited, it gives the report more credibility. If somebody has been reporting for three years I would expect that it would be audited. It is unfair to expect that a company’s first report would be audited, and it is also unfair to expect companies that are exposed to lower levels of sustainability risks would be audited. An ‘if not, why not’ provision may be helpful, though, because there are some large companies that produce, effectively, marketing documents that have no verification in them. For those documents, I would like to see a statement explaining why they did not have them verified, to make sure they have at least thought about it.

**Mr Spathis**—I concur with that, from a verification point of view. Again, as with many auditors, it might never guarantee that everything is quite right underneath the information that is supplied.

**Senator WONG**—I have a number of issues. Ms McCluskey, on your suggestion about more facilitation of principle 7, what would you actually suggest?

**Ms McCluskey**—When they actually report—I cannot remember the number off the top of my head, perhaps it is 7e or one of those—there could be a requirement to identify the company's top five sustainability risks and what it is doing to manage them, to include performance data in the guidelines and to ask, 'If not, why not?'

**Senator WONG**—You heard my interchange with Origin and Santos. I agree with your argument; they are probably leaders, not laggards, to use a phrase that was used earlier today by someone. I think the comment was made, 'Why would you have that open-ended obligation?' but it seems to me that the ASX guidelines might be the way to go because they are known to the market and they are understood. What we are talking about—if we are focusing on the mainstream, which I think is where we have to focus—is trying to expand the way in which people consider and manage risk. That is fundamentally what this is about, yes?

**Mr Spathis**—That is right.

**Ms McCluskey**—I think we are definitely on the same page there.

**Senator WONG**—So you are saying we should utilise principle 7 to try and get an 'if not, why not' approach to the reporting of self-identified risks?

**Ms McCluskey**—I think 'self-identified' is important to abate the concern that Origin raised—that if you have an overly prescriptive 'tick-a-box' approach there is no innovation. That way the company can choose what their top five issues are. It is something BHP did in their report two years ago and was very effective.

**Senator WONG**—I agree with that. ANZ's risks are going to be different to Origin's. Regarding comparability of information, you made the point that there are heaps of guidelines out there. There certainly do seem to be a lot of different models of ways in which people report, and the GRI seems to be the one most commonly brought up in evidence before us—although that probably indicates the sorts of companies that we are seeing cooperate in international markets. I presume from your perspective that you are in the business of comparing companies. Is there a way one could improve the comparability as well as the verifiability of a report on non-financial performance?

**Ms McCluskey**—It is hard, because you could go down to the level of prescriptive sustainability reporting along the accounting type guidelines. I know that three or four years ago that was what was being called for. You have accounting reporting guidelines. We want sustainability reporting guidelines that are as prescriptive. That would give you the level of comparability. I am not as much as a prescriber to that approach. I recognise that there are flaws with the Global Reporting Initiative, but it is a continually improving process and the GRI is

very consultative, and they are looking to improve the GRI to be more usable by financial analysts.

I am happy with the way that the good companies are going on sustainability, and if more companies worked towards being like your Origins and BHPs there would be enough there for an analyst to compare the companies. It is not the typical stuff that you are comparing—you are not comparing cash flows with cash flows, you are comparing management systems with management systems. Somebody whose job it is to compare one environmental management system with another will have to work out the difference, just like a financial analyst has to work out the difference between the different cash flows. So I do not think we need to be prescriptive to make it comparable. I think most companies are going down the right track.

**Senator WONG**—From your perspective, GRI is one thing would provide sufficiently comparable information for you to do your job. Is that right?

**Ms McCluskey**—Yes. If every company did a GRI report and had it tabled, it would make life a lot easier.

**Senator WONG**—Mr Spathis, you made a number of comments in your evidence about it being early days and the superannuation industry, or the trustees, being on the cusp of doing something different and you need to equip yourselves. What do you think are some of the future models of engagement by superannuation trustees around sustainability issues?

**Mr Spathis**—In relation to engagement, the challenge for the trustees is to be able to discharge their individual responsibilities as respective trustee boards with respect to investment decision making but at the same time not make it so difficult for corporations to engage with them if, for example, you have a multitude of trustees knocking on the door and asking the same question. I think the engagement—and I guess this is subject to some debate internally—will first occur at our own level, and we will discuss: what is the best way of going forward, how do we work together with the fund management community to deal with these ESG issues, and do we utilise a body like the Australian Council of Super Investors to deal with communication and engagement with companies on non-financial risks? That model appears to be working reasonably well at the moment in relation to the more traditional corporate governance issues. Last year we may have made recommendations on 200 annual general meetings, but we also spoke to about 95 companies directly or over the phone and engaged with them on issues to do with corporate governance. So I think it is a multilayered approach that requires us to be clear about how we as an industry will approach these issues. That debate has not really happened, but it will inevitably require the input of fund managers and the work that they do in influencing the sell-side analysts.

**Senator WONG**—Are there models in terms of overseas investors and trustee communities that we could look to for some guidance in this?

**Mr Spathis**—There are organisations that have been built up on the back of catalysts from superannuation funds, and I think the Enhanced Analytics Initiative example is one where the university super scheme of Great Britain played a leadership role in drawing on a number of super funds, but also fund managers, to influence the brokers. So there are models like that that we could tap into and learn from. That is certainly one possibility. But one of the reasons why

ACSI was formed was to provide an independent voice for trustees in areas related to corporate governance. However, with things like this we inevitably need to tap into the fund management community to influence some more positive outcomes.

**Ms McCluskey**—In terms of the UK example, the super funds have tended to outsource the engagement on social and environmental issues to their underlying fund managers. Isis Investment, Insight Investment and Morley, which are the portfolio partners' parents, are probably good examples of that. Whenever those fund managers are talking to a company about typical financial issues, they will also talk about non-typical financial issues on behalf of their clients, being the super funds. That is mostly the model that has been adopted there, so it is part of the buy-sell recommendation.

**Senator WONG**—Do you have any views about how you might progress to developing—

**Ms McCluskey**—That here?

**Senator WONG**—Firstly, is that the model we want? But I am asking a more systemic question. Mr Spathis said: 'We've got a way to go. We've got to work out how we do this.' Do you have any suggestions about how you might progress that? You have the internal discussion within ACSI and the funds you represent, but how can that be progressed from a government perspective?

**Ms McCluskey**—One point I have not heard come up, and I have not had a chance to discuss it with Phil, is that, regarding the reporting under section 1013D of the Corporations Act—the extent to which fund managers look at labour standards and social, environmental and ethical issues—the guidance note that is associated with that disclosure requirement is a guidance note for socially responsible and ethical funds reporting; it is not a guidance note for mainstream funds. From first-hand experience, it is very difficult for a mainstream manager to report to that guidance note. If that could be reviewed to be applicable not just to socially responsible and ethical funds but to all managers, I think you would have better reporting by fund managers on what they are doing to incorporate whatever you want to call it—sustainability issues. The super funds can then compare what the different fund managers are doing. I think that would better allow the super funds to get a window into how the fund managers are doing this, because there is a varying level of consideration. That is one thing that I think could give the super funds something better to work with, because those disclosures are really quite basic.

**Senator WONG**—That is a good, practical suggestion. Do you have views about a preferred model of engagement?

**Mr Spathis**—The last six months speak directly and frankly.

**Senator WONG**—I meant more on sustainability issues. I understand the work you have been doing on remuneration, but the issue that has previously been raised with me is: 'I'm a trustee. How am I supposed to know about these issues?' There is that. Obviously there is the information issue. To what extent are we saying that that should be outsourced? Is that something that super trustees should be saying to their funds managers—'We want you to give us an indication of your assessment of the social and environmental risks of the companies in which you are recommending we invest'?

**Mr Spathis**—That may well be the case.

**Senator WONG**—Is that the way to do it, what does that say to the fund managers, and what will the fund managers say about how much extra work that is?

**Ms McCluskey**—There is a compliance burden of reporting, and everybody hates reporting. That is the thing—it is going to mean that you have to report more on your engagement or policies, and the natural inclination is to report less in compliance based reporting as opposed to expanding on the full level of detail. So there will undoubtedly be that complaint, but I think that fund managers who are on top of it and recognise the impact of social and environmental issues on company performance will be able to respond, and the best will come out in a longer run. But it is the role of the asset consultants then to review the cutting and pasting.

**Mr Spathis**—I would like to think that it will be a market driven response—add a few zeros to some mandates and there will not be kicking and screaming—

**Senator WONG**—What do you mean by a market based response? Are you talking in terms of the returns or the price that they are exacting from you?

**Mr Spathis**—If x, y and z managers have entered into a beauty parade to basically invest \$100 million and if you have put up very specific criteria about a range of financial and non-financial considerations then, on the back of what we have learnt and what we will learn over time, the fund managers will want to respond in a corrective sort of way. Then I suspect, based on what I understand, the fund managers will then turn to the brokerage houses and require them—it is the investment food chain again.

**Senator WONG**—It sounds to me as though there is a potential for handballing down the food chain.

**Mr Spathis**—We cannot let the handball go out on the full.

**Senator WONG**—Okay, so what are you saying should happen?

**Mr Spathis**—We will have to follow through.

**Senator WONG**—From a policy perspective, what do you say should happen?

**Mr Spathis**—I understand where you are coming from. I think what Amanda has raised is one tangible example of trying to put the settings in place to encourage the mainstreamers to deal with these things and to think about these things in a way that is more proactive. Macquarie University undertook a study for us about a year-and-a-half ago to look at the standard of product disclosure statements of the non-mainstream investors that provide these sorts of ESG products. There are only about 18 of them making up 90 per cent of the market, and the level of disclosure and response in relation to those product disclosure statements is, again, a bit all over the place. But they provide the consumer with a start, with a basis on which to compare ethical investment products. It is a start.

**Senator WONG**—There are a lot more questions I could ask but there is one last thing. The view you put to us about the sole purpose test is very similar to the view that a lot of companies have put to us about the directors duties test. Some people appear to have been inconsistent—while they might want more enumeration of a wider group of stakeholders for directors duties, they do not want us to do anything with the sole purpose test. I think people should at least be consistent—at least you are consistent. I think you are right: if what we are trying to encourage or what we want to see, just as we want directors to see, is managing social and environmental risk as part of their fiduciary duties and directors duties then surely we want the same with super trustees.

**Mr Spathis**—Agreed.

**Senator WONG**—Not all of them believe that. I have had very, very different views across the trustee community put to me—and, in fact, some quite harshly negative views about any suggestion that that is part of their job. How do we shift that?

**Mr Spathis**—With education and engagement, going back to your term. Our attempt to catalyse trustees has been done not from a political or rooftop perspective but by drawing on some of the academic research, some market related developments and this theme that there is an obligation on the part of the trustee to mitigate risks. It would have to be a trustee who has his or her head in the sand who did not comprehend that there are a range of risks that underpin corporate behaviour and activities that need to be mitigated on an ongoing basis. It came to the fore in the James Hardie issue. There are a range of real issues that confront super trustees as long-term investors in a corporation like this. Dealing with both the human aspect to it and the investment related issue and outcome you cannot really separate out some of these considerations.

In our view it is prudent and beyond just risk management. It makes a good business case to not operate like an island but to be sensitive—not captive—to the market that you are operating in. That applies equally to directors of companies and directors of super trusts. In the main, at least, our constituency—the various industry funds, public sector funds and, I am happy to say, corporate fund members who have become members ACSI—do really look at the retirement sole purpose income generating objective as a very important one and their stakeholder backgrounds actually assist. That objective does not get in the way because it makes them more sensitive in dealing with the factors that influence the short-term, medium-term and long-term performance.

**Mr BAKER**—Amanda can answer this from the perspective of Portfolio Partners. There is nothing that drives the investor as return, both individual and institutional. Was it in 1997 or 1998 that SRIs were first established as a product?

**Ms McCluskey**—It was 1995.

**Mr BAKER**—We have been through probably not a full cycle. What are the returns? We touched on it before. I know it is so complex when you are talking about balance of capital stable, wholesale, retail. It is just hitting you right out there as in master trusts and investment type vehicles.

**Ms McCluskey**—I think that on balance the sustainability funds have tended to outperform. I say that with a disclaimer: I do not think they are a compatible asset class. Within the sustainability ethical funds you will have an ethical fund that fits into a class because it screens alcohol, uranium and tobacco. Then you have an investable universe. They will still hold Zinafex and guns and companies that would be considered unsustainable by another fund that takes a best of sector approach to sustainability, which is much more driven by environmental concerns as opposed to social concerns. You are comparing funds that are very different in nature. I think it is unfair to lump them all together and compare them like that.

The other point that I touched on before is that those funds do not consider sustainability when they value a company. That is what I was talking about when I said we are mainstreaming sustainability. They will determine companies that they will screen out or screen in for sustainability issues. What we are working towards now is when we value a company how does sustainability add value. What is the hidden value from sustainability or how does it give you risk? What are the hidden risks?

**Senator WONG**—Any company as opposed to non-alcohol, non-tobacco—

**Ms McCluskey**—That is it—alcohol, uranium, tobacco. AWB, for instance, had hidden risks. If you were an investor analysing sustainability, looking at business ethics issues and codes of conduct you could see that that potential risk was there. On the upside, if you are an investor that looks at sustainability issues, you are going to value Origin more highly than somebody who will not value solar panels and good corporate governance. It is embedded into the way you value a company financially and that is what we are working towards. That is the mainstreaming of sustainability, which I think will show the real value add as opposed to the socially responsible, ethical investment products that respond to a niche demand for those who want to invest with their personal ethics in mind.

**Mr BAKER**—As you would know, the competition for individual funds to get on the wholesale trust member choice is very strong. That is one way that I can see that would assist in the driving of corporate responsibility.

**Ms McCluskey**—Where I would like to see sustainability and corporate responsibility go is not as a member choice, making up only one or two per cent, but as a mainstream asset allocation like Vic Super do across all super funds. Sustainability is never going to be everything but there is no reason why a large superannuation fund that has six or seven different fund managers, a high growth and indexed based investment—a small cap investment—could not have two different funds in there that have a high weight to sustainability and have people who value the company having expertise in sustainability on board. Then you see the mainstream allocation, the real push, that will drive the behavioural change that we are looking for.

**Mr BAKER**—It is so much more powerful coming from within.

**Ms McCluskey**—There is a great quote that somebody had the other day, ‘When I come back I do not want to come back as the President or the Pope, I want to come back as the capital markets because they are the ones that rule the world.’

**Senator WONG**—Let’s not bother having elections then!



**CHAIRMAN**—There being no further questions, thank you very much to both of you for your appearance before the committee and for your assistance with our inquiry.

[4.05 pm]

**IVERS, Mrs Joanna, Assistant Director, Centre for Public Agency Sustainability Reporting**

**LEESON, Dr Robyn, Director, Centre for Public Agency Sustainability Reporting**

**CHAIRMAN**—The committee has before it your submission, which was numbered 136. Are there any alterations or additions you wish to make to the written submission?

**Dr Leeson**—No.

**CHAIRMAN**—I invite you to make an opening statement, at the conclusion of which we will have some questions.

**Dr Leeson**—I will start with a brief introduction to the history of the centre before we move on to questions. Some of this material is in the submission. The centre was only launched in March last year and it is a collaboration of the Global Reporting Initiative, based in Amsterdam; equally, Local Governments for Sustainability, which is based in Toronto; the City of Melbourne; and the state of Victoria. The rationale for the centre was to create an area where public agency sustainability reporting could be supported and progressed. So our rationale is really to increase and progress public agency sustainability reporting. As you would know, the Global Reporting Initiative, although it applies to all sorts of organisations, has been chiefly focused on the private sector. There was a need to progress the same sort of work and explore the implications for sustainability reporting in the public sector as well. The Global Reporting Initiative is one of four partners in the centre.

The key projects are outlined in the submission, and they include an alliance of agencies across Australia and New Zealand working as a learning group in progressing sustainability reporting in the public sector. They include local governments, state governments and national agencies. There is also a cities alliance—a group of cities working internationally on similar issues such as how to apply the principles of sustainability reporting and progress sustainability reporting across local governments. We are also developing a research program. We have a research paper that was sponsored by the EPA in Victoria looking at some of the issues of how sustainability reporting translates into the public sector and how those issues might be resolved and progressed.

We believe that many of the drivers of sustainability reporting translate very well into the public sector, and there is a case for such reporting through issues such as the realisation of efficiencies and cost savings, in the revelation of different data and in the monitoring of a performance management framework that sustainability reporting can bring to an organisation. There is also the imperative around transparency and accountability, which is very acute in the public sector. Also, there is the footprint of agencies, which can be fairly large, especially in small communities, where the public sector may be the primary employer or, in the case of the United States, a major consumer of energy. So the collective footprint of the public sector is fairly large and sustainability reporting can assist in looking at that footprint and how it might be reduced.

One of the major drivers is looking at the different types of reporting that the public sector already does, especially corporate based reporting, which is represented by the Global Reporting Initiative, for example, and the terms of reference of the inquiry. How does that translate into the public sector, how does it relate to the other types of reporting that the public sector already does, such as state of the environment reporting and policy based reporting frameworks, and how do those sorts of frameworks work together to tell a cohesive story about sustainability performance to stakeholders?

Finally, in the future, we will be focusing on reconciling those frameworks and those styles of reporting, and also on increasing the activity of sustainability reporting in the public sector internationally and helping to progress some notion of best practice and sustainability reporting by the public sector, because that is yet to emerge. We would like to progress a common framework for public sector sustainability reporting internationally, and that is one of the reasons that we are working with ICLEI and also the Global Reporting Initiative. I would like to close there and move on to specific questions.

**CHAIRMAN**—Thank you. I do not have the exact figures here, but we did have evidence earlier and I think had some specific percentages in terms of private sector and public sector extended reporting on corporate sustainability that showed that the public sector was lagging way behind. Why do you think that has occurred?

**Dr Leeson**—There are a number of reasons, and I would like Joanna to add to this if she thinks I have not covered everything. The term ‘sustainability reporting’ translates differently for public sector practitioners. Very often they would see sustainability reporting as reporting on community based indicators or the performance of policy rather than what we traditionally see in the private sector, which is corporate based. Another way of explaining that is, if we look at a single indicator such as energy consumption, the corporate sector would report on its own energy consumption. A department of environment and heritage, for example, if they were pursuing a corporate based report, might report on all of the energy consumed through its operations. They are far more likely to—and traditionally do—spend their energies reporting on the energy consumption of the entire country, the entire state or the entire city. They would label that ‘sustainability reporting’.

That came out in the surveys for the research paper we did for EPA Victoria. We asked agencies internationally to self-identify if they do sustainability reporting or not. Quite a lot of them do corporate based, which is what we are familiar with in the GRI, but quite a lot also label their reporting on some of their policy performance in sustainable development or community based indicators like state of the environment reporting as a form of sustainability reporting. It is a difficult thing to argue that that is not sustainability reporting in that sense. I think the definitions are still broad enough. There is still a lot of ‘white noise’, if you like, in the agenda for that to still play itself out. I have an example here, which I can leave with you, of Gosford City Council, which basically took their state of the environment report, added social and broader economic indicators to it and called it a sustainability report. That seems to be one way that the public sector is pursuing such reporting.

Another reason is that they very often see such corporate based reporting as not necessarily applying to them—that they do not necessarily have the data systems in place to deliver on those sorts of indicators. Their concept of sustainability and what needs to be reported is more

focussed on what is going on in the community rather than what is going on within the organisation itself.

**CHAIRMAN**—What is the difference in both the drivers and the barriers to public sector sustainability reporting compared with the private sector?

**Dr Leeson**—I think some of the drivers translate reasonably well. A lot of the similar drivers are there. They perhaps have a different flavour to them, because the notion of a shareholder as such is different. There is a strong driver around transparency and accountability. That is there. Many of the drivers translate fairly readily through different examples. Some of them may be a little stronger for some agencies than others. I think the barriers are similar, too, in the sense that the feedback we get is around data collection and management of frameworks. The private sector would report other sorts of barriers. The public sector tends to feed back that they may not have the data collection and management systems in place.

There are a lot of similarities. One of the major barriers we get from larger agencies that have large land areas to manage is quite similar to the hurdles that, say, the mining industry face where they have remote sites that they need to manage data from. So an environment and heritage department might talk about managing data out of Antarctica while BHP Billiton talks about managing data from remote sites. We are finding that we are using some of those examples to translate into the public sector. So the technical barriers tend to be quite similar.

**CHAIRMAN**—What is your view of the recommendations of the New South Wales public sector sustainability report, which recommended the phased introduction of mandatory reporting for all New South Wales government departments?

**Dr Leeson**—The inquiry raises a number of issues that we are attempting to resolve through the work of the centre and through some of the practice. The notion of whether or not it should be mandatory is a central issue. That inquiry also advocated whole-of-government reporting. That is a different style of reporting to what we have seen in the public sector so far, which has tended to be agency by agency reporting. So we are dealing with a raft of styles that are still being used and worked out.

The whole-of-government reporting that we have seen so far tends to be relatively weak in the sense that a smaller number of indicators are possible. When governments pursue whole-of-government type reporting they distil indicators down to a very small set on the notion that the information is going to be very difficult to get. You would raise questions about how useful that information is. It is the information layer beneath that that is more telling. On the other hand, the reporting that individual agencies and departments can do can be much more detailed, because you would expect them to have carriage of all of the data.

We would prefer a longer term phase-in for a mandatory framework. That would be more appropriate, as some of the central issues have to be resolved before advocating for a particular style—particularly the notion of a definition of sustainability reporting if they mandate and that this number of agencies need to do some sort of sustainability reporting. The agency itself will decide what that reporting is.

**CHAIRMAN**—What is the take-up rate on your capacity-building program and do you have any feedback from participants?

**Dr Leeson**—I will just check with Jo, because we had a couple of subscribers while I was on leave just recently. In the A/NZ alliance, which is a fairly intense learning group we have put together across Australia and New Zealand, we have 17 agencies. We have another dozen or so in the inner cities program. We had a couple of hundred responses to an international survey. That was reasonably patchy, because it was our first year of that particular survey. We believe we have quite a few of the first round agencies involved, in the A/NZ alliance, in particular. They are mostly the agencies that you would expect would have a hard edge when it comes to environmental sustainability—environment and heritage, EPAs and water authorities. The next level we would be concentrating on is education, health and those sorts of portfolios.

**Senator WONG**—One of the things that a lot of companies that have come before us have talked about is what the drivers are behind them trying to go down a sustainability path. That is a very general way of describing it. Most of those who do clearly want to report on it. The chairman did ask about some of the barriers to reporting, but I think the public sector is different in terms of what might drive behavioural change or policy change. I wonder if you could comment on that. Clearly your organisation is a result of policy decisions made at a number of levels of government, particularly the state government of Victoria. We have had evidence—this might have been raised—of the very poor level of reporting and compliance within the Commonwealth. So what drives change in the public sector on these issues, from your perspective?

**Dr Leeson**—From our perspective?

**Senator WONG**—Yes, I am not asking a broadly political question!

**Dr Leeson**—From our perspective, it is around the value proposition as well: what value does a department or ministry get from adopting a sustainability stance, especially if sustainability is not seen to be part of core business? I think that for the ones I mentioned before, the ones with the hard edge on sustainability who have the most risk and exposure—such as EPAs, the Department of the Environment and Heritage or water utilities, for example—they clearly have some accountability already in terms of sustainability, so that is an easier—

**Senator WONG**—It is easier to sell it to the EPA or Environment than it is to, say, Treasury?

**Dr Leeson**—Yes. Because of course they would say that. I think my mission in life might be to get to get the Australian Taxation Office to do a sustainability report. I think that would be an interesting one. But we do have the Department of Families, Community Services and Indigenous Affairs—they were one of the first agencies to do a report. It does vary considerably from agency to agency, and—this might be the same in the private sector too, or that is what I have seen—a lot of it can be personality driven too. A departmental secretary of a particular persuasion might grab hold of this, derive those values out of it and drive it that way.

**Senator WONG**—It seems to me that one of the reasons why you might want government to do this is (a) as a demonstrator—

**Dr Leeson**—Yes.

**Senator WONG**—and (b) there is also an influence, certainly through procurement, as the purchaser of goods and services.

**Dr Leeson**—There are all the drivers we mentioned before. The footprint is a big driver. If they have a particularly high ecological or social footprint in a particular community, that may well be a driver. So, given their different stakeholders, they will be producing perhaps a sustainability report for different audiences. It might be the communities that they are working within where they are a major employer. They may be a major consumer of energy and also be running on a platform of conservation of energy. Leadership, as you said, is really important as well, because, if the private sector is using these indicators, this language, in sustainability reporting and if the public sector uses the same language, the same indicators, we have a more meaningful dialogue about what we mean by progress in sustainability, because we are using the same metrics.

**Senator WONG**—There is that, but do you not think also that government or the public sector as an example or as a demonstrator is an end in itself?

**Dr Leeson**—It is one end. I do not think it is the only value out of this. There are multiple internal values. There are departments that have difficulty with communicating with staff as well as key stakeholders. Staff working on sustainability issues want to know: ‘How are we performing? Why am I driving that particular fleet car around?’

**Senator WONG**—Checking upon them?

**Dr Leeson**—Yes. Going out there as a staff person, I cannot go out there and talk to heavy industry about what they are doing, when the first question is: ‘What is the department doing?’ or ‘Why are you driving that car, using that paper or occupying that building?’ They are legitimate questions.

**Senator WONG**—Briefly, I have just a couple more things. There is no equivalent agency or body to yours at the federal level, is there?

**Dr Leeson**—No. We are international at the moment, in that sense. We are working with the World Bank, and down to rural councils.

**Senator WONG**—The second point is about GRI and the public sector. Is it readily applicable to public sector reporting?

**Dr Leeson**—Yes, in the sense that they have also developed a public sector supplement.

**Senator WONG**—Yes, they did talk about that.

**Dr Leeson**—In terms of where they are looking to take this work into the public sector, the latest iteration, the third version, of the central guidelines—

**Senator WONG**—G3?

**Dr Leeson**—yes—is a bit more user-friendly for the public sector as well. We are hoping to push that and translate that further into the public sector and provide more feedback to GRI on how they might evolve the guidelines themselves.

**Senator WONG**—My final question is this: one of the things ANZ put to us today was that they do not think the UK minister for corporate responsibility is particularly useful. When they were pressed about it, it was not so much that they do not think it is a good idea for government to have someone with some responsibility for it but that that minister is so—I think the phrase was—‘low down the food chain’ in terms of the hierarchies within a government that it really is not seen as front and centre to economic activity. Do you find difficulty because of where you are, how you have come about and where you are located in terms of the public sector in influencing perhaps departments—say, your more obviously economic, industry, Treasury type focused agencies—where you might want to have some change? I am not being critical; I am just interested in whether you think that where you are placed in the public sector is an advantage or a disadvantage in impacting on behavioural change.

**Dr Leeson**—I think our issue in getting access or getting a good hearing from those portfolios is partly historically about where the term ‘sustainability’ fits. In many governments it fits with or is taken up by an environment portfolio and, as you said, they would do reporting of course. I think that is an issue for us, rather than where we are located or our history.

**Senator WONG**—Or who backs you?

**Dr Leeson**—Yes, I think that is part of it, but the Global Reporting Initiative has the same sorts of issues in getting access too. Because it is tagged with a sustainability label, it does suffer from: ‘You stick to the environment or the soft social areas, but—’

**Senator WONG**—‘Don’t come and talk to the tax office’?

**Dr Leeson**—Yes, ‘Don’t come knocking on the door of the tax office.’ And, if you did, you would get possibly some blank stares.

**Senator WONG**—‘Why are you here?’

**Dr Leeson**—Yes. ‘What do you want us to do? What do you expect us to do?’ Although part of the agenda of what we are progressing with sustainability reporting is their corporate base performance, we are not overly interested in how much energy the Australian Taxation Office uses in fulfilling its operations. The area that we would like to progress is when we get into the next level of reporting about their policy performance in terms of sustainability, and that is the bread and butter of the public sector. That is the next layer that we are seeking to extend this framework into.

**Senator WONG**—Is there government policy around mandating reporting for any agencies or a time frame around that?

**Dr Leeson**—No, except for the New South Wales inquiry. That is the only one that we are aware of.

**Senator WONG**—But not Victoria?

**Dr Leeson**—Others, no. They are absorbing some GRI indicators into their financial reporting requirements, and there are a lot of jurisdictions in South Australia and Western Australia that absorb some GRI indicators into their whole-of-government approach, but I do not think there are any others that are mandated, even overseas.

**CHAIRMAN**—We heard evidence from a group in Western Australia which I think are similar to yours, which had been established by the state government there, as I recall—Professor Newman's group. Do you have any links with them?

**Dr Leeson**—We have had some discussions on and off with the Premier's office in WA. I understand that in Professor Newman's work on their whole-of-state sustainability strategy they are looking at getting some sort of reporting framework up against that. My understanding is that there are some similarities with the work of the commissioner here in the sense of making some whole-of-state reporting framework. What we would like to do through the centre is to create a framework that encompasses the public sector, the corporate performance base, their internal performance and the performance of the entire community on sustainability—the whole-of-state level—plus the performance of public policy in that sense.

Ideally, we would like to move towards reporting on government energy consumption, for example, whole-of-state energy consumption and the amalgam of all the states policies on reducing energy consumption as well. Then we would have a meaningful picture of what government is doing in its own patch and the impact of its policies but also the impact across the whole state. My understanding of Professor Newman's work is that it has a whole-of-state framework. Managers in the public sector quite rightly get anxious about whether or not their performance is going to be judged on a whole-of-state set of indicators, as opposed to a set of indicators that are about the policies that they actually have the resources to implement.

**CHAIRMAN**—There being no further questions, thanks to both of you for your appearance before the committee and for your help with our inquiry.

**Dr Leeson**—I will leave copies of some public sector reports for you.

**CHAIRMAN**—Do you want to table those?

**Dr Leeson**—Yes. I have reports from Gosford City Council, Sydney Water, environment and heritage—which you probably know of—and the World Bank's *Focus on sustainability* report.

**CHAIRMAN**—They are received as ordered. Thank you very much.



[4.33 pm]

**AGLAND, Mr Reece, Technical Counsel, National Institute of Accountants**

**RAVLIC, Mr Tom, Policy Adviser, Financial Reporting and Governance, National Institute of Accountants**

**CHAIRMAN**—The committee has before it your submission, which we have numbered 72. Are there any alterations or additions you wish to make to the written submission?

**Mr Agland**—No.

**CHAIRMAN**—I invite you to make an opening statement, after which I am sure there will be some questions.

**Mr Agland**—The National Institute of Accountants thanks the committee for this opportunity to speak to you on our submission in relation to the important issue of corporate social responsibility. The NIA is one of the three professional accounting bodies in Australia, representing over 14,000 accountants. As a body, we are not shy about letting known our views on issues that are important to our profession and more generally to the public good.

In the end, discussions of corporate social responsibility tend to boil down to where one stands on the issue of what good policy is and what role the law has in setting and enforcing such. The NIA is firmly in the camp that believes that corporate social responsibility is an issue that needs to be discussed openly but that the big stick of the law is generally counterproductive to the attainment of positive outcomes. The days of companies saying that they only represent the bottom line and everything else be damned are pretty much over. Companies now understand the importance of engaging with the public on where they stand in relation to the community and its expectations. Good corporate citizens take the opportunity to inform the public of what they are doing and why. This is good for both shareholders and the broader stakeholder community.

Some may see corporate responses on CSR, where they are not backed by strong legislative rules, as merely publicity driven good news stories to boost their public profiles. We disagree with such cynicism. If you want to have a real impact rather than a tick and flick response to CSR that mandating the reporting in the Corporations Act is likely to create, then companies need to see the benefit to themselves of CSR.

What we believe is necessary is not changes to the Corporations Law but changes to corporate culture. This is done not by law but by education, building community participation and making directors and company officers aware of their role in the broader community. Work in this area has already begun. There are triple bottom line theories, ASX, good corporate governance rules and international developments such as the International Accounting Standards Board's discussion paper on management commentary. A concern with setting rules of CSR disclosure in the Corporations Law is that annual reports will no longer be expansive and discussion based on issues such as CSR but rather be technical, legalistic responses designed to meet legislative minimum and avoid potential corporate risk—just like what happened in the financial services

area with product disclosure documents. Corporations and their laws will put significant effort into meeting the legal requirements, mitigating corporate risk and dotting every potential 'i'. What will be lost are the important issues that reporting would otherwise bring out.

We believe the comments of ASIC's executive director, Malcolm Rogers, that in the past the regulator has not been shy to seek greater powers is in effect pleading that it is not the role of the corporate law to enforce these issues. ASIC is right to highlight the confusion that will exist in trying to define the various sets of potential stakeholders and then to determine an appropriate hierarchy of those interests and then place this against the decision a company makes. This guillotine will not lie only with the regulator but also with corporations.

Furthermore, it is not an issue that if Corporations Law is not changed then nothing will be done or that there are no alternatives other than changing the law. The view of the NIA is that the wider community is already engaged in vigorous discussions in this area. We have the ASX looking at it, we have CAMAC reporting on it, we have the International Accounting Standards Board looking at it and we have politicians of all persuasions commenting on it. This is a good situation to be in, we believe.

**CHAIRMAN**—Thank you. Mr Ravlic, do you have anything to add?

**Mr Ravlic**—Most certainly. You would not expect anything else, would you?

**CHAIRMAN**—Not with you, Tom.

**Mr Ravlic**—There are several issues that we would like to also highlight. We believe that it is the role of the accounting profession in particular to seriously consider the way in which stakeholders, shareholders and others should be educated in the community. There is a fundamental rationale for this. When you empower the owners of companies with knowledge, they are then equipped with the capacity to ask better questions of those who are directors of the companies that they own shares in.

I had the privilege of addressing a group of Shareholders Association members in New South Wales last year. It was quite a delight to accept an invitation from them to brief them on the impact of the new accounting standards. I was stunned when they said they had had nobody from within the profession take them through what these changes will mean and how they could read a companies annual report under the new rules and make sense of it. After that followed an agreement between us and the ASA to supply them with a general article on the changes to accounting standards.

That little example really does illustrate that there is a role for the profession to take these issues further into the community to educate and empower the community. That is not necessarily something the parliament or legislators across the board need to be involved in. They perhaps need to put a bit of pressure on the community and highlight the importance of the issue to the community but not necessarily legislate.

The other point we wish to highlight this afternoon is that we are very aware of the concerns of people like the President of the Group of 100, Tom Honan, when it comes to companies making voluntary disclosure on prospective statements. It is a great concern to us that there are

analysts and others out there who take forecasts that companies put in their reports of, for example, earnings that they may eventually hit—or hope they will hit—and then criticise them mercilessly for not reaching that target as the basis of demonstrating how great an analyst they are.

Companies are being scared away from providing voluntary disclosure in that sort of environment. They feel they are going to get pilloried by analysts and others. So putting anything in the law that creates that type of adversarial relationship between those who look at companies and those within companies who have to respond would seem to be counterproductive to the parliament's objectives.

**CHAIRMAN**—Thanks to both of you for your opening statements. I take it from what you have said that you regard the current directors duties in the Corporations Law as sufficiently permissive for directors to take account of stakeholders other than shareholders?

**Mr Ravlic**—When you consider that directors have a duty to have regard for their shareholders primarily and to tell them the state of the company, to tell them the risks the company faces, if it were to emerge that the directors and senior management were not revealing necessary information about the way in which a company was impacting on the environment or anything else, for that matter, and those issues boiled over at some stage, the directors really and truly ought to be ashamed of themselves. It beggars belief that someone could argue that they should not be disclosing the full gamut of what is and what may be to shareholders, who are effectively owners in the business.

**CHAIRMAN**—That is on the issue of disclosure. What about the issue of actual decision making: taking decisions that might be perceived as not necessarily certainly in the short-term interests of shareholders, although directors may be able to argue that they are in the long-term interests of shareholders—taking decisions that are in the interests of a group of perceived stakeholders other than the shareholders, such as employees, suppliers or the broader community?

**Mr Ravlic**—It is quite interesting that you mention employees. One would have thought that, if you were to make a decision based on the demands of employees or the welfare of employees and that decision made to the benefit of employees increased employee productivity, one would consider that any shareholder opposition to employee productivity being increased would be counterproductive to increasing shareholder value at the end of the day. So it is a bit counterintuitive to say, 'Right at this minute, shareholders dispute a decision.' It might be, on the face of it, to the benefit merely of the employees or certain other sectors of the community, but in fact the company's reputation may improve as a result of taking a decision on whether to donate money to a particular cause, for example, or to take a slightly different approach to industrial relations. If the directors were to disclose that and shareholders said, 'Why are you doing this? Why are you increasing the benefits to employees in this space? This costs us money?' one would have thought that the exact response that the directors would give is: 'It may cost us money, but if people are more productive it should ensure that the bottom line looks much better in the future.' It is a question of educating those shareholders who are getting disgruntled, about the entire debate surrounding a particular issue.

**CHAIRMAN**—With regard to reporting, is there any validity in having a standard reporting index like the GRI, for instance, or is the diversity of companies so great that a standard index is pretty meaningless?

**Mr Ravlic**—That is an interesting question. If you consider the dilemma that exists with financial reporting—that is, reporting financial performance in accordance with accounting standards—you find that in most cases the same rules apply and diversity is taken account of. For example, there is the narrow set of circumstances in extractive industries and to some extent in insurance companies still here in Australia, although that will gradually get phased out over time.

When you look at sustainability reporting or just general, quality corporate reporting—‘sustainability reporting’ is a wonderful term—across the board, financial and non-financial, the best you can do is to hope for a set of non-mandatory guidelines that companies and their stakeholders are aware of and that both can hold each other accountable to: that is, the qualitative notions of the types of things that ought to be disclosed and certainly the way in which some of these things may be presented. But to have a concrete set of guidelines embedded in law would—

**Mr BAKER**—We have heard the argument from a number of companies saying that the GRI is so flexible that it can be applied right across the board; whereas, if I can understand it, it is impossible to compare financial to non-financial reporting because one is prescriptive and for the other one, if you started going down the line of prescriptive, you would need to write another whole documentation of that. Whereas it has been put to us that the GRI has the capacity of examples within it applying to any company and that it has the flexibility.

**Mr Ravlic**—One of the things that is actually quite comforting in what you have just said is that, if companies themselves have elected to a large degree to move to something like GRI as the default standard—and that is probably the way in which it ought to be—and if the market is dictating that a certain set of criteria is acceptable, and we are seeing the move towards a certain set of criteria, then that is probably a good indicator as to what might work. But that has largely been market driven, as opposed to legislators and others saying: ‘We want you to be doing this.’ And that is the argument we are putting. If it is an organic thing and people are gathering around GRI as a way in which these things can be expressed, that is wonderful. Financial reporting things are also flexible, but you have a framework in which financial reporting can be conducted, so we have no argument there.

**CHAIRMAN**—Following on from that, what is your view of Minister Campbell’s request to the ASX Corporate Governance Council to include in their principles of good corporate governance and best practice guidelines a recommended standard reporting procedure or reporting index?

**Mr Ravlic**—That is an interesting request made by Senator Campbell. We were made aware of that as a member of the Corporate Governance Council last year. The Corporate Governance Council has many constituents around the table, as you are well aware. Each of those constituents will have examined the idea. To the extent that those guidelines are not mandatory and that they can be used in a flexible environment, that is ideal, and listed companies will be judged by the marketplace as to their compliance. Some people in the marketplace may need a

bit of education as to where those requirements lie and how they can best enforce them. Certainly we are well aware that people at the shareholder level and probably in the financial media as well need to be made more aware, perhaps through training and other means, about the fact that these are the benchmarks to which they can hold companies accountable.

**CHAIRMAN**—You say that the market is driving this, but, particularly given the absence of a standard reporting index, how seriously do you believe the financial markets currently take the reports of those companies that do report on corporate sustainability?

**Mr Ravlic**—We have spoken to people in general terms about the work BHP Billiton and other companies do. They are very positive about the quality of the sustainability reporting that the extractive industry entities do. That is something that perhaps could be replicated by others, should they choose to take that example up. But, if they do not have the same demand that BHP Billiton, Rio Tinto or others have on them from environmental groups to produce that sort of reportage, they are less likely to take that up. It requires people to take up the responsibility themselves. One issue that does grate with us is that, when we consider all of the responsibilities directors have as directors of companies, we reflect on the issue of whether owners of shares in companies take their responsibilities as seriously. It is incumbent upon shareholders themselves, whether they are institutional or individual retail shareholders, to take a greater interest in what the companies are saying and probably not saying to them.

**CHAIRMAN**—What is your view on the desirability or otherwise of the possibility of an external audit of sustainability reports presented by companies?

**Mr Ravlic**—That is an interesting issue from the perspective of what it is that an external auditor may be auditing and what criteria you may use for audit. To the extent that the auditing profession, touch wood, has the auditing standards for financial reporting right, we know what we are dealing with: they are being measured against the accounting standards and the requirements of the Corporations Act that the external auditors, generally speaking, have their systems in line with the audit standards requirements and the requirements of Corporations Act and that they have married their own internal structures to be able to do that job competently.

When we look at sustainability reporting we are not as convinced that the profession is sophisticated enough to apply any audit model there, because you have to use certain criteria to be able to audit it. People may be able to do reviews in line with a pronouncement issued by Standards Australia, for example—a client may wish an auditor to look at their systems and they may well have a quality assurance type partner to do that sort of work, look at the systems and see whether their systems match up with what a quality control standard issued by Standards Australia may in fact say. You would need to produce some standards for auditors to get a standardised practice across the board to ensure that audits are conducted the same way by all the firms in relation to anything to do with sustainability. I think we are some way off, and, in fact, that is an issue we intend to raise with the Auditing and Assurance Standards Board at some point in this country.

**CHAIRMAN**—Another issue that has been raised with us is this issue of ‘short-termism’. People, particularly management and some investors, are taking a short-term view of the company’s welfare rather than a longer-term, sustainable view. It has also been suggested that changing the capital gains tax provisions might assist and particularly encourage investors to

take a longer-term view of the company's circumstances, such as whereby capital gains tax would scale down the longer an investment was held in a company and thereby provide more incentive for a longer-term investment and therefore take a longer-term view of the company's welfare. Do you have a view on that?

**Mr Ravlic**—Certainly. Tax would only be one of the reasons why an individual would seek to invest. They would certainly be looking at some kind of return.

**CHAIRMAN**—They would be looking at the tax on their return when they realise their investment.

**Mr Ravlic**—Yes. If people want a return and they are looking at maintaining a shareholding in an entity over a long period of time, anything that can be done in tax reform to provide the best possible return to an investor who has taken the trouble to provide for their own retirement would be ideal. But there is a problem with that insofar as, irrespective of whether you have a CGT relief belief built into the system, the investor still has to accept the reality that the share may well tank over a period of time and they still have to make a decision as to whether or not they wish to hold the particular stock. So any tax reform in that area would be wonderful to ensure people are encouraged to save and to invest for their retirement—because the Australian population is getting older. In fact, I shrieked with horror and my mother shrieked with joy when she discovered late last year that I had my first strands of grey hair coming out of my scalp. Even I have to worry about that issue.

**Mr BAKER**—It looks pretty black to me!

**Mr Ravlic**—If we take the rate at which my grandmother greyed, it will probably turn from black to white fairly quickly! This is an issue that we all need to reflect on—how we better encourage people to save more. If improving the risks in capital on the stock market is a way of encouraging people to provide for their own retirement, we would be quite happy for it, provided it is explained to people that to invest, irrespective of any tax benefit they get, is still riding a roller-coaster. It is still going into the Luna Park of the financial market. It is going to go up and down. There is no guarantee that the stock that they paid \$3 or \$4 for will remain there over a long period of time. Short termism is a problem. It is a problem for analysts. It is a problem from the point of view of management incentives of finding some way of improving the performance of an entity. It will certainly continue to be a problem for those who are investing in companies. Anything that can be done to improve the stability of a shareholding over time would be great, but you still need to explain the vulnerabilities and volatility in the market.

**Mr Agland**—I also do not think that changing the tax rules is really the best way to get people to see their company in a broader sense; they are still only looking at their return. If you want them to take a broader look at what their company is all about and why they are investing in it, then they need to have an appreciation for things other than their own financial returns. I do not see merely changing the tax rules as being the catalyst for changing that mentality and it is changing that mentality that will have a broader impact than simply scaling back the CGT requirement.

**Mr Ravlic**—It is a bit like adopting the Jerry Maguire mentality to the financial markets—basically encouraging people to look at the situation and say, 'Show me the money.' You need to

add on to that a more broad education program for which other people take the responsibility—like the accounting profession. Certainly government may be able to come up with a way of encouraging that process as well so that people see a broader picture. The minute you create the incentive for people to stick around and hold an investment for an inappropriate reason—that is, by the end of four or five years it might look better—then in fact at the end of that time they may be very upset with Senator Chapman and everybody else who has argued for a change in the tax law because it will not look so attractive. They have to be educated that there is a wider perspective that needs to be taken on board.

**Mr BAKER**—It is fairly clear that non-financial reporting has got to be industry led and industry driven, and whatever way that we can facilitate that process—

**Mr Agland**—That is the issue: parliament does not only influence things by changing the law; it influences things by getting out there in the public and opening discussions and having things like this where we can all sit around and go, ‘Okay, the world is changing. How can we change with it.’ Changing the law is not always the solution.

**Mr BAKER**—It is also getting the message across that we are serious about the culture out there.

**Mr Agland**—Yes, that if we do not do something, you will.

**Mr BAKER**—Yes.

**Mr Agland**—I think we are always aware of that. That is why we as a profession and other professions have to say, ‘What is our role in this? Where do we educate the public?’

**Mr BAKER**—Because it is not rocket science to think about this aspect of the whole investment cycle, investment process and business process.

**Mr Agland**—Yes. Through issues like triple bottom line accounting, the accounting profession has been for a long time looking at this; it is not like we have suddenly woken up to this as an issue. But it does not mean we do not have role in doing more.

**Mr Ravlic**—One thing we are happy to leave with the committee is a copy of the ISB’s discussion paper on management commentary. The international standards setter is looking at the concept of management commentary and whether it should be issuing mandatory or non-mandatory guidelines on management commentary that sits outside financial statements. It is a reasonable discussion paper. The committee may wish to put the discussion paper on a list of its readings prior to finalising its report.

**CHAIRMAN**—It being the wish of the committee that it be received, it is so ordered. You have just said that you see some role for government as part of the education process and you do not see a need for any legislative change. Are there any other initiatives government can take to assist in the broadening of corporate responsibility activities and reporting?

**Mr Ravlic**—There are several things government could do. One of the things that may work is to perhaps provide some funding so that a group of organisations—say, professional

accounting bodies, shareholder groups and others—are encouraged to produce, say, guides to financial reports or guides to good disclosure and questions that shareholders should ask. Perhaps legal and accounting professions and otherwise should be encouraged to focus on producing handbooks or guides for shareholders and investors on the issues they should be thinking about when they invest in companies. One of the things that amazes me when I talk to shareholders—and certainly did when I spoke to the Shareholders' Association in what was a fairly lengthy session for about two hours last year—was the lack of contact with organisations such as ours and the amount of appreciation they had when we took them through the balance sheet, the income statement and other things.

**Mr Agland**—Another way the government can help, as previous speakers were talking about, is for government agencies to lead. If the government wants to set what they think private companies should do, a very good way of setting that is saying, 'We expect the public service to do this and to meet X, Y and Z.' By leading by example the government can do a lot to accept the language in relation to these issues.

**CHAIRMAN**—Thank you very much to both of you for your appearance before the committee and for your help with our inquiry. It has been very useful.

**Subcommittee adjourned at 5.04 pm**