

CHAPTER 1

INTRODUCTION

Background

1.1 On 23 June 2005 the committee resolved to conduct an inquiry into corporate responsibility and triple-bottom-line reporting, for incorporated entities in Australia, with the following terms of reference:

- 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.

1.2 In inquiring into these matters, the committee was tasked with considering both profit and not-for-profit incorporated entities under the Corporations Act.

Conduct of the inquiry

1.3 The inquiry was advertised in *The Australian* newspaper and on the Internet. Written submissions were invited from interested parties. The committee contacted a wide range of corporations, peak bodies, industry groups, non-government organisations, and academics, inviting them to participate in the inquiry. Details of the inquiry were placed on the committee's website.

1.4 The inquiry generated considerable interest. The committee received over 140 submissions from various individuals and organisations, the most number of submissions to an inquiry of the committee in the last decade. Submitters are listed at Appendix 1.

1.5 The committee held nine public hearings: in Sydney on 23 November 2005, 9 and 10 March 2006; in Perth on 20 February 2006; in Melbourne on 23 and 24 February and on 5 April 2006; and in Canberra on 27 and 29 March 2006. A list of witnesses who appeared at the hearings is at Appendix 2, and copies of the Hansard transcripts are available through the Internet at <http://www.aph.gov.au/hansard>

Inquiry by the Corporations and Markets Advisory Committee

1.6 In March 2005, the Parliamentary Secretary to the Treasurer, the Hon Chris Pearce MP asked the Corporations and Markets Advisory Committee (CAMAC), a body which advises the government on corporations and financial markets matters, to investigate corporate social responsibility. The parliamentary secretary in particular sought advice on whether there should be any change to the directors' duties provisions of the Corporations Act, and whether the Corporations Act should require certain types of companies to report on the social and environmental impact of their activities.

1.7 The scope of the CAMAC inquiry is comprehensive, and there are many issues common to both the CAMAC inquiry and the inquiry of the Joint Parliamentary Committee. In November 2005, CAMAC produced a valuable discussion paper, intended to provide information, draw out issues, and stimulate discussion. The Joint Parliamentary Committee has found this discussion paper very useful, and draws on its content in parts of this report.

Structure of the report

1.8 The inquiry report is presented in eight chapters. Chapter 2 provides a background to the debate on corporate responsibility, giving definitions, and outlining the historical context of corporate responsibility, the role of corporations in society, and the current state of play in Australia.

1.9 Chapter 3 discusses the drivers and principles of corporate responsibility, and chapter 4 addresses duties of directors under the *Corporations Act 2001*. Chapter 5 discusses the role of institutional investors in the corporate responsibility debate. Chapters 6 and 7 discuss sustainability reporting, and chapter 8 looks at ways to encourage corporate responsibility in Australia.

Acknowledgements

1.10 The committee thanks those organisations and individuals who made submissions and gave evidence at public hearings. The committee also thanks Ms Susan Dudley and Mr Jerome Davidson from the Parliamentary Library for their assistance in drafting parts of chapter 2.