CHAPTER 8

ENCOURAGING CORPORATE RESPONSIBILITY

8.1 Term of reference (e) of this inquiry requires the committee to consider 'any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and/or their directors.'

8.2 With growing international recognition of the importance of non-financial factors to overall company performance, there is a risk that if Australian companies do not keep pace with their overseas counterparts, potential business and investment opportunities may be lost abroad. Therefore, although in the committee's view it is not appropriate to mandate the consideration of stakeholder interests into directors' duties, there is a need to consider seriously options to encourage greater uptake and disclosure of corporate responsibility activities.

8.3 In earlier chapters the committee concluded that amendment to directors' duties is not required and that there should be a continuation of the voluntary approach to sustainability reporting. The committee now turns its attention to the various ways in which corporate responsibility should be encouraged in Australia. This chapter considers in turn the role of investors, business and industry, community groups and government.

Institutional investors

8.4 Chapter 5 outlined a relatively low level of interest by Australian institutional investors in the social and environmental performance of the companies in which they invest. There is however a growing realisation amongst institutional investors of the potential financial impact posed by non-financial risks. As a result institutional investors are beginning to take the issue of corporate responsibility more seriously.

8.5 The main reason that institutional investors have not had a stronger interest in non-financial risk management to date is due to a lack of comparable and robust information on these issues. As the Financial Services Institute of Australasia recognised:

> The responsibility for identifying and managing these risks does not, however, rest with corporations alone. The financial services industry – from fund managers and their buy-side analysts, investment banks and client advisory divisions – all have a responsibility to source, analyse and report to investors on all matters of risk that impact on company operations, both in the current reporting season and over a long-term horizon.[1]

8.6 To seek to improve this situation the committee has made two recommendations in earlier chapters of this report: that Australian institutional

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1 Financial Services Institute of Australasia, *Submission 146*, p. 3.

investors become signatories to the *UN Principles for Responsible Investment* (chapter 5); and for the inclusion of further guidance on the disclosure of a company's top five sustainability risks and associated management strategies (chapter 7). If adopted, these two recommendations will give the investment sector greater access to, and increase the interest in, the non-financial affairs of companies.

8.7 In addition to these two recommendations the committee believes there is scope to educate institutional investors better in relation to the potential financial impacts of non-financial risks. There is scope for both companies and investors, as well as other stakeholders, to understand better the often intangible benefits of 'corporate responsibility activities'. Recommendations regarding these two areas are discussed below in a section on education. If adopted, institutional investors and relevant industry associations are encouraged to support and engage in these initiatives.

Business and industry initiatives

8.8 During the course of this inquiry the committee heard many encouraging and inspirational examples of the activities that corporations are undertaking under the broad banner of 'corporate responsibility'. These activities are often win-win situations whereby companies benefit from improving relations with key stakeholders, and stakeholders benefit from corporate support and expertise.

8.9 There were also numerous suggestions of ways in which business collaborations could leverage each other's knowledge and experiences of corporate responsibility, thus leading to improved performance.

An industry-led corporate responsibility network

8.10 Prominent amongst these was the suggestion of a focussed industry network to concentrate the efforts of the business community. Mr Mather of BT Governance Advisory Service (BTGAS) described the current problems associated with a lack of a common business voice:

> There is a lot of talk going on at the moment, in relation to industry groups, in regard to corporate responsibility. In fact, from a meal-ticket perspective, there is no better meal ticket than organising conferences in this particular area! That is a problem in itself, because it results in fragmentation and a cottage-industry approach.[2]

8.11 Mr Mather went on to recommend the formation of a market-led taskforce. Ms Bisset of the National Australia Bank also recognised the current fragmented approach and the benefits of a broadly-based business group to encourage corporate responsibility:

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2 Mr Erik Mather, Head, BT Governance Advisory Service, *Committee Hansard*, 10 March 2006, p. 75.

> there is some [corporate responsibility] 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. ... I think any knowledge exchange and best practice sharing activity where organisations come together ... 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.[3]

8.12 The committee heard of overseas examples of industry networks. Several submissions referred to the Business in the Community (BITC) initiative in the United Kingdom. BITC describes itself as 'a unique independent business led charity whose purpose is to inspire, engage, and support and challenge companies, to continually improve the impact they have on society.'[4]

8.13 BITC provides a platform for collaboration between businesses and for sharing best practice. It works with business to develop practical and sustainable solutions to manage and embed responsible business practice.[5]

8.14 According to researchers from Monash University, BITC was established in 1982 'in response to perceived failures of business against a backdrop of rising unemployment and urban rioting and attempts to integrate considerations of societal impacts into business strategy'.[6]

8.15 The Australian Business and Community Network (ABCN) advised the committee that 'Companies join BITC because they recognise the value of integrating policy and practice and the internal dialogue this prompts'.[7] The ABCN provided further description:

> ...membership [of BITC) provides a unique platform for ... dialogue to identify and address key challenges facing business and society, as well as an opportunity to connect with a network of international partners. BITC member companies employ over 15.7 million people across 200 countries. In the UK, their members employ over 1 in 5 of the private sector workforce.[8]

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3 Ms Rosemary Bissett, Group Manager, Corporate Social Responsibility, National Australia Bank, *Committee Hansard*, pp 13–14. The two halves of this quote appear in reverse order in the Hansard transcript.

4 http://www.bitc.org.uk/about_bitc/index.html (accessed 1 June 2006).

5 http://www.bitc.org.uk/about_bitc/index.html (accessed 1 June 2006).

6 Hon Dr Ken Coghill, Dr Leora Black, Mr Dough Holmes, Monash University, *Submission 71*, p. 13.

7 Australian Business and Community Network, *Submission 109*, p. 18.

8 Australian Business and Community Network, *Submission 109*, p. 18.

8.16 In addition to BITC, the committee also heard of the European business network CSR Europe. During the inquiry the committee met with a representative of CSR Europe, who provided the following information:

> CSR Europe is the leading European business network for corporate social responsibility with over 60 leading multinational corporations as members. Since its inception in 1995 by the then European Commission President Jacques Delors and leading European companies, the mission of CSR Europe has been to help companies integrate corporate social responsibility (CSR) into the way they do business, every day.
>
> Our practices are not only based upon the sharing of CSR solutions and shaping the modern day business and political agenda on sustainability and competitiveness, but we also offer practical approaches such as stake-holder engagement, helpdesk services, and business exchanges and seminars.[9]

8.17 CSR Europe was originally established as a voluntary European-wide business network with the backing of, and seed funding from, the European Commission. In the past decade its membership has grown from seven founding members to over 60 multinational organisations. CSR Europe is affiliated with 22 national partner organisations including the UK's BITC. Through this extended network CSR Europe acts as an umbrella organisation, representing and assisting around 1800 enterprises across Europe.

Committee view

8.18 The committee notes these models of industry networks, and considers that such a network in Australia would provide a valuable service to both those organisations already actively engaged in corporate responsibility and those that may be looking to integrate corporate responsibility into their business operations and strategies. The committee notes in particular the BITC model, which provides a model of a business led network which has grown from industry itself.

Recommendation 13

8.19 The committee recommends that the Australian Government provide seed funding to establish an organisation, the Australian Corporate Responsibility Network, to be modelled on the United Kingdom initiative Business in the Community.

8.20 The proposed Australian Corporate Responsibility Network should equip its member companies with the expertise to design and implement successful, corporate responsibility business policies, practices and processes that are an integral part of business operations and strategies. It should provide practical resources and services, including expertise, advisory services, and training.

9 Ms Catelijne Wessels, Senior Director, Membership Services, CSR Europe, private communication, May 2006.

8.21 The proposed Network should be structured so that it has the ability to manage specific sector based (such as an investors' network or an SME network) or issue based (such as workplace safety or energy efficiency) subgroups.

8.22 The proposed Network would be an industry vehicle to raise the level of collective corporate responsibility performance in Australia. As such there should be a clear expectation that after an initial period of funding from public sources, the initiative will be self-funded through membership contributions. There should also be a clear expectation that founding members should make a meaningful contribution to demonstrate their genuine commitment.

8.23 The committee expects that to be successful the proposed Network will need the support of relevant industry associations. The Network should seek to establish linkages with similar business networks elsewhere in the world, including BITC in the UK, CSR Europe, Business for Social Responsibility in the US, and comparable organisations in Asia.

Remuneration

8.24 Chapter 3 points out that there are strong market drivers that influence companies to take a short term view. One element of this market dynamic is short term remuneration packages. The committee heard evidence of the strong short term incentives included in many company directors' and executives' remuneration packages. According to Mr Mather of BTGAS the typical incentive package is based on the company's 12–36 month return to shareholders.[10] The committee was also told of how these short term incentives work against corporate responsibility initiatives and to the detriment of long term shareholder value and company profitability.[11]

8.25 Evidence of some emerging and innovative remuneration components that are linked to specific community, market, environmental, health and safety targets was also presented to the committee. Mr Horne of Alcoa for instance outlined the significant proportion of an employee's performance incentive that can be directly linked to corporate responsibility targets:

> The incentive compensation portion is between two and five per cent at [the supervisor or superintendent] level, ranging to above 30 per cent the higher the individual works in the organisation.[12]

10 Mr Erik Mather, BT Governance Advisory Service, *Committee Hansard*, 10 March 2006, p. 72.

11 For example, Professor Margaret Nowak, Research Director, Governance and Corporate Social Responsibility Research Unit, Curtin Business School, *Committee Hansard*, 20 February 2006, p. 28.

12 Mr Kim Horne, Refinery Manager, Pinjarra, Alcoa World Alumina Australia, *Committee Hansard*, 20 February 2006, p. 15.

8.26 Mr Horne's evidence is consistent with that of other witnesses which suggests that employees that are higher in an organisation are more likely to have a component of their remuneration linked to long-term and corporate responsibility performance.

8.27 Mr Mather also provided an example:

> where the chief executive's performance bonus is measured against, in part, international ratings in relation to global responsibility; I think in that case it is the Dow Jones sustainability index.[13]

8.28 Such incentives appear to be effective in refocusing management decisions. When asked by the committee Chair 'has this actually changed managers' approach in practice?' Mr Horne of Alcoa responded 'absolutely'.[14]

Committee view

8.29 The committee notes that providing financial incentives to company directors, executives and managers is an effective way to encourage companies to take a longer term view, which will ultimately be in the better interests of the company, its shareholders and company stakeholders.

Recommendation 14

8.30 The committee recommends that investors, stakeholders and relevant business associations should encourage companies to include long term (beyond a three to five year timeframe) and corporate responsibility performance measures as part of the remuneration packages of company directors, executive officers and managers.

Sectoral initiatives

8.31 During the course of the inquiry the committee heard evidence of a range of sectoral initiatives to encourage greater participation in corporate responsibility activities. These included initiatives in the mining and finance industries.

Mining sector

8.32 The committee was referred to *Enduring value: the Australian minerals industry framework for sustainable development,* an initiative of the Minerals Council of Australia (MCA) in 2004. This initiative requires signatories (a condition of MCA membership) to assess the systems used to manage key operational risks and publicly report sustainability information based on the GRI indicators. According to Ms Cohen of the WA Chamber of Minerals and Energy, *Enduring Value*:

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13 Mr Erik Mather, BT Governance Advisory Service, *Committee Hansard*, 10 March 2006, p. 72.

14 Mr Kim Horne, Refinery Manager, Pinjarra, Alcoa World Alumina Australia, *Committee Hansard*, 20 February 2006, p. 15.

> provides a framework for incorporating sustainable development in business operations, and many companies are framing their activities around that initiative and the principles within that document and also reporting along those lines.[15]

Finance sector

8.33 Various members of Australia's finance sector (including banks, credit unions, super funds and insurers) are also involved in the United Nations Environment Programme Finance Initiative (UNEP FI). This initiative is designed to 'identify, promote and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.'[16] Nine Australian financial institutions are signatories to the UNEP FI, which commits them to the integration of environmental considerations into all aspects of their operations and services.

8.34 Several large Australian finance sector organisations have also made significant contributions to the development and testing of the GRI's *Financial Services Sector Supplement*.

8.35 Another important finance sector initiative that was brought to the committee's attention is the recent launch of a Credit Union CSR Toolkit developed by the Credit Union Foundation Australia.[17] The Toolkit is designed to allow the 151 credit unions across Australia to plan and report more effectively on their corporate responsibility activities. This initiative is particularly important as it enables credit unions and other small to medium enterprises an accessible and cost-effective way to engage in sustainability activities and reporting.

Committee view

8.36 The committee is strongly supportive of such sector specific initiatives. Because particular industries often face similar stakeholder and sustainability reporting issues, a sectoral approach will often be an effective and efficient way to improve. A sectoral approach allows organisations to benchmark their performance against their peers thus creating competitive tension, leading to best practice. This trend is in evidence in sustainability awards, and also in recognition received by, and sustainability reporting rate of, actively engaged sectors such mining and finance.

8.37 The committee also notes comments from prominent associations such as the BCA that 'given the importance of improving understanding of the benefits of CSR,

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15 Ms Allison Cohen, Executive Officer, Indigenous Affairs and Land Access, Chamber of Minerals and Energy, Western Australia, *Committee Hansard*, 20 February 2006, p. 50.

16 Australasian Operational Environmental Management and Reporting Advisory Committee of the United Nations Environment Programme Finance Initiative, *Submission 127*, p. 2.

17 Correspondence from the Credit Union Foundation Australia to the Chair of the Committee, Senator Grant Chapman, 13 April 2006.

the BCA will do what it can to encourage Members to better publicise their CSR activities.'[18]

8.38 The committee believes there is a role for industry associations and peak bodies to promote actively the benefits of corporate responsibility to, and encourage greater engagement by, their members.

Recommendation 15

8.39 The committee recommends that industry associations and peak bodies actively promote corporate responsibility to their members.

Communication of corporate responsibility information

8.40 The current inefficiencies in the communication of corporate responsibility information to financial markets were raised as an issue during the inquiry.

8.41 On the one hand, there is evidence that many companies find onerous the task of providing sustainability information, often in response to surveys. Sustainable Asset Management, which conducts sustainability assessments of Australian companies, has an annual sustainability survey which includes 70-90 questions.[19] On its own this would not be an overly burdensome undertaking. However, companies often receive several if not many similar questionnaires annually from ratings and research agencies, fund managers, and representative bodies. Boral described the problem as 'survey fatigue'.[20]

8.42 Conversely, fund mangers, institutional investors and other stakeholders spend considerable time attempting to source corporate responsibility information, and are often not satisfied with the information they eventually receive.

8.43 To address this issue a market-based, industry initiative was recommended to the committee. The Australian Banker's Association (ABA) recommended an online tool modelled on the London Stock Exchange's Corporate Responsibility Exchange to enhance and streamline the dissemination of policies and practices in the area of corporate responsibility. In making this recommendation the ABA drew upon the experience of its members operating in the UK market. ABA's submission explains:

> This market driven approach may also give greater credibility and rigour to benchmarks of corporate responsibility practices.
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> The ABA would envisage that this mechanism would complement existing reporting and disclosure practices and would not impose additional

18 Business Council of Australia, *Submission to the Corporations and Markets Advisor Committee's Corporate Social Responsibility inquiry*, p. 8, www.camac.gov.au/camac/camac.nsf/byHeadline/PDFSubmissions_2/$file/BCA_CSR.pdf (accessed 30 May 2006)

19 Sustainability Asset Management, *Submission 137*, p. 16.

20 Boral Limited, *Submission 85*, p. 4.

> regulatory burdens on listed companies. Experience in the UK suggests that indeed this approach has reduced the burden on companies that receive many requests for information from market analysts, benchmarking researchers, etc.[21]

Committee view

8.44 In the committee's view a central, web-based location for sustainability information would be a cost-effective way for companies to respond to multiple requests for information. It would also allow immediate access to information for interested market participants as well as concerned community stakeholders.

8.45 The committee considers that the Australian Stock Exchange would be the most appropriate body for developing and administering this web-based tool. To ensure that the web-based tool meets the needs of various interest groups, the ASX should consult with companies, institutional investors and rating agencies in its development. In this process the developers should bear in mind the need to provide any quantitative information in a format that is accessible and useful to investors and analysts.

Recommendation 16

8.46 The committee recommends that the Australian Stock Exchange, in consultation with companies, institutional investors and rating agencies, establish and operate a central web-based tool for the dissemination of sustainability information, based on the London Stock Exchange's Corporate Responsibility Exchange. The Australian Government should consider whether both facilitation and seed funding is required to establish such a service.

Dissemination of best practice information to business

8.47 In a later section of this chapter the committee addresses the engagement of not-for-profit organisations, and recommends that best practice examples of corporate responsibility business partnerships between not-for-profits and the private sector be promoted. The committee is also of the view that best practice examples could be promoted across the spectrum of corporate responsibility activities. The promotion and publication of the many innovative initiatives that are being implemented across corporate Australia would encourage all to consider such actions and would ultimately raise the standard of corporate responsibility throughout Australia. Examples of best practice initiatives that were brought to the committee's attention include:

- Commitment by several mining companies to spend not less than one per cent of their annual pre-tax profits on sustainable development;
- Inclusion of longer term, sustainability performance indicators in directors and senior managers' remuneration packages;

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21 Australian Banker's Association, *Submission 106*, p. 18.

- Effective stakeholder engagement strategies; and
- Mutually beneficial community business partnerships such as:
  - The Smith Family's partnership with BHP Billiton in the Learning for Life literacy program
  - Habitat for Humanity's partnership with a wide range of corporate partners and low-income families to build affordable homes
  - The Body Shop's support for The Big Issue magazine which supports hundreds of homeless people in Australia
- Sustainable supply chain management initiatives from organisations such as Westpac.

8.48 The committee is of the view that the business-led Australian Corporate Responsibility Network, proposed earlier in this chapter, would be the appropriate organisation to undertake the role of publicising and promoting examples of best practice across the spectrum of corporate responsibility activities and across industry sectors. Such an approach would complement rather than duplicate the Prime Minister's Community Business Partnership Awards (mentioned previously and detailed later in this chapter), by communicating the profile of successes with greater impact than is presently the case. As Dr Simons of the Smith Family put it in evidence:

> The [Prime Minister's Business Community Partnership Awards] are fine as far as they go but we would like to see some way of communicating in a more consistent and regular fashion the importance of this...[22]

Recommendation 17

8.49 The committee recommends that the proposed Australian Corporate Responsibility Network publicise and promote best practice examples across the spectrum of corporate responsibility activities and across industry sectors.

Initiatives of community and not-for-profit organisations

8.50 The committee also heard evidence regarding the community and not-for-profit sector's own management of non-financial impacts and risks. The question of whether not-for-profit organisations should meet the same standards as profit-driven corporations was discussed, particularly in the context of the not-for-profit sector needing to legitimise their own advocacy of these principles by setting a good example. The committee recognises that corporations may feel unfairly targeted by measures affecting their interests that do not apply equally to not-for-profit incorporated entities of similar size.

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22 Dr Robert Simons, National Manager, Strategic Research and Social Policy, The Smith Family, *Committee Hansard*, 23 November 2005, p. 56.

8.51 In evidence, the Brotherhood of St Laurence suggested that for-profit companies, rather than non governmental organisations (NGOs) or other community organisations such as churches, should be the principal focus of efforts to ensure corporate responsibility:

> I do not think that is highly relevant to this inquiry at this time. We see growing pressure on enterprises to demonstrate that they are good corporate citizens, that they have a considered an active approach to promoting corporate social responsibility and good governance, and that that be monitored independently and reported against. Those very same tools of a CSR framework are increasingly being applied to the NGO sector...from my observations working for the non-government sector, I can assure you that the rigours and demands on us to be more accountable, open and transparent about how we conduct our own affairs and our business are very strong.[23]

8.52 However, other witnesses indicated that the not-for-profit sector had to place greater importance on leading by example. Ms Cox told the committee that:

> I would say that the not-for-profit area should have been offering leadership on what good corporate citizenship was about. Instead of that, they think they are doing good because they are set up to do good, but they do not actually examine what they are doing. I think they could probably add something—this was one of the points I made recently, and not very popularly, at an ACOSS congress. I said that the not-for-profit section should actually be providing some leadership in deciding what good corporate ethics could be. Some of the big not-for-profits...are very lax in terms of what they do in their own internal management. They prate ethics on their websites, and even publicly at conferences, but they run themselves like a corporation, a fairly hard-nosed corporation, and I think that they lose out on the capacity for being other things.[24]

8.53 The Smith Family told the committee that they were leading the not-for-profit sector in corporate governance:

> ...before we undertook the change agenda that has been driving our shift from a traditional welfare organisation to a social enterprise with a preventive early intervention strategy focusing on education and lifelong learning, the very first task was to look at our corporate governance. We developed a model that we believe to this day is cutting edge in the not-for-profit sector. That was a proactive move to make sure that if we were going to talk about corporate responsibility we had all of the previous

23 Ms Serena Lillywhite, Manager, Ethical Business, Brotherhood of St Laurence, *Committee Hansard*, 24 February 2006, p. 29.

24 Ms Eva Cox, Senior Lecturer and Program Director, Faculty of Humanities and Social Sciences, University of Technology Sydney, *Committee Hansard*, 10 March 2006, pp 47–48.

or prior work that needed to be in place within the Smith Family situated there.[25]

8.54 The Australian Council of Social Service (ACOSS) suggested that many NGOs are keen to implement corporate responsibility initiatives, but those with limited resources often found this to be a difficult burden:

> There are a few things...that distinguish them from companies operating for profit. One is that directors are almost always unpaid or voluntary, yet they carry the same weight of responsibility, which needs to be taken into account when you are looking at additional responsibilities. Many organisations are small, with extremely limited resources, and are entirely reliant on government funding that often does not keep up with CPI. That means they have very limited control over their purchasing practices and very little market power, which places them in a more difficult position when it comes to issues such as where products come from.
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> A further issue is that the legislative environment is very complex...That means that the general compliance costs of running an organisation in the not-for-profit sector are often higher and are often borne in some part by volunteers. I think many organisations are willing to engage in corporate social responsibility but they require more information and support than many private sector corporations in order to achieve that shift.[26]

8.55 ACOSS representatives also told the committee that while most not-for-profit organisations implemented good corporate practices internally, this is not universal:

> As within any sector, you would find some variations in practice. I think that, in general, not-for-profit organisations try to do well by their employees. The salary levels are so low and the funding levels are so low that you have really serious labour force issues, so when you find a staff member you want to try and retain them. But it would be unfair to say that there is not a variation in practice across the sector.[27]

Committee view

8.56 The committee notes that in general, corporate responsibility alerts for-profit corporations, which were traditionally focussed on economic considerations, to the social and environmental impact of their operations. In the same vein, not-for-profit corporations which were generally alert to the social or environmental factors (depending on their area of expertise) should use the concept of corporate responsibility to alert them to the economic and social or environmental impacts of

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25 Dr Robert Simons, National Manager, Strategic Research and Social Policy, The Smith Family, *Committee Hansard*, 23 November 2005, p. 58.

26 Mr Alan Kirkland, Treasurer, Australian Council of Social Service, *Committee Hansard*, 23 November 2005, pp 67–68.

27 Mr Alan Kirkland, Treasurer, Australian Council of Social Service, *Committee Hansard*, 23 November 2005, p. 78.

their operations too. The committee is of the view that the not-for-profit sector must endeavour to meet the same standards as those expected of the for-profit sector.

Recommendation 18

8.57 The committee recommends that the corporate not-for-profit sector should endeavour to meet the same standards as the corporate for-profit sector in considering the interests of stakeholders.

8.58 Furthermore the Australian Government should consider options to encourage NGOs to implement corporate responsibility initiatives within their own operations. These should include options to educate NGOs of the benefits of corporate responsibility and to provide best practice examples of corporate responsibility business partnerships between NGOs and the for-profit sector. The committee makes several recommendations along these lines in a later section of this chapter in relation to the role of government in providing education on corporate responsibility.

The role of government

8.59 Above and beyond its legislative and regulatory role, it is clear from the evidence that government has a role in facilitating and promoting corporate responsibility. This expectation is demonstrated in the results from CPA Australia's *Confidence in Corporate Reporting 2005* survey. The report found that government was nominated as the third most responsible entity (slightly behind company boards and CEOs) when respondents were asked 'who could be responsible for a company meeting its environmental and social obligations'.[28]

8.60 The Australian Government is currently undertaking a range of activities designed to promote corporate responsibility, including the Prime Minister's Community Business Partnership and various sustainability initiatives. These activities, which are discussed below, broadly fall into three categories: leadership, education and recognition. A fourth category – incentives – is subsequently discussed.

8.61 Other sustainability initiatives which were discussed in earlier chapters include: Senator Campbell's reference to the ASX Corporation Governance Council; publishing sustainability reporting surveys and guidelines; engaging the finance sector; and promoting the OECD Guidelines for Multinational Enterprises.

Prime Minister's Community Business Partnership[29]

8.62 Established by the Prime Minister in 1999, the Prime Minister's Community Business Partnership (the Partnership) is a group of prominent Australians from the community and business sectors who work to:

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28 CPA Australia, *Confidence in Corporate Reporting 2005*, November 2005, pp 2–3.

29 This section is based on *Submission 133* by the Department of Families, Community Services and Indigenous Affairs.

- foster community business partnerships;
- act as a 'thinktank' on philanthropic matters; and
- promote corporate giving and corporate social responsibility.

8.63 Both the Prime Minister and the Minister for Families, Community Services and Indigenous Affairs are actively involved in the Partnership as Chair and Deputy Chair, respectively. The Partnership is supported by a secretariat based in the Department of Families, Community Services and Indigenous Affairs (FaCSIA).

8.64 The work of the Partnership is underpinned by the concept of the 'social coalition' – the idea that government, community and business have a responsibility to the wider community, and that through working together to address societal challenges, better outcomes will be achieved. Dr Simons of the Smith Family commented on the benefits of this approach:

> The social coalition prompted by the Prime Minister's community business partnerships scheme is a form of CSR that moves beyond isolated instances of corporate philanthropy to strategic, longer term and active partnerships.[30]

8.65 The Partnership's work program focuses on the strategies of recognition and awareness raising, facilitation and advocacy.

Prime Minister's Awards for Excellence in Community Business Partnerships

8.66 Since the Awards were established in 1999, over 1500 outstanding community business partnerships have been recognised for their contribution to addressing community concerns. Several submitters to this inquiry have been recognised in past years.

8.67 The Awards are divided into *Small, Medium* and *Large* business categories, and are presented at the state and territory level and at a national level. According to FaCSIA 'the Awards have succeeded in generating a greater understanding of the relationships and interdependencies between communities, business and governments.'[31]

Facilitation

8.68 The *Workplace Giving Australia* initiative encourages medium and large businesses to establish a workplace giving program to enable employees to make regular pre-tax donations to charitable organisations.

8.69 A *National Community Business Partnerships Brokerage Service* was seed-funded through the Partnership in 2003. Since its establishment, this Brokerage

30 Dr Robert Simons, National Manager, Strategic Research and Social Policy, The Smith Family, *Committee Hansard*, 23 November 2005, p. 55.

31 Department of Families, Community Services and Indigenous Affairs, *Submission 133*, p. 3.

Service has facilitated the development or expansion of around 200 community business partnerships across Australia. The service provides advice and information about establishing and maintaining community business partnerships to small and medium sized businesses and community groups and assists them to identify partners.

Education

8.70 In 2005 the Partnership funded a comprehensive study, the *Giving Australia: Research on Philanthropy in Australia* project, which surveyed the contributions of money and time by Australian individuals and businesses. Other major awareness activities undertaken by the Partnership include: *National Community Business Partnerships Week*; the *Corporate Social Responsibility Essay Competition*; and the sponsorships of various conferences and seminars. The essay competition provides an opportunity for both high school and university students to express their opinions about the role of business in society. To date over 800 students have entered the competition, writing essays on a range of issues relating to corporate social responsibility.[32]

8.71 In general, evidence to the committee suggested that the work of the Partnership was seen as a positive step by the Australian Government to promote corporate responsibility. However, there were some suggestions to broaden the scope of the Partnership beyond what some submitters saw as a narrow focus on philanthropic matters. For example Amnesty International submitted:

> Since 1999 the Australian Government has taken a strong stand to support initiatives like corporate philanthropy and workplace giving, through the Prime Minister's Community Business Partnership. We believe the opportunity is for the Australian Government to extend the Community Business Partnership into a wider campaign aiming to improve standards of corporate behaviour.[33]

8.72 However other submitters, such as Ms Mostyn of Insurance Australia Group (IAG) pointed out that the Partnership had already begun to broaden. Ms Mostyn said 'I think there has been a shift [in the Partnership] over time that makes it a much more interesting model of sustainable business than philanthropy.'[34]

Committee view

8.73 The committee is strongly supportive of the various activities of the Partnership, and believes that it is a most effective vehicle to recognise and promote innovative collaborations between corporate Australia and the community sector. The committee notes evidence that the Partnership appears to be changing its focus over

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32 Department of Family and Community Services, *Submission 133*, p. 3.

33 Amnesty International, *Submission 90*, p. 13.

34 Ms Sam Mostyn, Group Executive, Culture and Reputation, Insurance Australia Group, *Committee Hansard*, 9 March 2006, p. 17.

time towards the promotion of a more sustainable business model, and the committee strongly supports this trend.

Recommendation 19

8.74 The committee recommends that the Prime Minister's Community Business Partnership continue to move beyond its initial focus on philanthropy, towards a broader sustainability framework.

Leadership – sustainability in government

8.75 Several submissions suggested that government should take a stronger leadership role in corporate responsibility so as to set an example for corporate Australia. The committee received evidence of the various activities that government departments are undertaking in this regard.

Sustainability reporting by government agencies

8.76 FaCSIA and DEH recently commenced sustainability reporting of their activities and operations, in 2003 and 2004 respectively. Both departments submitted that they found their respective sustainability reporting has led to improved business operations, with FaCSIA stating 'the processes to enable reporting have improved key business systems, resulting in improved sustainability outcomes and savings to the department.'[35] Other government agencies including the Department of Defence, CSIRO, and the Australian Nuclear Science and Technology Organisation have prepared reports on various aspects of their non-financial performance.

8.77 The committee notes the findings from the December 2005 Australian National Audit Office report, *Cross Portfolio Audit of Green Office Procurement* (the ANAO report), which shows that the rate of sustainability reporting within government departments is well below that of corporate Australia. By comparison with the top 500 Australian companies reporting rate of 23 per cent, the government agency rate is around 3 per cent.[36] A DEH representative explained that part of the reason for this trend is that:

> Government is not reporting to the investment community in the same way. You do not look at alternative investments in government agencies in the same way as you look at investments in the private sector, so there are different contexts and environments...[37]

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35 Department of Families, Community Services and Indigenous Affairs, *Submission 133*, p. 9.

36 Derived from Australian National Audit Office, *Cross Portfolio Audit of Green Office Procurement*, December 2005, p. 64, which shows that 2 of 71 government agencies audited, are currently preparing sustainability reports.

37 Mr Gene McGlynn, Assistant Secretary, Department of the Environment and Heritage, *Committee Hansard*, 27 March 2006, p. 39.

8.78 DEH went on to explain that there are specific areas of non-financial performance where the public sector disclosure goes beyond the private sector. The example he gave was the very detailed whole-of-government energy report which the Australian Government produces annually and which exceeds what most companies would produce. The ANOA report also indicates that 'Reporting on environmental performance is likely to improve in some Australian Government bodies in the future with 11 respondents indicating that they were planning a triple bottom line report within the next three years.'[38]

Improving sustainability performance of government agencies

8.79 DEH works with agencies across the Australian Government to improve environmental performance. It provides advice on best practice environmental management systems and public sustainability reporting, and encourages consideration of relevant environmental impacts in Australian Government purchasing.

8.80 FaCSIA has a workplace giving program in place where staff can choose to donate funds to a charity of their choice from their pre-tax pay. FaCSIA also supports staff to give to the community in other ways such as allowing staff to take up to three days per year of paid leave to volunteer for charities.

8.81 The Australian Government is a large purchaser of goods and services, from office supplies to building management services. The ANAO report found that in 2003–04 the Australian Government spent $17 billion on procurement.[39] Its purchasing decisions therefore have the ability to influence market direction.

8.82 The Australian Government has a green procurement policy which indicates that it is seeking to be at the forefront in environmental purchasing practice through:

- buying goods and services that seek to minimise possible environmental impact;
- working with industry to encourage continuous reduction in the adverse environmental impact of goods and services; and
- assessing the environmental impact of goods and services against informed and internationally recognised standards and methods.[40]

8.83 The ANAO report concluded that, despite a small number of better practice examples of green office procurement across the Australian Government:

38 Australian National Audit Office, *Cross Portfolio Audit of Green Office Procurement*, December 2005, p. 18.

39 Australian National Audit Office, *Cross Portfolio Audit of Green Office Procurement*, December 2005, p. 15.

40 Policy framework for Greening of Government website, www.deh.gov.au/settlements/government/purchasing/policy.html (accessed 19 May 2006).

> ...overall there were significant shortcomings identified in terms of the application of whole of life cycle costing and in the management of the environmental impacts of procurement decisions. Compliance with Australian Government policy requirements has improved over time in areas such as energy efficiency in buildings with important greenhouse gas emissions and cost savings being achieved.[41]

8.84 In relation to Environmental Management Systems (EMSs) of government agencies the ANAO report found:

> Implementing EMSs (one of the key management controls designed to improve environmental performance) has been slow and few agencies have met the timetable originally envisaged by the Government. In addition, the audit has highlighted the absence of specific requirements in areas such as waste management and water conservation and shortcomings in agencies meeting the Government's stated objective to be at the forefront of environmental purchasing practices. As a consequence, sustainable development has not, as yet, been fully integrated into Australian Government operations.[42]

8.85 Of particular concern is the wasteful use of public funds, with the ANAO finding that 'financial savings of almost $10 million per annum could be achieved if agencies were more proactive in energy and water conservation in particular.'[43]

8.86 In addition to the issue of government agencies and their sustainability and green procurement reporting, the committee notes that there are legislative requirements and government policies in existence that specifically address environmental performance by government agencies. Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) requires Australian Government agencies to report on the effect of their actions on the environment and identify any measures to minimise the impact of these actions on the environment. Less than half of the ANAO survey respondents (41 per cent) indicated that they had reported the effect of their procurement actions on the environment.

8.87 DEH officials presented evidence to the committee that apart from the requirement under section 516A of the EPBC Act there is no reporting requirement regarding government policies on departmental environmental performance in areas such as:

- implementation of Environmental Management Systems;

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41 Australian National Audit Office, *Cross Portfolio Audit of Green Office Procurement*, December 2005, p. 24.

42 Australian National Audit Office, *Cross Portfolio Audit of Green Office Procurement*, December 2005, p. 24.

43 Australian National Audit Office, *Cross Portfolio Audit of Green Office Procurement*, December 2005, p. 24.

- providing instructions or internal policies on whole of life cycle costing; and
- green vehicle purchasing.[44]

8.88 In each of these areas the ANAO report found 'significant shortcomings'[45] in government departments' compliance with these government policies. The committee notes that some government agencies are failing to comply with government policy and that there is no mandatory requirement for disclosure.

Committee view

8.89 The committee would like to see the rate of government agency sustainability reporting to continue to rise into the future. In this regard the committee is encouraged that more government agencies have plans to undertake sustainability reporting in the near future.

8.90 The committee commends those agencies which are reporting in accordance with requirements under section 516A of the EPBC Act, and those that are complying with and reporting on their compliance with government policies on departmental environmental performance. The committee expects those agencies that are not complying to commence doing so.

8.91 The committee believes that government agencies should demonstrate leadership by improving their performance in the area of green procurement and implementation of environmental management systems. The committee acknowledges the efforts of those agencies already taking steps in this regard. The committee also endorses the recommendations of the ANAO report.

44 Dr Paul Starr, Senior Policy Officer, *Committee Hansard*, 27 March 2006, p. 40. The various policies are discussed in Australian National Audit Office, *Cross Portfolio Audit of Green Office Procurement*, December 2005, pp 16–20. Improvements in the energy efficiency performance of government buildings were the significant exception, although the report found that further improvements in this area were possible. In this area DEH prepares an annual report.

45 Australian National Audit Office, Cross Portfolio Audit of Green Office Procurement, December 2005, p. 24

Recommendation 20

8.92 The committee recommends that, in order to show greater leadership and to encourage more agencies to disclose their sustainability performance, the Australian Government establish:

- **voluntary sustainability reporting targets for government agencies;**
- **voluntary targets for government agency procurement in areas such as water, waste, energy, vehicles, equipment and consumables; and**
- **a requirement for each government agency to disclose such targets and to detail progress towards achieving these in its annual report.**

Investment – Future fund

8.93 As discussed in chapter 5, in order for the Government to show significant leadership in the responsible investment of public funds, the committee has recommended that the Future Fund adopt the UN's voluntary *Principles of Responsible Investment* to guide its investment practices.

A coordinating government department?

8.94 Many submitters recognised that the current delivery of government corporate responsibility programs occurs in a seemingly uncoordinated fashion amongst a number of government departments. For example, the Insurance Australia Group submitted:

> Currently, a limited number of government agencies have specific agendas to drive some CR and related activities. In the Commonwealth, examples include the Department of Environment and Heritage, the Department of Family and Community Services and the Australian Greenhouse Office, which all deliver a variety of programs aimed at providing incentives for corporate responsibility activity.[46]

8.95 A similar comment was made by the Australian Centre for Corporate Social Responsibility:

> The Australian Government may have numerous ways in which it encourages corporate social responsibility, but a lack of coherence and focus of initiatives and policies makes this difficult to ascertain.[47]

8.96 The committee considers that this sporadic approach detracts from the leadership role that government should play in the field of corporate responsibility. The committee believes that the approach taken by the UK government, which has consolidated the government's sustainability initiatives within the Department of

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46 Insurance Australia Group, *Submission 29*, p. 24.

47 Australian Centre for Corporate Social Responsibility, *Submission 63*, p. 6.

Trade and Industry, is one approach to consider. The alternative is to use a whole-of-government approach.

Recommendation 21

8.97 The committee recommends that the Australian Government's various corporate responsibility programs be co-ordinated through a whole-of-government approach.

A minister for corporate responsibility?

8.98 Several submissions suggested that the Australian Government should raise the profile of corporate responsibility by appointing a minister for corporate responsibility, as the UK and France have done.[48]

8.99 In this regard the committee notes that various government ministers already play a significant role in promoting corporate responsibility. For example ANZ Bank representative Mr Brown noted the role being played by the Parliamentary Secretary to the Treasurer:

> 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.[49]

8.100 Earlier in this report the committee has noted the initiative of the Minister for the Environment and Heritage, Senator Campbell of referring matters concerning sustainability reporting to the ASX Corporate Governance Council.

Committee view

8.101 The committee is of the view that given the broad nature of corporate responsibility it is more appropriate to allow existing government ministers to deal with the particular aspects of corporate responsibility which lie within their area of expertise.

Education

8.102 The committee regularly heard that encouraging corporate responsibility through the education of directors, investors and other stakeholders was a key role for government. For example Mr Sheehy of Chartered Secretaries Australia stated

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48 For example, the Australian Centre for Corporate Social Responsibility, *Submission 63*, p. 6.

49 Mr Gerard Brown, General Manager, Corporate Affairs, Australia and New Zealand Banking Group Ltd, *Committee Hansard*, 5 April 2006, p. 37.

'we most definitely think that there would be a role for government in the education and encouragement process.'[50]

8.103 The Australian Government is already taking a lead role in education on corporate responsibility, as outlined above in the section on the Prime Minister's Community Business Partnership. Another important example is DEH's support for the Australian Research Institute in Education for Sustainability (ARIES) at Macquarie University, which is working with Australian business schools on how to teach sustainability in business education. Following a review of the current level of sustainability education in Australian MBA courses, the department is working closely with ARIES and five of Australia's leading business schools[51] to effect change in the syllabus within a two year period. Pending progress of the study, additional business schools may be invited to participate in the project in 2006.[52]

8.104 Several submitters also suggested that there is a role for business associations such as the Australian Institute of Company Directors, the Business Council of Australia and the Chartered Secretaries of Australia in educating their members on corporate responsibility and disclosing non-financial information.[53]

Committee view

8.105 The committee agrees that government has a strong role to play in educating both directors and company stakeholders to raise their awareness of corporate responsibility. Clearly it is already doing so in a number of areas (outlined above). Based on the evidence received, the committee is recommending further educational initiatives relating to four specific areas of corporate responsibility:

- educate mainstream investors;
- conduct research into the benefits of corporate responsibility;
- promote the Global Reporting Initiative; and
- educate not-for-profit organisations.

8.106 In each of these areas, the development of educational programs and material should occur in consultation and collaboration with relevant business groups.

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50 Mr Tim Sheehy, Chief Executive, Chartered Secretaries Australia, *Committee Hansard*, 23 November 2005, p. 50.

51 Macquarie Graduate School of Management, the Australian Graduate School of Management, Melbourne Business School, the University of Technology Sydney Graduate School of Business and the University of Queensland Business School.

52 Department of the Environment and Heritage, *Submission 116*, p. 4.

53 For example, Mr Eric Mayne, Chair, Australian Stock Exchange Corporate Governance Council, *Committee Hansard*, 10 March 2006, p. 12; and Mr Tim Sheehy, Chief Executive, Chartered Secretaries Australia, *Committee Hansard*, 23 November 2005, p. 43.

Educate mainstream investors

8.107 A recurring theme throughout the inquiry was the need to educate financial market participants in order for them to value non-financial risks better. For example Ms Bisset of the National Australia Bank put the point clearly and succinctly:

> We still have a very important role in educating mainstream analysts about the value of [non-financial] information, so they are able to get a good assessment of our performance as a business now and in the future.[54]

8.108 An official of the Treasury agreed that this is an area where the government can play a leadership role:

> I think there is an issue of education of institutional investors. I mentioned earlier that there is a growing view amongst institutional investors that they need to start thinking about things like the greenhouse impact of the companies they are investing in if they are going to grow value in these companies over a very long time. To the extent that government can take a leadership role in providing information and making that kind of analysis easier, I think that would be a very useful path to go down.[55]

8.109 The committee acknowledges previous work undertaken in this area, funded by government, including the 'Mays Report'. This study examined sustainability issues through the eyes of investors, and aimed to contribute to awareness of sustainability as an investment tool. Despite this and other studies, the committee is of the view that there remains a need for financial market analysts to be educated better in the impact of non-financial risks.

8.110 In chapter 5 of this report the committee recommended that 'institutional investors in Australia seriously consider becoming signatories to the United Nations Principles for Responsible Investment.' The committee believes there would be value in the government promoting these principles to institutional investors in Australia, because it would lead to a greater degree of adoption.

Recommendation 22

8.111 The committee recommends that the Australian Government, in consultation with the investment community, develop educational material:

- **regarding the materiality of non-financial risks, for use by institutional investors and fund managers; and**
- **to promote the United Nations Principles for Responsible Investment to institutional investors and fund managers.**

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54 Ms Rosemary Bissett, Group Manager, Corporate Social Responsibility, National Australia Bank, *Committee Hansard*, 5 April 2006, p. 6.

55 Mr Matthew Brine, Manager, Governance and Insolvency Unit, Department of the Treasury, *Committee Hansard*, 29 March 2006 p. 16.

8.112 Mainstream investors should also be educated in relation to the digital enhancements being incorporated into the GRI Framework through its third revision (G3). The committee also notes the comments of the National Institute of Accountants regarding the role of accountants:

> 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.[56]

Researching the benefits of corporate responsibility

8.113 During its public hearings the committee invited Treasury officials to comment on their submission which suggested that while the costs of sustainability reporting are reasonably quantifiable, it may be more difficult to assess the benefit to the community.[57] In response a Treasury official indicated that quantifying the benefits of sustainability reporting:

> ...is a problem we have throughout the corporate governance area. While we can always estimate the cost to some degree of accuracy, it is very difficult to estimate the benefits of improved governance. You might cite things like increased access to finance, improved longer term performance, increased access to foreign markets and greater access to employees. It is very difficult to put a dollar figure on those to measure up against the dollar figure of perhaps having people there fulfilling these reporting requirements.[58]

8.114 The ASX submission supports this view, stating that the 'ASX believes further work needs to be done on the specific benefits to the markets of additional disclosure when weighed against the compliance costs of introducing more disclosure requirements.'[59]

8.115 Without a reasonably clear picture of what both sides of cost-benefit analysis on sustainability reporting might look like, it is very difficult to assess accurately the economic implications of various sustainability reporting policy scenarios. For this reason, and to provide further empirical analysis into the corporate responsibility debate, the committee makes the following recommendation.

Recommendation 23

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56 Mr Tom Ravlic, Policy Adviser, Financial Reporting and Governance, National Institute of Accountants, *Committee Hansard*, 5 April 2006, p. 84.

57 Department of the Treasury, *Submission 134*, p. 14.

58 Mr Matthew Brine, Manager, Governance and Insolvency Unit, Department of the Treasury, *Committee Hansard*, 29 March 2006, pp 15–16.

59 Australian Stock Exchange, *Submission 126*, p. 1.

8.116 The committee recommends that the Australian Government, in consultation with relevant sections of the business community, undertake research into quantifying the benefits of corporate responsibility and sustainability reporting.

8.117 This analysis should be carried out both in terms of the benefits for individual companies and for the national economy. The benefits to the national economy might include developing Australia's international profile and competitive position in the global marketplace, increasing its attractiveness as an investment market and partner for regional or international initiatives. The analysis should also be made publicly available. The committee notes that this approach has been used successfully in the UK.[60]

Promotion of the Global Reporting Initiative

8.118 The GRI is widely recognised as the international standard for sustainability reporting. However, as discussed in chapter 7 the committee believes that it is too early to recommend it as the voluntary Australian standard.

8.119 Nonetheless, the committee agrees with many submitters who put the view that the government should actively promote the GRI Framework. For example BHP Billiton submitted 'active promotion of the [GRI] is considered particularly appropriate as it has evolved through an extensive multi-stakeholder engagement program.'[61]

8.120 IAG agreed with the proposition, indicating that it would be particularly valuable for SMEs.

> The one problem we have in Australia on which the government could take a leadership role is...[education] of the small business community around how thinking about some of those aspects of the GRI will make them better businesses, and provision of tools and education would lift the behaviour of smaller companies that struggle with these things and see them purely as punitive regulatory or reporting requirements as opposed to an opportunity to grow better businesses. Education and an understanding of why the GRI

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60 For example Business Council of Australia, *Submission to the Corporations and Markets Advisor Committee's Corporate Social Responsibility inquiry*, p. 7, states: 'to support the wider adoption of CSR by business, the UK Government has been exploring the benefits of CSR for general business performance. The UK Government has worked with others on projects looking at the links between CSR or sustainability and business performance, both in terms of the impact on the competitiveness of individual companies and national economies.' See www.camac.gov.au/camac/camac.nsf/byHeadline/PDFSubmissions_2/$file/BCA_CSR.pdf (accessed 30 May 2006).

61 BHP Billiton, *Submission 13*, p. 6.

can transform a business and play a key role in long-term value would be useful.[62]

8.121 Finally, officials from the Treasury also strongly endorsed the government supporting further education in this area:

> One of the key advantages [in adopting the GRI]...is that you want information that can be presented to investors in other countries and is comparable with what they are asking from their own large corporations and the GRI would certainly seem to get you there. I think there is a role for the government to play where there are costs that can be removed by the government, perhaps in providing advice on how to apply GRI. I think it would be very useful if the government could make people who were interested in non-financial reporting aware of GRI and how to use it.[63]

Recommendation 24

8.122 Although recommending that it is premature to adopt the Global Reporting Initiative Framework, the committee recommends that in addition to the continued monitoring of its uptake, the Australian Government provide guidance to the business community, including the small business community, on how to apply the Global Reporting Initiative Framework.

8.123 In this regard the committee notes the development within the most recent revision of the GRI framework, the G3 initiative, to include reporting and awareness programs.[64] The Government should seek to integrate its efforts as far as possible with these activities under the G3.

Promotion of the UN Global Compact

8.124 In chapter 6 the committee referred to the UN Gobal Compact, an initiative of the UN that facilitates a network of UN agencies, governments, business, labour, and non-government organisations to encourage companies to adopt ten principles in the area of human rights, labour, environment, and anti-corruption. As previously noted, a number of Australian companies are signatories to the UN Global Compact including Shell Australia, BHP Billiton, and Westpac.

8.125 The committee supports the UN Global Compact and acknowledges those Australian corporations that have become signatories. The committee also notes the positive linkages between the Global Compact, the GRI and the recently released UN

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62 Ms Sam Mostyn, Group Executive, Culture and Reputation, Insurance Australia Group, *Committee Hansard*, 9 March 2006, p. 21.

63 Mr Matthew Brine, Manager, Governance and Insolvency Unit, Department of the Treasury, *Committee Hansard*, 29 March 2006 p. 26.

64 Dr Judy Henderson, Chairperson, Global Reporting Initiative, *Committee Hansard*, 10 March 2006, p. 33.

Principles for Responsible Investment. The committee believes there would be value in encouraging more Australian companies to participate in the UN Global Compact.

Recommendation 25

8.126 The committee recommends that the Australian Government develop educational material to promote the UN Global Compact and to encourage Australian companies to become signatories where it is appropriate for them.

Facilitate and coordinate participation in international initiatives

8.127 As well as directly promoting various international initiatives, the government should also facilitate the involvement of Australia's private sector in international corporate responsibility processes. International initiatives such as the GRI, the UN Principles of Responsible Investment and the United Nations Environment Program Finance Initiative can be highly influential in setting the policy direction across the globe. Therefore, if Australian interests are to be considered in the development of such international initiatives, Australian companies must be active participants.

8.128 Australian companies have participated in a number of international initiatives such as the preparation of GRI sector supplements, on a voluntarily basis. However, there has not been a coordinated approach to engagement in international corporate responsibility initiatives. The committee is of the view that government should play a role in facilitating and coordinating the participation of Australian corporations, to ensure Australian interests are considered and protected.

Recommendation 26

8.129 To protect Australia's interests, the committee recommends that where appropriate, the Australian Government facilitate and coordinate the participation of Australian corporations in international corporate responsibility initiatives.

Educate not-for-profit organisations

8.130 As discussed above in relation to the not-for-profit sector, the committee is of the view that the Australian Government should consider options to encourage not-for-profit organisations to implement corporate responsibility initiatives within their own operations. These should include options to educate them on the benefits of corporate responsibility and to provide best practice examples of corporate responsibility business partnerships between the for-profit and not-for-profit sector.

Recommendation 27

8.131 The committee recommends that the Australian Government, in collaboration with relevant not-for-profit organisations, develop educational materials for not-for-profit organisations to promote the benefits of corporate responsibility within their own organisations.

Recognition

8.132 Many submitters also saw a role for government in the recognition of best practice initiatives. For example Mr Brown of the ANZ Bank commented that:

> Recognition ... 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.[65]

Committee view

8.133 The committee is of the view that Prime Minister's Awards for Excellence in Community Business Partnerships already provide strong recognition for best practice examples of corporate responsibility. This view is supported by evidence from Mr Gosman, a former employee of Cisco:

> Cisco won the Prime Minister's award on a number of occasions for the work that it does with the Smith Family. Anecdotally, that went around the whole telecommunications industry. That had the effect of lifting the bar for all players, because it is a competitive industry. There is a degree of jealousy. They saw the amount of recognition that Cisco received for what I think was a fantastic program, and it actually led to a lot of other companies looking at how they could move into that space and replicate some of what Cisco was achieving.[66]

8.134 For this reason the committee believes that the government is already recognising organisations that have achieved best practice in corporate responsibility.

Incentives

8.135 Various submitters suggested that the government should provide financial incentives to encourage corporate responsibility, or conversely, to remove existing incentives that work against corporate responsibility. An example which was considered during the inquiry was a revision to the capital gains tax arrangements.

Capital Gains Tax

8.136 Currently, investors receive a one-off capital gains tax concession if they hold a company's shares for a period of 12 months. Beyond that period no additional incentive applies. As a result, once investors reach the 12-month qualifying period, the current arrangements encourage investors to trade their shares rather than hold them for a longer term.

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65 Mr Gerard Brown, General Manager, Corporate Affairs, Australia and New Zealand Banking Group Ltd, *Committee Hansard*, 5 April 2006, p. 37.

66 Mr Alex Gosman, Director, Government and Corporate Affairs, GlaxoSmithKline, *Committee Hansard*, 23 February 2006, p. 52.

8.137 The recent Warburton-Hendry review of Australia's tax regime found that Australia's capital gains tax arrangements were comparatively high and did not reduce over time as is the case in countries such as Denmark and the United Kingdom.[67]

8.138 The suggestion to modify the existing capital gains tax arrangements was suggested to the committee by the Australian Conservation Foundation (ACF). Mr Berger, the ACF's Legal Adviser, described the proposal in the following terms:

> I would encourage the committee to examine the possibility of utilising the capital gains tax system to refocus Australian corporate behaviour on the long term. If you can envision a capital gains tax system where the amount of tax payable is calibrated to the holding period of an investment such that the longer you hold an investment the lower your capital gains tax rate is, you would really instil a deep change in the attitude of funds managers, analysts, corporate executives, trustees and the entire investment value chain. In turn, that would drive a longer term time horizon, a better assessment of long-term investment risk and opportunities and a far deeper and more meaningful consideration of environmental and social concerns.[68]

8.139 Mr Mather of BTGAS indicated that modifying existing capital gains tax arrangements would not dramatically change the investment decisions of institutional investors because '[institutions are] already holding stock for a long time anyway, regardless of the capital gains tax implications, because of risk diversification.'[69]

8.140 Mr Agland of the National Institute of Accountants dismissed the proposal, arguing that changing the tax rules is not the best way to encourage investors to look at a company's sustainability performance:

> 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 [capital gains tax] requirement.[70]

8.141 The Treasury was not supportive of a stepped rate for capital gains tax to reflect a longer term holding of shares. In response to a question taken on notice, Treasury advised that the existing capital gains tax discount, which reduced tax payable by half after 12 months ownership, reduces the incidence of investors

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67 R.F.E. Warburton, *Discussion of International Comparison of Australia's taxes*, April 2006, p. 208.

68 Mr Charles Berger, Legal Adviser, Australian Conservation Foundation, *Committee Hansard*, 24 February 2006, p. 78.

69 Mr Erik Mather, Head, BT Governance Advisory Service, *Committee Hansard*, 10 March 2006, p. 71.

70 Mr Reece Agland, Technical Counsel, National Institute of Accountants, *Committee Hansard*, 5 April 2006, p. 88.

becoming 'locked in' to the investment. The Treasury explained the concept of 'lock in':

> A CGT liability generally arises only when the investor sells an asset or realises it in some other way. This can cause some investors to retain ownership of assets for as long as possible so as not to trigger a CGT liability where they might obtain better returns before tax elsewhere. In other words, they can become 'locked in' to the investment.[71]

8.142 The Treasury went on to indicate that 'lock in' was not desirable, because it 'can distort investment decisions to the detriment of both the investor and the Australian economy by limiting economic growth'. The Treasury pointed out that:

> The CGT discount reduces lock-in. This is because the taxpayer pays tax on only half the capital gain after 12 months. On the other hand, having a stepped-rate system would significantly increase the incentive to lock in. This is because some taxpayers would be motivated not to sell their investments until they were CGT-exempt.
>
> Investors would tend to reject opportunities that might arise within the higher-taxable period for fear of incurring a CGT liability. This would be despite the fact that there might be sound commercial reasons for selling.[72]

Committee view

8.143 In considering the proposal to change existing capital gains tax arrangements, the committee notes the concerns raised by Treasury, and the views expressed by some submitters that such changes would not dramatically change the decisions of institutional investors. The committee also notes that changing tax arrangements always has the potential for unintended consequences. On balance, the committee is not convinced that changing existing capital gains tax arrangements would achieve the suggested benefits in relation to the particular matter relevant to this inquiry. The committee makes no comment on the broader issues relating to capital gains tax reform.

8.144 The introduction or removal of other incentives such as a concession on research and development into innovative partnerships,[73] or revisions to the fringe benefits tax on fleet vehicles[74] were not attractive options in the committee's view.

8.145 In chapter 6, the committee recognised the high initial barrier facing new entrants that may be considering sustainability reporting. In the committee's view there would be merit in investigating whether a write-off incentive to overcome this

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71 Department of the Treasury, *Submission 134A*, pp 1–2.

72 Department of the Treasury, *Submission 134A*, pp 1–2.

73 Mr Alex McDonald, the Body Shop, *Committee Hansard*, 23 February 2006, pp 12–13.

74 Ms Sam Mostyn, Group Executive, Culture and Reputation, Insurance Australia Group, *Committee Hansard*, 9 March 2006, p. 22.

initial hurdle would be an effective mechanism to accelerate corporate responsibility and sustainability reporting in Australia.

Recommendation 28

8.146 The committee recommends that as a way of facilitating greater uptake of sustainability reporting, the Australian Government should examine the feasibility of introducing inflated write-off arrangements for the year-one costs of initiating sustainability reports, to assist companies that commence sustainability reporting for the first time.

Regulatory relief

8.147 The committee also heard a suggestion to encourage greater uptake of corporate responsibility activities and sustainability reporting through regulatory relief. Dr Longstaff of the St James Ethics Centre suggested that 'businesses undertaking these commitments should be eligible for "regulatory relief" – moving from highly prescriptive regimes to a 'principles based' system of co-regulation.'[75]

8.148 In evidence Dr Longstaff gave the example of the Victorian Environment Protection Authority providing regulatory relief for a five-year record of achieving a very high standard in environmental audits. He added that:

> Governments and particularly their regulatory agencies do not have unlimited budgets, and they have to make prudent decisions about where they focus their attention. We are saying that one of the things they might take account of is that, if they have a very high level of performance in an instrument like the Corporate Responsibility Index, it is indicative of there being a safer climate in which they operate.[76]

8.149 Dr Henderson of the Global Reporting Initiative also supported regulatory relief as a mechanism to encourage greater sustainability reporting. She used the example of the NSW Environment Protection Agency, which offers incentives such as lower fees to companies which reduce their pollution.[77]

Committee view

8.150 The committee supports the concept of regulatory relief. It would provide the dual benefits of generating greater uptake of corporate responsibility and also reducing the regulatory burden on business. Essentially this suggestion can be seen as a cost-effective option for encouraging corporate responsibility.

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75 St James Ethics Centre, *Submission 50*, p. 5.

76 Dr Simon Longstaff, Executive Director, St James Ethics Centre, *Committee Hansard*, 23 November 2005, p. 22.

77 Dr Judy Henderson, Chairperson, Global Reporting Initiative, *Committee Hansard*, 10 March 2006, p. 35.

Recommendation 29

8.151 The committee recommends that the Australian Government consider options for providing regulatory relief to corporations which voluntarily undertake specified corporate responsibility activities.

8.152 The regulatory relief should be linked to the types of activities that companies are undertaking, that is in the non-financial sphere. The sort of activities that may be eligible for regulatory relief could include:

- Voluntarily participating in the Corporate Responsibility Index for a specified period;
- Voluntarily undertaking sustainability reporting for a specified period;
- Becoming a signatory to, and implementing the UN Compact or Principles for Responsible Investment; and
- Adopting a particular sustainability reporting framework that encompasses the information already required under specific mandatory disclosure requirements (such as OH&S).

8.153 The committee is of the view that applications for regulatory relief should be subject to verification by ASIC.

8.154 It would be possible to broaden the scope of regulatory relief as a company's commitment, both in terms of duration and level of participation, increased.

SENATOR GRANT CHAPMAN

CHAIRMAN