

Business
Council of
Australia



Business Council of Australia

**Submission to the Parliamentary Joint Committee
on Corporations and Financial Services**

**Inquiry into Corporate Responsibility and Triple-
Bottom-Line Reporting**

October 2005

Foreword

The Business Council of Australia (**BCA**) is an association of chief executives of approximately the top 100 companies in Australia employing nearly 1 million people and generating revenues of around \$340 billion. The BCA was established in 1983 to provide a forum for Australian business leaders to contribute directly to public policy debates to build a better and more prosperous Australian society.

The key role of the BCA is to formulate and promote the views of Australian business. The BCA is committed to achieving the changes required to improve Australia's competitiveness and to establish a strong and growing economy as the basis for a prosperous and fair society that meets the aspirations of the whole Australian community.

The BCA has a particular responsibility to apply Australia's business experience and understanding to resolving successfully the challenges now facing Australia. In a global environment, Australia's future depends on achieving world class performance and competitiveness. On the basis of sound research and analysis, the BCA seeks to play a key role with Government, interest groups and the broader community to achieve world class performance and competitiveness.

With this in mind, the BCA makes the following submission.

This submission includes case studies of CSR activities being undertaken by a sample of Members. Given the broad Membership base and the large amount of CSR activity being conducted by the BCA Members, the case studies can not cover the field in terms of the CSR activities being conducted by the BCA Members and are merely illustrative of some of the activities being undertaken.

Executive Summary

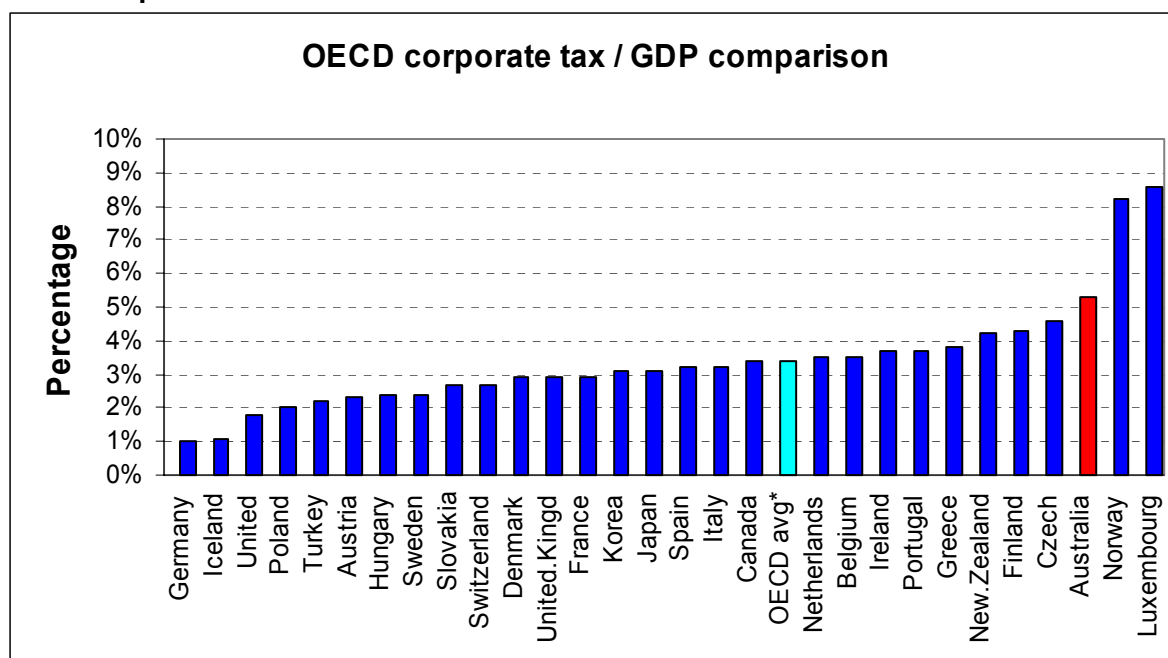
The Business Council of Australia (**BCA**) welcomes the opportunity to contribute to the inquiry by the Parliamentary Joint Committee on Corporations and Financial Services into corporate responsibility and triple-bottom-line reporting. The BCA sees the inquiry as an opportunity to get greater clarity around the meaning of terms such as 'corporate social responsibility' and to demonstrate the strong commitment of Australia's large corporations to working responsibly within the Australian community.

As a starting point, the BCA submission examines some of the definitional problems around terms such as 'corporate responsibility' 'triple bottom line' or 'corporate social responsibility'. This lack of clarity can lead to considerable misunderstanding and controversy about what is meant by these terms. For the BCA, the essence of this issue can be captured as follows:

Corporations operate within the community. For corporations to be sustainable and successful in the long term, they need to engage with the community and take account of community attitudes. Successful companies therefore factor into their forward strategies activities that manage the challenges and risks to the community and capture the opportunities that community engagement can bring. To be valid, these activities must deliver benefits both to the community and the shareholders of the corporation.

It is important to note that while this submission concentrates on many of the non-financial aspects of corporate social responsibility, the greatest social contribution made by corporations is through the goods and services they provide, the wealth they create and the employment they generate. For example, the taxes paid by companies contribute directly to the wealth of the economy and economic prosperity, and in Australia the corporate tax contribution as a share of GDP is higher than every relevant comparison country, including current and future competitors.

OECD corporate tax burdens



Source: OECD Revenue Statistics 1965-2003

All BCA Member companies are currently engaged in some form of activity that falls within the above description of corporate social responsibility. Most (around 80%) are also reporting publicly on their activities, through standalone reports, annual reports or websites. The fact that Australia's large corporations are already extensively involved in corporate social responsibility indicates that there are strong drivers already in place, without the need for Government intervention. **The BCA therefore opposes any proposals to create positive duties on Directors or officers, to mandate corporate social responsibility through legislation or to introduce reporting requirements beyond those already in place in the general law.**

The BCA has identified the existing drivers towards greater corporate social responsibility as:

- employee recruitment, motivation and retention;
- learning and innovation;
- reputation management;
- risk profile and risk management;
- competitiveness and market positioning;
- operational efficiency;
- investor relations and access to capital; and
- licence to operate.

These are discussed in detail in the submission and examples from BCA Member companies are provided to illustrate how these drivers affect corporate activity.

There are therefore very strong reasons for corporations to have regard for the interests of stakeholders other than shareholders, and the broader community. The reality of these drivers is proven by the extent, scope and innovation in the activities engaged in by BCA Member companies.

It is important to remember, however, that a company's paramount obligation is to its shareholders. The two are not mutually exclusive. It is in the interests of shareholders to have their company flourish and grow. This is only possible in a sustainable way when the corporation takes into account the interests of other stakeholders, and the broader community, to the extent that these interests are relevant to the corporation.

While the BCA recognises the realities of the drivers towards greater corporate responsibility, and supports corporations having regard to the interests of stakeholders other than shareholders, there are limits to the extent that corporations can and should have regard to interests other than those of shareholders. The litmus test for any activity or responsibility is whether the performance of that activity or responsibility can reasonably be seen to be contributing to the growth of shareholder value. While some may argue this is too restrictive, the BCA believes it is a paramount principle entrenched in the basic nature of the corporation and its arrangement with the owners of its capital, the shareholders. The BCA also firmly believes that this paramount principle does not limit the ability of corporations to take into account the interests of other stakeholders to the extent that these interests are relevant to the corporation. Nor does it restrict the diversity and innovation in the approaches that corporations can take to responding to the interests of other stakeholders, as witnessed by the wide range of activities BCA Member companies are currently engaged in.

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Part 1

1. Introduction

Part 1 of this Submission will examine what is meant by 'corporate social responsibility' (**CSR**) and similar terms, the various drivers for corporations to act responsibly and the wide range of activities that Business Council of Australia (**BCA**) Member companies are already engaged in that fall within the scope of CSR. Part 2 of this Submission will then address each of the elements of the Terms of Reference for the Inquiry into Corporate Responsibility by the Parliamentary Joint Committee on Corporations and Financial Services.

CSR is more than merely corporate philanthropy and remains difficult to define precisely. CSR includes the recognition by companies of their impact on all stakeholders (including social, environmental and employee related impacts) and the creation by companies of mechanisms to respond to those impacts effectively. The BCA's definition of CSR and a further discussion about what is meant by CSR is outlined below in section 2. For simplicity the BCA uses the term CSR within this submission, however, this is not an endorsement of the term nor an acceptance that CSR can easily be defined.

The BCA's membership covers approximately the top 100 companies. The BCA has conducted a survey of its Member companies to assess whether they are engaged in CSR activities. What is very clear is that BCA Member companies are aware of the importance of CSR and that all of the BCA Member companies are actively pursuing CSR initiatives as a part of their operations.

The case studies attached to this submission (see [Attachment A](#)), as well as the examples of CSR activities being undertaken by BCA Members (outlined in section 4), demonstrate that BCA Member companies are actively engaged in CSR activities because there is a business case for them to do so¹.

This submission identifies eight key economic drivers of the business case for CSR and examples of how BCA Member companies are responding to those economic drivers (see section 4). This demonstrates that the importance of CSR is being recognised and responded to by BCA Member companies, providing benefits to shareholders, employees, the community and the environment.

Given the difficulty defining CSR, as well as the fact that CSR activities are already broadly being pursued in Australia by large corporations, mandating CSR through legislative intervention runs the risk of stifling the innovative and creative approaches to CSR that are being adopted by Australian companies. Instead, there are options other than regulatory alternatives which are likely to foster meaningful dialogue on CSR issues and create forums for companies to educate and learn from each other about CSR approaches and initiatives.

¹ This submission includes case studies of CSR activities being undertaken by a sample of Members. Given the broad Membership base and the large amount of CSR activity being conducted by the BCA Members, the case studies can not cover the field in terms of the CSR activities being conducted by the BCA Members and are merely illustrative of some of the activities being undertaken.

2. Problems with defining CSR

It is not possible to define CSR precisely as the concept covers a wide range of ideals and interactions. Attempts to provide a precise definition can be confusing and ambiguous because the concept means so many different things to different people. In addition, a wide range of terms are used to define similar, though not necessarily equal, concepts. Such terms include 'corporate citizenship', 'triple bottom line performance', 'corporate sustainability', 'licence to operate', 'corporate responsibility', 'community spirit', 'corporate community involvement' and 'sustainability'. While arguably each of these terms refer to different things, they are often used interchangeably and without precision. As a result, there is considerable misunderstanding and controversy about what is meant by these terms. The BCA's own description, given below, could best be described as 'corporate sustainability', capturing the notion of sustaining both the corporation and the society and environment within which it operates.

The fact of the matter is, that the three main challenges facing companies today are:

- Staying alive
- Producing value for shareholders, and
- Building an enterprise that will not only survive, but also succeed over the longer term

Source: John McFarlane, CEO ANZ Banking Group²

For simplicity, the BCA uses the term CSR within this submission, however, this is not an endorsement of the term over others nor an acceptance that CSR can easily be defined. This submission uses the term CSR broadly, to include all of a company's impacts on stakeholders and the company's need to deal responsibly with those impacts. The BCA suggests that CSR broadly involves the following:

Corporations operate within the community. For corporations to be sustainable and successful in the long term, they need to engage with the community and take account of community attitudes. Successful companies therefore factor into their forward strategies activities that manage the challenges and risks to the community and capture the opportunities that community engagement can bring. To be valid, these activities must deliver benefits both to the community and the shareholders of the corporation.

Whilst this general statement of the meaning of CSR can act as a guide, there are multiple problems associated with trying to define CSR precisely. These difficulties are of relevance to the Parliamentary Committee's deliberations as the Committee needs to

² John McFarlane, 'Challenging the Role of Corporations in Society', Speech at University of Melbourne's 2005 Town and Gown, 31 August 2005.

ensure that any initiatives it may recommend to encourage greater corporate responsibility do not inadvertently restrict or inhibit the wide range of innovative approaches to CSR that Australian corporations are already developing and implementing.

It is also important to note that while this submission concentrates on many of the non-financial aspects of CSR, the greatest social contribution made by corporations is through the goods and services they provide, the wealth they create and the employment they generate.

2.1 Diversity of objectives and activities

CSR is difficult to define because the activities which are included within its scope are so diverse and have so many different objectives. Often CSR is perceived to be corporate philanthropy (being support of charitable or other cultural activities) however CSR is much wider than just philanthropy. The BCA also believes that philanthropy that is not designed to return some longer term benefit to shareholders falls outside of scope of legitimate CSR.

Australian companies are undertaking broader CSR activities that include, for example, environmental partnerships with Government agencies and communities to develop sustainable operating processes, assistance to small businesses to sustain communities and development of educational programs in schools and universities. The innovative and creative CSR activities being undertaken by Australian companies reflect each company's unique operational experience and expertise. The CSR activities vary depending on the nature of the corporation's activities, their impacts and the communities within which they operate. Accordingly, what is meant by CSR will depend on a wide range of factors. What is an appropriate CSR activity for the banking sector, for example, will be very different from the activities pursued in the manufacturing sector.

Similarly, a CSR definition usually requires an identification of "stakeholders" that companies should consider in discharging their CSR role. While some stakeholders, such as employees, will be common to all corporations, many others vary significantly. A mining company for example is likely to place a higher priority on environmental issues than an accounting firm.

Attempting to distill CSR into a simple definition, particularly if legislated, ultimately becomes meaningless, because each company views CSR according to its own unique set of circumstances. This has led the chairman of Morgan Stanley Australia, Mr Harrison Young, while endorsing the need for corporations to act responsibly, to comment that:

*'In the end, people would invent a bit of jargon—for example, "societally appropriate value maximization"—as a way of asserting that they were doing whatever Canberra thought it was causing them to do. And life would return to normal—but with a drag on the economy and virtue made to look ridiculous.'*³

³ Remarks delivered 18 August 2005 at a seminar sponsored by The University of Melbourne's Centre for Corporate Law and Securities Regulation and the Commonwealth Government's Corporations and Markets Advisory Committee.

2.2 Corporations are already engaged in CSR activities

The lack of a precise definition has not prevented companies from engaging in a wide range of innovative activities that reflect the separate and distinct issues arising from the company's business activities and the communities within which they operate.

The BCA's Members represent approximately the top 100 companies in Australia, employing nearly a million people and generating total revenues of around \$340 billion. A survey of all of those BCA companies has found that all of them participate in CSR activities. These activities are not necessarily being pursued as a separate and distinct business objective, but generally are part of the overall strategic operations of those companies.

Business Council of Australia Member Companies

- Employ nearly 1 million people
- Generate revenue of around \$340 billion
- All undertake CSR activities, covering a diverse range of activities.
- In 2001-02, BCA companies contributed at least \$195 million and 219,000 staff hours to social and community programs and \$292 million and 425,000 staff hours to environmental projects.

The BCA undertook a survey of Members on their community involvement in a report entitled the 'Community of Business'⁴. The survey highlighted that BCA Member companies invest substantially in the communities in which they operate and their total commitment to social and community programs was at least \$195 million in 2001-02. One in five respondents funded annual programs in excess of \$4 million with six investing \$10 million or more.

Many companies encourage their employees to participate in volunteer work, including by making time available to staff for their volunteering. Over the course of 2001-02, employees of BCA companies contributed 219,000 staff hours to volunteer and community groups. BCA Member companies also recognise the importance of environmental programs, with total spending in 2001-02 reaching \$292 million⁵.

The figures from the survey in 2001-02 are conservative and fall short of the actual contributions being made by BCA Member companies. Not only is it likely that the amount of contribution being made has increased over time, but the outlook for employment, and expenditure on investment, R&D and environmental and

⁴ Business Council of Australia, *The Community of Business- The Role of Big Business in Australia* released 2004.

⁵ This number is a conservative representation of the actual commitment to environmental programs and outcomes, as a number of BCA companies have now integrated these programs into their core business and therefore do not split the programs out from day to day operations.

social/community programs reflects the responses of only around 65 per cent of all BCA companies.

The participation by BCA Member companies in CSR activities is further highlighted in section 4 below.

2.3 Participation is voluntary and ongoing

Defining CSR, and particularly the use of the word “responsibility”, suggests that companies will not engage in CSR unless they are forced to. The evidence, however, demonstrates that Australian companies are engaging in CSR activities on a broad scale, without being compelled by Governments to do so. The risk in trying to develop a precise definition to CSR, particularly a narrow definition of CSR or what is meant by “responsibility”, is that the definition may inhibit companies from continuing to pursue innovative and creative activities that suit their own unique circumstances. The risk with a broad legislative definition that encompasses all of the desirable activities that companies are currently engaged in is that it is likely to be meaningless in terms of giving clear direction to companies on how to comply with the legislation and to regulators on how to enforce the legislation.

Definitional Difficulties

Defining ‘corporate responsibility’ or CSR in legislation is problematic. Too narrow a definition excludes many activities that are legitimately part of CSR. It also fixes our understanding of CSR at a particular point in time. Too narrow a definition therefore stifles innovation and evolution in CSR and encourages companies to adopt a strict compliance approach to CSR.

A broad definition, designed to recognise the rapid development of CSR thinking and practice, and the wide range of corporate and community engagements, will be too loose to provide meaningful guidance to companies, regulators and courts on what is needed to comply with the law.

The BCA is aware that some overseas jurisdictions have attempted to define corporate responsibilities or CSR in legislation. However, our view is that these definitions illustrate the very problems the BCA has raised above.

3. Taking stakeholders into account

The traditional view of the directors’ responsibilities is that directors must only act in the best interests of the corporation by acting in the interests of shareholders through maximising shareholder wealth (through dividends and share value).

The traditional view is that directors should not take into account matters other than those that relate to maximising shareholders wealth in discharging such duties. Accordingly, under the traditional approach, it may be possible for directors to breach their duties if they exercise corporate philanthropy in a manner which reduces profits for

shareholders. However, this approach assumes that companies must only take into account short-term profit motive rather than a long-term strategic perspective.

In a recent speech at the University of Melbourne's 2005 Town and Gown, the CEO of ANZ, Mr John McFarlane, stated:

"We cannot produce growth and return unless we invest in the capacity to produce that return. It is inevitable therefore that we must dilute current profits if we desire future prosperity...."

To renew ourselves and offset the erosion of advantage, we need to invest in those things that extend our competitive advantage and the sustainability of returns. Competitive advantage is about longer-term uniqueness- about being different and more capable than our competitors...

Accordingly, a focus on maximizing short-term returns cannot be a solid philosophy for managing our companies. Doing so would inevitably subdue investment and would accelerate the long-term demise of the company."

Source: John McFarlane, 'Challenging the Role of Corporations in Society', speech at the University of Melbourne's 2005 Town and Gown, 31 August 2005

Recently, the Chairman of Morgan Stanley Australia, Mr Harrison Young, drew a distinction between the "enterprise" view of corporations and the "corporations-as-contracts" view. One view suggests that the social responsibility of a corporation is primarily to engage in a particular enterprise. However, corporations evolve over time and in relation to modern corporations, Mr Harrison Young has commented that:

"Corporations-as-contracts now tend to be perpetual. This means that managers and directors of corporations have to keep finding new enterprises to undertake. In the process some grow very large.... This turns corporations into institutions...."

It is a question of time frame. It may be possible to squeeze a customer or supplier today, or this year, but shareholders will suffer soon enough if important relationships are damaged."⁶

The traditional view doesn't appear to accord with the evolution of corporations or indeed with how modern corporations are actually acting. There is increasing awareness that corporate success and maximising shareholder value are not based solely on a narrow set of considerations. Broader considerations, such as the community and environment, are essential to contribute to and protect value in the long-term and accordingly the potential shareholder wealth that can be achieved over time.

⁶ Remarks delivered 18 August 2005 at a seminar sponsored by The University of Melbourne's Centre for Corporate Law and Securities Regulation and the Commonwealth Government's Corporations and Markets Advisory Committee.

CSR activities, including corporate philanthropy, can in certain circumstances be regarded as strategic, because the goal of such activity may be for the company to maximise its operating potential into the future. A more strategic view may therefore be able to be taken, even within the boundaries of traditional legal views such as that articulated by Mahoney JA in *Woolworths v Kelly*⁷:

“A company may decide to be generous with those with whom it deals. But.....it may be generous to do more than it need do if, essentially, it be for the benefit of or for the purposes of the company that it do such. It may be felt appropriate that the company require a reputation of being such.”

Maximising shareholder wealth and undertaking CSR activities are not mutually exclusive activities. Indeed, increasingly a strong commitment to CSR may be vital to maintaining and growing shareholder wealth in the longer term. Modern corporations are increasingly being moved to undertake CSR activities (in a manner and using methods that suit their own unique circumstances) where there is a clear business case to do so. Whilst Australian companies are undertaking CSR activities, Senior Director and Company Chairman Mr David Gonski warns that it would be a mistake to change corporations law to change the primary obligations of directors and companies⁸:

‘We are accountable to the shareholders and personally I feel they would be wrong to change that definition...’

It does not need to be changed and I am quite scared that fiddling with it could produce completely different results.....’

I also strongly believe that we as directors are entitled and indeed compelled to spend some time in our community and some of the funds that come in.’

In fact, Australian companies are increasingly pursuing CSR initiatives as part of their business, and this has led Mr Harrison Young to comment:

“you may feel that corporations have no business doing some of these things, or you may believe they don’t do enough of them, but the majority of large companies do attend to the claims of society at large.”

⁷ Bill Beerworth, ‘Do directors have duty to be corporately responsible?’, Corporate Public Affairs, Vol 15, No 2, 2005, page 16

⁸ Leon Gettler, ‘ANZ makes responsibility a key plank’, The Age, 22 September 2005, page 5

Who are 'stakeholders'?

The stakeholders relevant to a corporation will vary depending on the nature and circumstances of the corporate, but may include:

- *shareholders;*
- *employees;*
- *senior and line managers across all aspects of the corporation's operations;*
- *contractors;*
- *communities directly impacted upon by the corporation's activities and operations;*
- *community, conservation and social organisations;*
- *industry and professional associations;*
- *Government, including local, regional and national;*
- *principal customers and suppliers; and*
- *business associates, including major investors and financiers of the corporation;*
- *international institutions.*

Source: Business Council of Australia, Towards Sustainable Development – How leading Australian and global corporations are contributing to sustainable development, May 2001

4. The business case for CSR

Why have the BCA Member companies been so proactive in their CSR initiatives?

For long term success, companies need to take into account their impact on the community and environment rather than merely their financial or economic impact, particularly as there are far reaching business consequences if companies do not have effective mechanisms for CSR. It is simply good business for companies to recognise the impacts they have, the opportunities and risks these present and then to respond effectively.

For instance, at a workshop commissioned by the Forum for the Future (UK) in May 2003, the key finding was that businesses with strong CSR engagement will often be more successful in generating Economic Value Added, for reasons rooted in business strategy⁹.

4.1 *The Eight Drivers of Corporate Responsibility*

The World Economic Forum¹⁰ and Business in the Community (UK)¹¹ have identified several economic drivers which underpin a business case for CSR, including:

- employee recruitment, motivation and retention;
- learning and innovation;
- reputation management;
- risk profile and risk management;
- competitiveness and market positioning;
- operational efficiency;
- investor relations and access to capital; and
- licence to operate.

Many BCA Member companies are explicitly recognising the business case for CSR in their activities, reporting and policies. Their recognition of the business case for CSR is clearly shown in the sample of case studies attached to this submission, prepared for the BCA by PriceWaterhouseCoopers (see Attachment A). The attached case studies illustrate all of the eight corporate responsibility drivers in action. Within the many sustainability reports now available there is increasing recognition of the need to articulate the reasons 'why' CSR and related initiatives are undertaken. The ten case studies are a collection of some of the types of statements that BCA Member companies

⁹ 'Sustainability and business competitiveness. Measuring the benefit for business competitive advantage from social responsibility and sustainability', in association with Forum for the Future, www.forumforthefuture.org.uk

¹⁰ Sarah Roberts, Justin Keeble and David Brown, 'The Business Case for Corporate Citizenship', World Economic Forum, <http://www.weforum.org/site/homepublic.nsf/Content/Global+Corporate+Citizenship+Initiative/The+Business+Case+for+Corporate+Citizenship>

¹¹ Arthur D Little, 'The Business Case for Corporate Responsibility', Business in the Community (UK), www.bitc.org.uk

have made about their determination to integrate CSR issues into mainstream business thinking¹².

Just one example is IAG which provides in its statement of "Commitment to Sustainability"¹³:

"We acknowledge that the sustainability of our business is directly tied to the sustainability of the communities in which we operate. We believe that returns to our shareholders, and the company's own stability and growth potential, will be enhanced by conducting our business in a way that creates value for society on numerous fronts, across environmental, social and economic dimensions. We believe this because running a successful business, including having access to the capital and community support that we need to grow, is the best way for us to meet our commitments to our shareholders, our customers and our people".

Mr David Morgan, CEO of Westpac acknowledges the benefits of CSR activities for business and writes¹⁴:

"Corporate social responsibility is central to sustainable profit creation. Leaders who successfully manage social, ethical, environmental and other non-financial drivers help ensure a stable, resilient company that is better placed to deliver sustainable shareholder value.

Put simply, a company needs employees who want to work for it; customers who want to buy its products or services; suppliers who want to supply to it; and, of course, investors who want to invest in it. Long term."

Further, Visy's corporate communications manager Mr Tony Gray says¹⁵:

"We started doing the things that have come to be known as corporate social responsibility because we felt they made good business sense. Doing more with less, reducing waste and putting back into the community in which we operate made good sense."

The eight key drivers provide some guidance of why BCA Member companies are undertaking a wide variety of innovative CSR activities. Each of the drivers is considered in more detail below, with some specific examples of CSR activities being undertaken by BCA Member companies in those areas. Clearly each of these drivers does not operate in isolation and different companies may have different drivers. Building a company's reputation, for example, will also help it recruit, motivate and retain employees. Different drivers will also be stronger in different sectors and for different companies. Minerals companies, for example, will often concentrate on their 'licence to

¹² The examples given in the case studies are indicative of the business case and are not meant to "cover the field". Each of the sample companies may be pursuing other business objectives through CSR initiatives which have not been identified in the case studies.

¹³ www.iag.com.au

¹⁴ David Morgan, 'Valuing values at the heart of the enterprise is how you create sustainable profit', The Age Business, 18 August 2005, page 2

¹⁵ Brad Howarth, 'How to do the right thing to thrive in business', The Age My Career, 23 July 2005, page 16

operate' as adverse community reactions to their operations can ultimately prevent companies access the minerals resources they need to survive. The drivers are therefore one method of demonstrating that there is a business case for CSR, but they are not meant to cover the field in terms of reasons companies are undertaking CSR activities. For most companies, the move towards CSR may result from a combination of drivers.

4.1.1 Driver 1: Employee recruitment, motivation and retention

The reputation of a company affects its desirability as a potential workplace. It is in the company's strategic interests to attract and retain the most highly skilled and expert employees, and this can be encouraged by maintaining an ethical and attractive reputation. A tarnished reputation can have damaging effects on the potential to recruit:

*'when a major oil company suffered damage to its reputation on environmental and social grounds, the CEO said repeatedly that the most negative impact—and the one that made him fear for the future of the company—was the fact that bright young graduates were no longer attracted to the company.'*¹⁶

This driver is only going to intensify as competition among companies for talented and experienced workers intensifies.

The methods that Australian companies are using to create a workplace that is attractive to potential employees are varied. They may include internal company policies regarding work-life balance or may involve initiatives to give employees better access to time or resources to partake in volunteer work. Westpac, for example, has recognised that CSR activities directed at employees are crucial for the success of the company:

*"Westpac's head of corporate responsibility and sustainability Graham Peterson says their CSR programs play a role in addressing internal issues such as staff retention."*¹⁷

Further, Mr John McFarlane recently commented¹⁸:

"Turning staff into stakeholdersHow people feel about working at an organization and how passionate and engaged they are in its agenda, is what makes the difference between good and great companies."

¹⁶ Sarah Roberts, Justin Keeble and David Brown, *'The Business Case for Corporate Citizenship'*, World Economic Forum, <http://www.weforum.org/site/homepublic.nsf/Content/Global+Corporate+Citizenship+Initiative/The+Business+Case+for+Corporate+Citizenship>

¹⁷ Julie Clements, *'Seek synergy for success'*, Fundraising & Philanthropy Australiasia, Published by Bombora Publishing Pty Ltd, Issue 4: August-October 2005, page 10

¹⁸ John McFarlane, *'Challenging the Role of Corporations in Society'*, speech at the University of Melbourne's 2005 Town and Gown, 31 August 2005

Westpac: Employee initiatives in 2004 included:

Matching Donations

Westpac Matching Gifts was its largest giving program and one of the most comprehensive corporate-giving programs in Australia. The bank matched the donations of employees, dollar for dollar, to any tax-deductible charity in Australia.

Through donations from employees and Westpac Matching Gifts, around 810 charities have received \$9.3 million since the program began in 1999.

Volunteering

Westpac provides community leave and flexible working conditions for employees to do volunteer work with any not-for-profit organisation.

Individuals and teams take up this opportunity in many different and innovative ways, from brightening up temporary accommodation for homeless people to restoring natural habitats in local parks. To help raise awareness of volunteering opportunities, a network of around 300 Community Champions across Australia provides information and support to employees in their local areas. The Community Champions are also supported through regular communication forums and newsletters.

In the twelve months to June 2005, 2,985 community leave days were logged by Westpac employees. Countless other days were spent by employees using their professional skills on pro-bono projects for community groups and through mentoring programs.

Environmental projects

The Westpac Operation Backyard program is administered by Westpac's environmental partner, Landcare Australia, and provides funding for the cost of environmental materials for projects involving Westpac volunteers. Since Westpac Operation Backyard began in 2001, \$963,000 has been invested in 228 environmental projects.

Recognition

Westpac recognises and rewards outstanding contributions by employees to the community through the annual CEO's Community Volunteering Awards. Individuals and teams receive special awards and the community organisations they work with receive financial support. Through the awards alone, more than \$600,000 has been distributed to the community organisations supported by volunteers over the past 12 years.

Source: Westpac Community Involvement Report 2005

IBM: Volunteer Initiative

In June 2004, IBM announced the next step in its On Demand Community volunteer initiative by enabling its approximately 160,000 retirees to leverage new technology tools to increase the impact and value of volunteer efforts in schools and local agencies across the globe.

IBM launched On Demand Community for its employees in late 2003. Managed by a company intranet Web site available to employees worldwide, the initiative includes a full range of technology solutions designed specifically for volunteer work in schools and nonprofit organizations.

Since then, over 15,000 employees have registered at the web site and are tracking their hours to be eligible for grants of technology or cash awards to the organizations where they volunteer. The company expects to have more than 25,000 active On Demand Community volunteers among its retiree and employee populations by 2005.

Source: <http://www.ibm.com/ibm/gives/news/volunteer.shtml>

Computershare: The Smith Family

Computershare staff contribute donations to the Smith Family through an ongoing payroll-giving scheme. Funds are donated to the personal support component of the 'Learning for Life' program throughout Australia.

Source: Computershare in the Community

Rio Tinto: Sustainable Employment Practices

Rio Tinto has recognised the importance of effective relationships with employees and communities, for example, through Health and Safety programmes which fully involve employees and have a goal of zero injuries or personal harm. Progress towards this goal is illustrated by the Lost time injury frequency rate (LTIFR) for Rio Tinto employees which achieved a 46% reduction – to 0.65 – in the five years to 2004.

Rio Tinto has also recognised its commitment to effective long term partnerships with communities (such as those adjacent to or affected by its operations) based on mutual trust. Established communities policies and standards are in place with the focus on sustainable solutions. As an example, the Argyle Diamond Project is setting new benchmarks in terms of employment and development of indigenous people from local communities whilst also having a significant impact on the regional economy of the East Kimberley.

Source: Rio Tinto 2004 Sustainable Development Review

BP: Green Collect

Launched in 2001, Green Collect is the brainchild of BP employees who sought to help Melbourne's long-term disadvantaged by providing new work and training opportunities to people facing barriers to employment.

Green Collect aims to assist long-term unemployed people through the co-ordination of regular cork collections from licensed premises and businesses in and around Melbourne's CBD. In addition, it is involved in environmental assessment services including waste, energy, water, purchasing and policy development.

Source: BP in the community brochure publication

ANZ: Employee Engagement Programs

ANZ was labeled the most engaged workforce of all major companies in Australia (Hewitt Best Employer Research 2005). Some of the employee programs that have been established by ANZ include:

Breakout Cultural Transformation: More than 20,000 ANZ staff had been through Breakout, ANZ's cultural development program since it began in 2000. Breakout focuses on individual behaviour, and the values, thinking and needs that drive that behaviour.

Life Balance and diversity: Employees have the opportunity to arrange their hours in non-traditional ways to better suit their professional and personal needs, for example:

- *Lifestyle leave* –people can tailor their salary over the year to provide an additional four weeks leave for any purpose.
- *Flexible long service leave* – the option to take double long service leave at half pay.
- *Career breaks* – extended unpaid leave to pursue personal development or family commitments.

Source: [anz.com/corporate responsibility](http://anz.com/corporate%20responsibility)

Mallesons: Volunteering

Volunteering is a key component of the Mallesons in the Community program. Hundreds of people volunteer with Mallesons' community partners including the Australian Red Cross, The Smith Family, National Children's & Youth Law Centre and Urban Seed. For example:

- Australian Red Cross Good Start Breakfast Club program - providing breakfast and mentoring to disadvantaged school children
- The Smith Family Student2Student program - telephone advice sessions, giving support to student mentors who, in turn, help younger, disadvantaged students to improve their reading skills
- sorting toys, packing hampers and delivering toys and hampers to clients of The Smith Family at Christmas

Staff volunteers are offered paid volunteer leave during working hours (subject to approval). Our support alleviates pressure on the resources of our community partners and other not for profit organisations. Feedback indicates that people derive satisfaction from seeing the difference their volunteering can make. Volunteering enables them to develop new skills, enhances self esteem and team building.

Source: <http://www.mallesons.com/community/5502390W.htm>

Boral: Outward Bound Family Re-Discovery Scholarships

In late 2003, Boral worked with Outward Bound Australia to develop the "Family Re-Discovery" program to provide their employees with an opportunity to focus on their balance between work and home life. Boral employees have the opportunity to spend nine days with their son or daughter (aged 12-18) in the Australian outback facing personal challenges and strengthening their family bonds. These family scholarships have become an ongoing feature of the Boral's social and employee program together with a range of other initiatives (eg paid parental leave and a health and wellness program for employees and their families).

Source: Boral 2005 Sustainability Report.

4.1.2 Driver 2: Learning and innovation

Learning and innovation involves companies responding to changes within society to achieve and take advantage of business opportunities, to develop new business practices and to maintain or enhance competitiveness.

An on-going dialogue with the community ensures that businesses are engaged with, and learning from, the community in which they operate. Some studies have shown that CSR activities have stimulated creativity and learning, and therefore contributed to the success of the business. For example the Business in the Community (UK) have

highlighted that, 80% of European business leaders believed that responsible business practice allowed companies to invigorate creativity and learn about the marketplace¹⁹.

There are a variety of forms of CSR activity that companies have adopted to take advantage of innovation and learning. For example, they have formed partnerships with Government or other entities to take part in co-operative research which may identify new business opportunities at the same time as solving a social, community or environmental issue.

Telstra: Human Factors Research Group

Telstra is aware of the role it can play in influencing future technology and is on the lookout for early signs of valuable ideas and committed to responsible product development. Telstra Research Laboratories' Human Factors Research group ensures that Telstra's latest technology developments are helpful, easy to use and accessible to all Australians.

Human Factors is a field of study that bridges psychology and engineering and, in the telecommunications domain, whilst striving to build a bridge between technology engineers and technology users.

Testing prototypes for people with special communication needs - such as hearing and sight impaired people - is another function for the Human Factors group. In 2001, a Centre for Accessibility was formed to concentrate on making Telstra's Internet services accessible for people with disabilities, by including them in usability testing and design standards. The Centre also intends to examine the usability of new and emerging technologies, such as mobile devices and voice applications.

<http://www.telstra.com.au/abouttelstra/csr/operating.cfm>

Accor: Participatory Innovation

Accor has developed a method of assessing the opinions and commitment of its employees around the world. Launched in 2001, innov@ccor is an electronic suggestion box designed to encourage employees to innovate constantly. The goal is to share ideas that work so they can be applied as broadly as possible. Approximately one suggestion out of three is accepted, rewarded and deployed. In 2004, more than 7,500 suggestions were submitted, of which over 2,400 were implemented.

Source: Accor Annual Report 2004 (Sustainability report), www.accor.com

¹⁹ Arthur D Little, 'The Business Case for Corporate Responsibility', Business in the Community (UK), www.bitc.org.uk citing BITC (2003), Responsibility: Driving Innovation, Inspiring Employees. FastForward Research 2003, Business in the Community.

CSR Limited: Insulation Recycling

To reduce waste rockwool insulation, CSR Insulation Systems (with the help of CSIRO) is investing in a major scrap product recycling project. By compressing the light but bulky waste into dense briquettes which are readily used in the furnace, up to 85% of previously waste product will be recycled back into the production process. When completed, the project should benefit CSR's Clayton, Victoria, plant and three rockwool insulation plants in Asia.

Source: CSR Annual Report 2005

Microsoft: Academic Research Programs

Microsoft is a supporter and contributor to academic research in recognition of the significant role it plays in technological innovation.

- Microsoft's University Relations program promotes collaboration between the academic community and Microsoft Research Asia (MSRA). Over the past five years the company has invested more than \$21 million in various research grants to Australian universities and to establish the Microsoft Chair of Innovation at Macquarie University.
- The company supports 66 university departments and 80,000 students through the MSDN Academic Alliance, a program that provides the latest technology and tools to specific curriculum areas and their respective students and department laboratories.

Source: Microsoft in Australia brochure

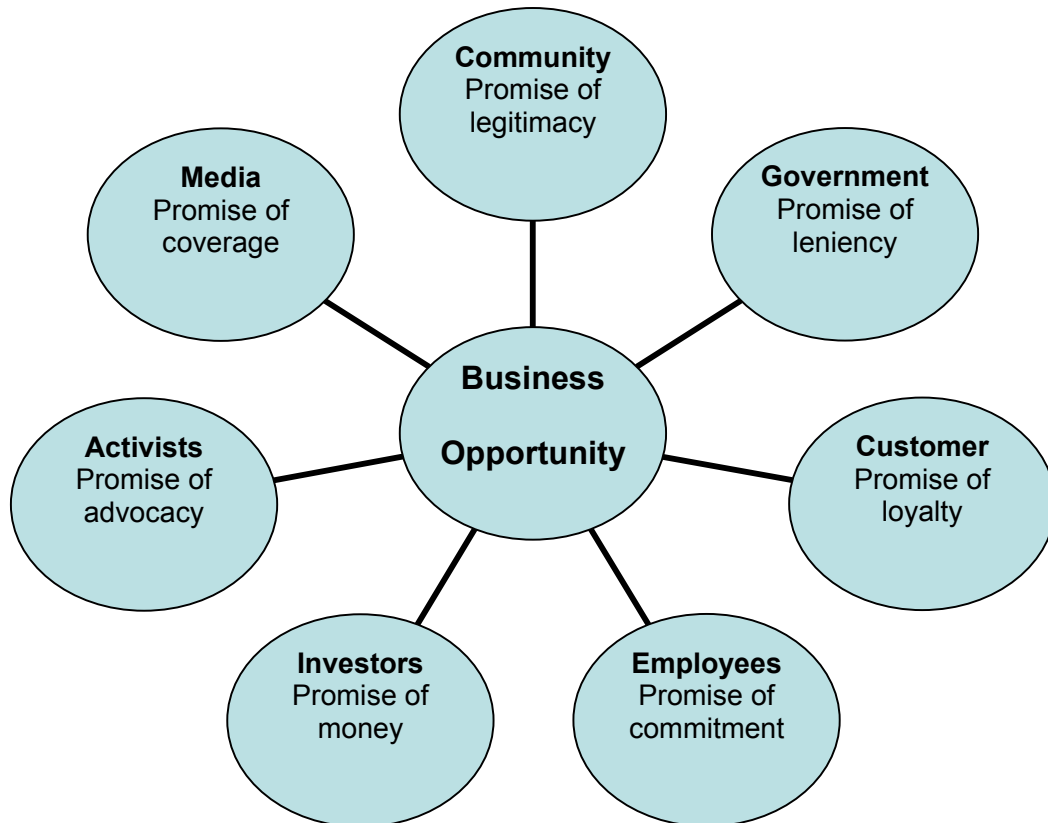
4.1.3 Driver 3: Reputation management

Business success is highly dependent on reputation within the community. The breadth of stakeholders which can influence business today means reputation is increasingly important. Reputation can effect, amongst other things, whether customers purchase products, whether investors will give up funds and whether employees are willing to commit to the corporation.

Understanding the expectations and pressures from stakeholders and responding effectively is crucial to the success of a business's reputation and the control of possible risks.

The breadth of interested stakeholders can be represented diagrammatically, as below.

Managing the benefits of corporate reputation



Source: Arthur D Little, *'The Business Case for Corporate Responsibility'*, Business in the Community (UK), www.bitc.org.uk citing Adapted from Fombrum et al (2003)³

Customers often take into account the reputation of a company when making consumer decisions. For example:

*'86% of consumers have a more positive image of a company that is seen to be doing something to make the world a better place and a company's responsibilities to society, environmental and labour practices are all seen by the public across 20 countries as more important than its economic contribution.'*²⁰

In an environment where investors have greater access to technology and media and are taking a wider range of issues into account regarding their investments, there is greater pressure on companies to build and maintain a reputation and effectively

²⁰ Arthur D Little, *'The Business Case for Corporate Responsibility'*, Business in the Community (UK), www.bitc.org.uk citing Business in the Community, the Ultimate Win Win Win (1999) supported by Research International and Global CSR Monitor (20 countries), Environics, 2001

respond to the risks, challenges and opportunities regarding the community, environment, employees and economy.

Companies whose reputations suffer serious harm are unlikely to be sustainable for a long period. Arthur Anderson, for example, was a high profile global company which had a strong brand and was able to charge extremely large fees based on that brand, until the collapse of Enron destroyed its reputation and the firm.

Reputation is one of the most valuable assets of companies, and has been found by the World Economic Forum to top the intangible asset list of most CEOs²¹. For instance, Business in the Community (UK) highlight that it is estimated that intangible, reputation, knowledge and brand elements contribute to 96% of Coca-Cola's value, 97% of Kellogg's value and 84% of American Expresses value²².

There have been a number of high profile instances of companies who have suffered reputational damage from failure to recognise a specific CSR risk in their operations. As a result the pressure from stakeholders has forced those companies to consider their activities and implement CSR activities to manage such risks. Global fast food chains are now developing healthy eating alternatives to their menus based on customer and media pressure. A number of very large clothing brands have been forced to address the issue of workplace conditions in developing nations where their subcontractor factories are based:

*"When the CEO of one of the world's best-known brands realised that his company name had become synonymous with slave wages, overtime and arbitrary abuse, he took concerted action to improve conditions in the supplier factories and now has 70 staff members working on corporate social responsibility issues."*²³

Macquarie Bank: Community Support

During the July school holidays, Macquarie Bank Sports hosted its first Rugby League Camp. Over 550 children aged between 7 and 13 from all over Sydney attended the camp and were coached by Australian Rugby League Development Officers. The boys and girls were rotated around stations which showcased attacking, passing, kicking and tackling activities.

Current and former players Brad Fittler, Nathan Hindmarsh, Gordon Tallis and members of the Roosters first grade squad were all on hand to pass on advice and sign autographs.

Source: Macquarie in the Community, Issue Three 2005

²¹ Roberts, Keeble and Brown, *'The business case for corporate citizenship'*, World Economic Forum, www.weforum.org

²² Arthur D Little, *'The Business Case for Corporate Responsibility'*, Business in the Community (UK), www.bitc.org.uk citing Interbrand (2000) cited in www.csreurope.org

²³ Roberts, Keeble and Brown, *'The business case for corporate citizenship'*, World Economic Forum, www.weforum.org, citing Murphy and Mathews 2001. Nike and global labour practices. A case study prepared for the New Academy of Business, Business Innovation Network for Socially Responsible Business. New Academy of Business, Bristol, UK

Wesfarmers: Community Support

Wesfarmers contributes to community-benefiting activities, particularly in the areas of medical research, education and the arts. The company provides support by way of donations and sponsorships through both Corporate Office and the businesses it owns.

The Board of Wesfarmers Limited makes donations up to an annual ceiling of 0.25 per cent of before-tax profits. In 2004/2005 this amounted to almost \$2.3 million. Significant current community partnerships include those with the Institute for Child Health Research, the Western Australian Community Foundation and the Clontarf Football Academy.

Corporate level sponsorship is through the Wesfarmers Arts programme which supports the visual and performing arts in Western Australia, in partnership with key arts organisations including West Australian Ballet, West Australian Opera, West Australian Symphony Orchestra, Black Swan Theatre Company, UWA Perth International Arts Festival and the Awesome Children's Festival. In 2004/2005 this exceeded \$550,000.

In addition to support from the parent company, the operating businesses make a significant community contribution. Donations and sponsorships from these businesses amounted to \$2.7 million in 2004/2005. And another almost \$1 million was raised by the Bunnings hardware business through the use of its stores and the involvement of its team members.

Source: <http://www.wesfarmers.com.au/default.aspx?MenuID=27>

Shell in Australia: Supporting the Community

In 1985 Shell, Questacon - The National Science and Technology Centre and The Australian National University joined together to establish the Shell Questacon Science Circus - an outreach program that has become a benchmark for many leading science centres around the world. In nearly 20 years, the Science Circus has:

- been seen by more than 1.6 million Australians
- reached over 100,000 students, teachers and their communities annually
- covered hundreds of thousands of kilometres throughout regional, rural and remote Australia
- held teacher development workshops for 3000 teachers and specialised programs for remote Indigenous communities

Source: Who We Are and What We Do: Shell in Australia 2004.

Accor: Recognising CSR across the Economy

Shareholders

Accor's growth is financed by institutional investors and its CSR and corporate governance reputation is important. In 2004, Accor was included in the following independent ethical ratings and sustainability indices: Advanced Sustainable Performance Indices, FTSE4Good, DJSI World & DJSI Stoxx and the Ethibel Sustainability Index.

Local Communities

Accor has 3,973 hotels around the world, and a corresponding number of local communities with whom ties are being developed. In 2004, more than 5,000 employees in seven countries received training in ways to combat the sexual exploitation of children. Accor supports child sponsorship, with Plan, and local aid to populations in need, with the Red Cross.

Suppliers

Purchases from 2,274 certified suppliers in 15 countries totaled more than €1 billion. In 2004, the Sustainable Development Purchasing charter was tested with 433 suppliers in France. 1,500 additional hotels now support fair trade initiatives.

Employees

Listening to employees and recognizing their accomplishments are important ways of maintaining a constructive social dialogue. In Australia, 140 Aboriginals were hired in 2003-04 and a new agreement with the Government concerning the hiring of 135 others was signed for 2005-06. During the year, the Diversity Charter was signed in France. Initiatives to diversify hiring, upgrade skills and promote job mobility were pursued.

Environment

Measures undertaken in 2004 will be pursued in 2005 with rollout of the environmental management system, the ongoing deployment of the ISO 14001 certification process and an overhaul of the Hotel Environment Charter.

The recovery of organic waste, which represents a large percentage of hotel waste, is not widespread because of a lack of local recovery infrastructure. An environmental information sheet encourages hotels to compost organic waste if possible. In Australia, for example, worms are used in composting, while in the United States, lawnmowers crush green plant waste so that it can be left to decompose into soil nutrients.

Source: Accor Annual Report 2004 (Sustainability report), www.accor.com

4.1.4 Driver 4: Risk profile and risk management

Companies can use CSR initiatives to improve their comprehension and management of potential risks to their business. For example, dialogue with the wider community increases understanding of community expectations as well as social and environmental issues. The World Economic Forum has highlighted that 86% of institutional investors across Europe believe that social and environmental risk management will have a significantly positive impact on a company's long-term market value²⁴.

By identifying possible risks, through the use of CSR initiatives, the company may be able to reduce or eliminate avoidable risks and losses (such as damage to reputation or operations, or changing community attitudes). For example, ensuring that suppliers act ethically and in an environmentally friendly way, the business avoids later having its reputation damaged through association with unethical practices or environmental damage. For example, the World Economic Forum has highlighted that well-known wood-product retailers that have instigated systems to ensure their timber comes from sustainable forests, have gained significant reputational kudos, compared to those who have not been able to identify where their timber comes from²⁵. The BCA Member companies have recognised that such risk management is important, leading the Chairman of Coles Myer, Mr Rick Allert, to comment²⁶:

'While we are obviously conscious of the need to help developing countries to improve their economies, and also to provide Australian consumers with the lowest-cost products, we take the view that we don't wish to do anything that would be seen as encouraging exploitation or contrary to a moral and ethical community standard. In this, we believe we reflect the Australian community's expectation of responsible corporate behaviour and therefore only deal with those companies in developing countries that can demonstrate fair conditions for their employees.'

Poor corporate behaviour also increases the risk of regulatory intervention by Governments. In most cases, it will be less costly for corporations to resolve issues themselves, rather than have regulation imposed. Even where regulation is being imposed, the standing of corporations in the community will determine their ability to influence the regulatory outcome. Poor corporate behaviour therefore increases regulatory risk.

Accordingly, to avoid and manage risks to their reputation and operations, businesses are increasingly taking the initiative, for example, by introducing processes to assess the environmental and social impact of their supply chains.

²⁴ Arthur D Little, *'The Business Case for Corporate Responsibility'*, Business in the Community (UK), www.bitc.org.uk citing Taylor Nelson (2001) *The European Survey on SRI and the Financial Community*

²⁵ Roberts, Keeble and Brown, *'The business case for corporate citizenship'*, World Economic Forum, www.weforum.org

²⁶ Rick Allert, *'Hygenically yours, a touchy, feely Coles takes on its responsibility'*, *The Age Business*, 7 July 2005, page 3

Telstra: Green Purchasing Policy

Telstra has launched a Green Purchasing Policy that applies to all purchasing across Telstra, from initial sourcing activities through to ongoing management of vendor contracts.

The Policy outlines Telstra's objectives and responsibilities that aim to ensure purchasing processes minimise negative environmental impacts and maximise environmental benefits. Telstra's objectives include:

- considering environmental issues in the purchasing of all products and services;
- purchasing environmentally preferable products and services;
- contracting with vendors that demonstrate responsible environmental performance;
- establishing a purchasing framework that encourages vendors to improve their environmental performance and/or the environmental performance of their product or service; and
- supporting Telstra's commitments under voluntary initiatives and agreements.

Achievement of Telstra's environment policies will require collaboration between Telstra and its vendors to minimise the environmental impacts associated with the products and services they supply.

Source: http://www.telstra.com.au/supplying_to_telstra/environment.htm

CSR Limited: Environmental Management

CSR Limited as a manufacturer in areas such as building products, sugar and aluminum, has a policy to act responsibly and to improve the environmental performance of its sites. External environmental risk and compliance audits were carried out last year at eight sites as part of a rolling three year program. Similar programs exist in most other large corporations.

Source: CSR Annual Report 2005

Microsoft: Internet Safety and Security

Working in partnership with Governments is important in securing the nations infrastructure. Microsoft's Government Security Program (GSP) is designed to provide Government agencies with information and resources to design and deploy secure computing infrastructures, as well as provide access to cryptographic code and development tools.

Source: Microsoft in Australia brochure

ABN AMRO: Vesting a sustainability mandate in risk management

Risk management is an important business driver of ABN AMRO. A dedicated Group Sustainable Development department in the Group Risk Management organisation, plays a central role in the bank's engagement assessment and decision-making processes. Group Sustainable Development has created a dedicated department, Sustainable Business Advisory (SBA), with overall responsibility for global sustainable risk management policy development and implementation, and for business engagement assessment and advisory. SBA is supported by teams in Brazil, North America and Australia. As part of Group Risk Management, Group Sustainable Development and SBA operate independently of the bank's commercial activities.

Other risk management initiatives include, amongst other things,:

- In 2004, the company updated its Mining Policy to incorporate the Equator Principles.
- The company also developed new frameworks for addressing human rights and ethical and social risk at a country level, which the company believes will allow for more balanced and consistent decision making that takes into account the bank's exposure to a range of country-specific risks.
- The company obtained NGOs' feedback on the draft policies via roundtable meetings with NGOs such as Novib/Oxfam, Amnesty International, Milieudefensie/Friends of the Earth and World Wildlife Fund and then built on this feedback by engaging in intensive dialogues with several clients to ensure that the Mining Policy would reflect industry best practices and provide a pragmatic framework for responsible engagement with clients.
- On the Human Rights Position Statement the company engaged with the Danish Institute for Human Rights Amnesty International and Novib/Oxfam.

Source: ABN AMRO Sustainability Report 2004

4.1.5 Driver 5: Competitiveness and market positioning

Companies are increasingly aware that pursuing CSR activities may benefit long-term financial performance and the bottom line. The long-run viability of a business may depend on its strategies including developing the economy and community in which it operates, working with Government to facilitate better regulatory regimes or integrating environmental breakthroughs into assets to reduce lifecycle costs and improve efficiency.

Being competitive and establishing market positioning also involves effective communication with customers. Customers are increasingly deciding whether to consume goods based on the CSR activities of companies.

"The most comprehensive survey of consumer attitudes toward corporate citizenship, involving 25,000 individuals in 26 countries, found that more consumers form their impression of a company on the basis of its corporate citizenship practices than do so on brand reputation or financial factors."²⁷

²⁷ Roberts, Keeble and Brown, 'The business case for corporate citizenship', World Economic Forum, www.weforum.org

Studies have shown that shareholders may receive greater value by investing in socially responsible companies. One study has shown that *“it can pay to take the ‘sustainability factor’ into account when selecting stocks”*.²⁸

Wesfarmers: Community interaction

A positive and interactive involvement in the communities within which the Wesfarmers group operates is a central element of the group's operational approach. Examples of such involvement include the extensive community relations and consultation programmes conducted by Wesfarmers Energy's Curragh Coal and Premier Coal operations and the active role that CSBP takes in the Kwinana Community and Industries Forum.

Source: <http://www.wesfarmers.com.au/default.aspx?MenuID=28>

Commonwealth Bank: Increasing Financial Literacy

The Commonwealth Bank has instituted various programs to increase the financial literacy within the community, such as student banking, school visits, DollarsandSense website, investor education, retirement focus day and retirement planning seminars, banking made easier for older persons and an array of self-help guides.

Source: Commonwealth Bank Foundation, Australians and financial literacy brochure

Microsoft: Positioning Partnerships

The company's success depends in large part on its relationship with the thousands of independent Australian technology businesses – software developers, system integrators, reseller and consultants – that help deliver Microsoft technology to customers.

- Since 2000, Microsoft has invested more than A\$20 million to support 14,000 Australian businesses as partners, suppliers and investors in leading-edge technology.
- In partnership with State Governments, Microsoft has invested over A\$10 million in high technology centres in various locations to foster innovation and deliver value across a range of education, defence, justice, healthcare and e-Government projects.
- Partnerships with the Queensland, Victorian and Northern Territory Governments have resourced more than 250 start-up software development organizations and delivered projects worth A\$300 million to those State and Territory economies.

Source: Microsoft in Australia brochure

²⁸ Garz, Volk and Gilles, *‘More Pain than Gain SRI: Sustainability pays off’*, WestLB Panmure, November 2002 found at <http://indexes.dowjones.com>

Rio Tinto: Sustaining the Minerals Industry

The Rio Tinto Foundation for a Sustainable Minerals Industry has been established to foster environmentally and socially sustainable development in the mining, metals and energy industries. The Foundation, which is governed by an Advisory Board of six members, including representatives from Government, academia, industry and Rio Tinto, coordinates part of Rio Tinto's involvement in research, technology and other initiatives for sustainable development. Initiatives cover energy efficiency, greenhouse gas reductions, water management, environmental management, regional sustainability and stewardship. Funding is reserved for qualifying projects with the best potential for producing positive impacts and allocated funds for Foundation Projects have reached \$48 million.

Source: The Rio Tinto Foundation for A Sustainable Minerals Industry Annual Report 2004

Coal & Allied (Rio Tinto): Sustaining Communities

Community Trust

Established in 1999, the Trust's objective is to assist local communities to meet their economic, social, educational and environmental challenges.

Reengineering Australia

The School Innovation Design Challenge helps address a skills shortage in the engineering and manufacturing industries. The programme aims to increase the numbers of students choosing learning pathways aligned to manufacturing and engineering. Singleton and Cessnock Councils are also contributing to the programme, which is being coordinated by the Hunter branch of the Local Government Association of Engineers.

Lower Hunter Business Enterprise Centre

The Lower Hunter Business Enterprise Centre (BEC) offers professional, free and confidential advice to small and medium sized businesses across the region. Manager of the Lower Hunter BEC, Rod Doherty, says the BEC could assist business people who are considering starting up a new business, looking to grow their business or facing difficulties....Since funding was committed in late 2004, over 100 new jobs have been created in businesses that have accessed Lower Hunter BEC services.

Source: Coal & Allied Community Trust Report 2002-2005

4.1.6 Driver 6: Operational efficiency

The operational efficiency or the capacity of a company depends on many factors, such as the ability to source skilled workers, the efficient use of company resources or the maintenance of a healthy local community to support the company's operations. For example, initiatives taken to reduce the environmental impacts of a company, such as the amount of waste it produces, typically increases the efficiency of the company's plant and reduces its input costs.

Microsoft: Interoperability

Interoperability is the ability of ICT components, systems and services to communicate and exchange information. Microsoft considers interoperability, the openness of technology and the wide-spread licensing of intellectual property, to be responsible business practices:

- A 2004 Jupiter Research study that surveyed 800 ICT professionals ranked Microsoft ahead of other vendors with 72 percent of respondents rating Microsoft the leading interoperability practitioner.
- Last year Microsoft entered into landmark interoperability agreements with several key competitors and partners, including Sun Microsystems, Oracle, Siebel, Yahoo!, AOL, palmOne and Vodaphone.

Source: Microsoft in Australia brochure

BP: Community Strengthening

Whereas once BP regarded crime as a security issue, BP now recognises that anti-social behaviours sometimes experienced at BP service stations are symptomatic of a struggling community.

In response, BP is working in a number of regions with communities, local businesses and Governments to develop practical ways of achieving long-term social change and opportunities, particularly amongst young people.

BP has established community-building projects at three BP sites – Langwarrin, Victoria; Townsville QLD; and Redfern, NSW. The catalyst for these projects arose from increasing concern from local business, BP itself, and local residents regarding the increasing number of young people who gathered in groups at night, sometimes under the influence of alcohol, around BP service stations. All too frequently, this situation lead to vandalism, loss of good staff, customer fear, theft, damage to property and other criminal behaviour.

Source: BP in the community brochure publication

Alcoa: Environmental sustainability

Alcoa takes a long-term view of its relationships with local communities and its impact on the environment. It works with Greening Australia to plant trees, aims to restore the biodiversity of former mines and heavy industrial sites, cut greenhouse emissions, use more recycled water in industrial operations and use more recycled aluminium to make its products.

Source: Carolyn Rance, *Working for the greater good*, The Age My Career, 2 July 2005, page 12

Boral: Recycling, Reuse and Eco-Efficiency

Reuse and recycling of materials is part of eco-efficiency. Reuse is the incorporation of waste material back into the same product and recycling is waste material being used in a different product. Both conserve primary resources, reduce the environmental impact and cost of disposal and, depending on the circumstances, can lower the amount of energy required to produce the product.

Two types of Boral's stand-alone businesses are based on the utilisation of other people's waste. Boral Recycling in Australia processes construction and demolition waste in combination with concrete washout, recycled asphalt profiling (RAP) and natural rock and markets a variety of products including road bases, pipe-bedding, backfill and aggregates. Total sales volumes for the year were just over 1 million tonnes.

BMTI in the USA and Blue Circle Ash in Australia process coal-fired power station waste to provide fly ash as a supplementary cementitious material in cement and in concrete, and bottom ash as drainage, filter and fill materials ("Envir-O-Agg"). Our own returned or reject waste materials reused in new (same) product include concrete washout slurry, RAP, plasterboard, brick bats and green and cured masonry product. Other people's waste products (or "secondary resources") utilised include supplemental materials such as granulated blast furnace slag in cement, crushed demolition concrete in new concrete ("Green Concrete") and granulated used tyres in LoNoise Asphalt (4-6dBa noise reduction).

Source: Boral Sustainability Report 2005

4.1.7 Driver 7: Investor relations and access to capital

Companies are increasingly aware that in order to attract investment capital, they must build a reputation and foundation based on ethical and responsible decision making. Investment capital is important for a company's ongoing activities and ability to expand or enter into new ventures.

Advancements in technology have ensured that investors have greater access to information about a company's operations, including its social and environmental performance. There is evidence that investors are increasingly taking into account a company's social and environmental performance when making investment decisions. In the UK for example, over half of analysts and two thirds of investors now believe a

company that emphasises its performance in this area is attractive to investors²⁹. Investors are using indices such as the Dow Jones Group Sustainability Index (DJGSI) to assess companies' CSR performances in making investment decisions. There is also a growing appreciation of the increased risk involved in investing in companies that do not manage the non-financial aspects of their operations.

The BCA Member companies are aware of the impact that CSR activities can have on their reputation and accordingly investor perception. As a result, companies are increasingly publishing information regarding their CSR activities including community involvement, environmental and social performance. Around 80% of BCA Member companies publish information about their CSR activities in stand alone reports, Annual Reports and/or on their websites. About a third produce stand alone reports on environmental, social or other ethical activities, with the number increasing each year³⁰. It is clear that companies are becoming aware of the importance of publishing their CSR activities to investors and the reputational effects such publicity can have. A number of companies are also implementing independent auditing of their non-financial performance and reporting.

4.1.8 Driver 8: Licence to operate

Companies are realising that their long-term viability depends on the continued support of the wider community and stakeholders, including customers, employees, shareholders and the local community. The perceived CSR performance of individual companies, or industries, can effect the perception that stakeholders have over the long-term. Therefore, companies are attempting to overcome community raised concerns of past performance as well as improve future performance, in order to ensure their continued licence to operate in the broader community over the long-term.

Poor corporate behaviour can threaten a company's licence to operate through the community demanding greater regulatory restrictions being placed on the company, increasing its cost base and limiting its future prospects. Ultimately, this can lead to prohibitions on the company selling certain products or accessing valuable resources. The converse is that companies with strong CSR reputations will gain quicker access to resources and be subject to less regulation than their competitors.

²⁹ Arthur D Little, *'The Business Case for Corporate Responsibility'*, Business in the Community (UK), www.bitc.org.uk citing Business in the Community (2001) Investing in the Future, City Attitudes to environmental and social issues, Business in the Environment

³⁰ Stand-alone reports include "group" reports or reports that deal with only one aspect of CSR.

Wesfarmers: Support for Environmental Initiatives

Wesfarmers supports community and industry based initiatives to improve the environment, such as CSBP's sponsorship of the Chair of Cleaner Production at the John Curtin International Institute.

Premier Coal and CSBP are participants in the Commonwealth Government's Greenhouse Challenge Plus programme, part of the national policy to address climate change issues.

In May 2004 Premier Coal won a Banksia Award for Sustainable Development Leadership in the Minerals Industry. The Banksia Awards are Australia's leading industry environmental awards and Premier Coal was recognised for its innovative community-based programmes to redevelop old mine sites for motor sports, driver training, aquaculture research and the establishment of a recreational lake.

This work has subsequently been recognised by Premier winning both the State Environmental Award and a 2005 Golden Gecko Award for Environmental Excellence.

Source: <http://www.wesfarmers.com.au/default.aspx?MenuID=28>

Computershare: Environmental Innovation

Computershare's eTree project has operated for the benefit of the environment. In excess of one million trees have been planted as a direct result of the eTree project since its inception in March 2004.

The project received a significant accolade when the United Nations Association of Australia awarded Computershare, "Best Specific Environmental Initiative" at the United Nations' World Environment Day Awards".

The Program is an example of how Computershare was capable of utilizing existing ideas and technology to deliver a service that provides community benefits. eTree shows potential world-wide. The project is being promoted in the UK (in partnership with the Woodland Trust) and also in the US and Canada. [if these are direct quotes they need to be identified as such eg "" and/or italics, ditto for other examples]

Source: Computershare in the Community

Shell: Safeguarding the Licence

Responding to claims of our social and environmental performance

Sakhalin Energy (55% Shell) asked the World Conservation Union (IUCN) to set up a panel of independent experts to assess the impact of the Sakhalin II oil and gas project on the critically endangered western gray whales, and responded to the panel's findings.

Operations in Brazil, Nigeria, the Philippines, South Africa and the USA stepped up efforts to improve strained relations with local communities and respond to criticism of past environmental performance.

Tomorrow's energy today

Shell increased its global wind power capacity by about 10%, to 740 megawatts, enough to supply over 220,000 homes. Shell Solar opened the world's largest solar power station in Leizig, Germany. It also provided solar power to another 33,000 homes without reliable access to electricity from the power grid, and expects to reach a total of more than 100,000 in 2005.

Source: The Shell Report 2004

BP: Beyond an Oil Company

Solving the solar equation

Beginning in 2003, the BP solar team refocused its activities to become a profit centre – better understanding customers, operating at the right scale and reaching better markets. BP is now running a profitable solar operation – still small by BP standards, but one that grew its megawatt capacity sales of photovoltaic equipment by more than 30% in 2004.

Source: BP Annual Reports and Accounts 2004

ColesMyer: Environmentally Friendly

ColesMyer have adopted a strategic approach to the environment and how they use energy, water and waste in their business every day. For example, Coles and Bi-Lo Go Green bags have become a popular alternative to single-use plastic bags, with more than 5 million sold in the past two years. Their target is a 50 per cent reduction in plastic bag usage (or 600 million bags) by the end of calendar 2005.

Source: Rick Allert, *'Hygenically yours, a touchy, feely Coles takes on its responsibility'*, The Age Business, 7 July 2005, page 3

Westpac: Better Financial Management

Give community organisations access to specialised training and tools

Optimising the business and financial skills of the not-for-profit sector is the aim of Westpac's capacity-building program- providing community organisations with access to specialised training and tools, and sharing knowledge and expertise in key business areas.

Strategic development workshops

An international expert leads onsite workshops for community groups to help them analyse their operations and identify opportunities for process improvements. These workshops have prompted many organisations to implement changes that have resulted in immediate and long term productivity improvements.

Leadership forums

Executives of not-for-profit groups are brought together at a financial management workshop held by the Macquarie Graduate School of Management. The workshop aims to maximise the performance of community organisations through effective business management. It also provides a forum for discussing the business challenges of the not-for-profit sector.

Westpac's Beyond Survival course helps small businesses be more successful, and is available for community groups at a discounted rate. Westpac also provides a number of free places to selected organisations throughout the year. The two-day workshop helps participants to better understand balance sheets and financial statements so they can make more informed business decisions and improve their bottom line.

Banking solutions for community organisations

Westpac has developed a range of discounts on financial products and services commonly used by non-profit organisations, to help them maximise their resources.

Westpac has also developed a Guide for Community Treasurers to improve the financial knowledge of people looking after a group's finances. The free publication has been developed in conjunction with Our Community, a company that provides products and services to the community sector.

Source: Westpac Community Involvement Report 2005

Sensis: Recycling Program

Through the Sensis Recycling Program, directories can be recycled in most areas of Australia through established council kerbside and commercial paper recycling collections. Since 2000, more than 50 million directories have been recycled through the Sensis Directory Recycling Program. In 2003, over 67% of old directories were recycled. Old directories are collected with other recyclables, sorted, and recycled by Visy Recycling into recycled cardboard packaging products.

Source: http://www.about.sensis.com.au/community/recycling_program.php

Boral: Working with the Community

As part of its Stakeholder Engagement strategy, Boral Quarries launched a Stakeholder Engagement Manual in March 2005, to assist managers improve consultation with people and organisations that have an interest in, or are affected by Boral's operations. The Manual, which will be made available to other Boral businesses, provides practical guidance on how to plan and prepare for consultation; conduct engagement techniques such as briefings, community information sessions, newsletters and open days; and review performance. A number of Boral's Quarries have implemented the engagement techniques contained in the manual including Dundowran and Ormeau Quarries (Qld), Linwood Quarry (SA), Dunmore Quarry (NSW), Montrose Quarry (Vic) and Orange Grove Quarry (WA). Risk assessments are being undertaken throughout Boral's quarry operations to determine the extent of consultation that should be undertaken as well as timing and resource requirements.

Source: Boral Sustainability Report 2005

ANZ : Financial Literacy and Inclusion

ANZ is using its resources and expertise to build the financial knowledge, skills and confidence of Australian people. ANZ's interest in this area reflects its response to those issues which directly relate to the relationship between financial services organisations and the community.

ANZ has made a commitment to help address these issues with a particular focus is on assisting "at risk" sections of the community through programs such as, amongst other things:

Saver Plus

Saver Plus is a financial literacy and matched savings program helping families on low incomes to improve their financial knowledge, build a long-term savings habit and save for their children's education. In 2004, 257 families saved a total of \$240,500, which ANZ then matched with a further \$481,000. In 2005 the program aims to reach another 500 families.

MoneyMinded

MoneyMinded is an adult financial education program developed to assist people, in particular those on low incomes, to build their financial knowledge and make informed decisions about their money. The program provides unbiased consumer education and is delivered by community educators and financial counsellors in their every-day work with people who have the most to gain from improved financial literacy. ANZ's goal is for MoneyMinded to be delivered 100,000 people over the next five years.

MoneyBusiness

MoneyBusiness is a program designed to build the money management skills and confidence of Indigenous people and their families, whilst at the same time establishing a stronger savings culture in Indigenous communities. ANZ is working in partnership with the Australian Government Department of Family and Community Services (FaCS) to deliver the MoneyBusiness initiative which is designed to help address the financial exclusion of Indigenous Australians.

Source: anz.com/corporate-responsibility/financial-literacy

National Australia Bank: External Stakeholder Forum

To better meet the community's needs, National Australia Bank recognises the need to formally talk with external parties. Since 1998, the National has had an External Stakeholder Forum. Tim Costello, CEO World Vision Australia, chairs the External Stakeholder Forum, with Ahmed Fahour, CEO Australia as the company representative. Over time, the Forum has evolved from specifically looking at the needs of those financially disadvantaged, to more broadly examining important social and environmental matters. Initiatives in which the External Stakeholder Forum has been involved include:

- commissioning independent research to better understand the needs and problems of those financially disadvantaged in the community;
- the development of the National's Concessional Bank Account. This account attracts no account keeping fees with up to \$40 of free National transactions per month; and
- supporting the No Interest Loans Scheme (NILS) , Australia's largest micro-credit scheme, through organising an annual conference and supporting the delivery of reporting and training tools. Additionally, the National has partnered with Good Shepherd Youth and Family Service, the developers of NILS, to develop Step Up Low Interest Loans, a credit product with a reduced interest rate to help support individuals excluded from mainstream banking.

Source: <http://www.national.com.au/Community/0,,48233,00.html>

4.2 The BCA's CSR Activities

CSR activities are not limited to just corporations themselves. The BCA also engages in a range of activities that fall within the scope of CSR, because Australian business flourishes when the wider Australian community and economy flourish.

Some recent examples of the BCA's broader contribution include:

- Towards Sustainable Development – How leading Australian and global corporations are contributing to sustainable development
- Indigenous Communities & Australian Business – from little things, big things grow
- Corporate Community Involvement – Establishing the Business Case
- Age Can Work – A Business Guide for Supporting Older Workers
- The Cost of Dropping Out –The economic impact of early school leaving
- Balancing Work and Family Survey

5. Evolving CSR activities

In the past, Australian companies have lagged behind overseas companies in their CSR activities. The BCA's survey of its Member companies shows that all of those companies are now engaged in CSR activities. Accordingly, the performance of Australian companies in their CSR activities has been, and will continue to, improve over time.

Corporate Responsibility should be seen as a journey rather than a destination.

Source: Arthur D Little, 'The Business Case for Corporate Responsibility', Business in the Community (UK), www.bitc.org.uk

There should not be a "standard" approach to CSR. The ability for companies to recognise the key business drivers that are of relevance to them and to effectively respond through CSR activities, will depend on their stage of growth, their operations and other economic, social and environmental conditions. For example, a large mining company would probably be required to undertake significantly different environmental CSR activities than a large bank. Companies do however mature in their CSR activities and this is driven by influences in the community and global influences. Accordingly, whilst Australian companies may have been lagging in their CSR activities in the past, they are continually improving, and many are now doing very well. Indeed, some Australian companies, such as Westpac and BHP–Billiton, are now frontrunners globally in terms of their CSR activities. Both of those companies recently received a perfect 10 on the business scorecards compiled by ratings agency Governance Metrics International. The agency rates companies on aspects of the business such as, amongst other things, financial disclosure, corporate governance, executive compensation, corporate behaviour and corporate social responsibility. It is in a company's interest to score well on such ratings as *"Companies that score poorly on the GMI have a higher risk of restated earnings, or becoming subject to accounting investigations by regulatory authorities"*³¹.

Australian front-runners are also rating highly on corporate social responsibility indices:

"Australian corporations, which for decades lagged behind in the charitable giving stakes, are now comparable to those in the UK, Europe and USA – all of which have a strong philanthropic culture.

*Westpac's employee driven CSR program recently topped the Corporate Social Responsibility Index with a score of 99.53 (ahead of 134 British companies).*³²

³¹ Leon Gettler, 'Aussie born and bred and perfect 10s, says ratings agency', The Age, 22 September 2005, page 5

³² Julie Clements, 'Seek synergy for success', Fundraising & Philanthropy Australasia, Published by Bombora Publishing Pty Ltd, Issue 4: August-October 2005, page 10

As Australian companies become better at understanding and responding to the key economic drivers, then they will also improve in their mechanisms for reporting and demonstrating their activities and the positive impact they are having on society. Smaller or growth enterprises will learn about which elements of their businesses are impacting on the environment, community and economy. As they grow and learn, they will develop appropriate responses to these drivers.

6. Alternative responses

Effective and appropriate CSR responses should not be mandated or dictated by external parties. The best CSR outcomes are achieved when companies and the community engage together and develop mutually acceptable responses to issues.

It has been argued that there are only three types of control which can be imposed on companies to make sure that they do the right thing³³. These are social, regulatory and economic control. In relation to the effectiveness of such controls, Dr Charles Fombrun argues³⁴:

“In my view, both regulatory and social control are deficient. Regulatory control imposes heavy compliance costs on companies and, as with taxation, encourages clever bureaucrats to find loopholes to exploit. Social controls suffer the opposite fate: few penalties are even enacted, and so minimal observation is encouraged. You do as little as you have to, in order to ‘appear’ to be in compliance. Indeed, history tells us that it really isn’t possible to legislate plain old honesty and high ethical standards.”

Instead economic control has created incentives for companies to undertake CSR initiatives. Economic, rather than regulatory controls, can be utilised to encourage companies to act in an ethical manner. Dr Fombrun suggests that two such initiatives have already contributed to the growing incidence of CSR activity by companies³⁵:

- *The growing incidence of formal ratings of companies’ CSR activities. Companies can benefit by high ratings (such as the CGI Index) by better reputations and therefore possibly higher investment capital;*
- *Growing interest in valuing and measuring corporate reputations. Reputations are a powerful economic influence because they affect the likelihood that investors, customers and potential employees will participate with your company and therefore flow on to the bottom line.*

As this submission demonstrates, there are already strong economic drivers in the market place, which has led to stronger and increasing CSR activity by Australian companies.

³³ Dr Charles Fombrun, *‘Taking Care of Business’*, Corporate Public Affairs, Volume 15, No 2, 2005

³⁴ Dr Charles Fombrun, *‘Taking Care of Business’*, Corporate Public Affairs, Volume 15, No 2, 2005, page 6-7

³⁵ Dr Charles Fombrun, *‘Taking Care of Business’*, Corporate Public Affairs, Volume 15, No 2, 2005, page

This was recently demonstrated by ANZ which has restructured a board committee called nominations, governance and corporate responsibility committee to focus directors on CSR issues. It is proposed that the committee will review the company's CSR objectives at least once a year, and monitor the way they are implemented. Mr David Gonski is the chair of the committee. He has recognised that governance and CSR issues can evolve over time, and made the following comments³⁶:

"Many boards deal with corporate social responsibility, this is not new. If we are the first, I think we will not be the last.

Years ago, no one had risk committees and indeed 15 years ago, I can tell you we didn't have audit committees."

Any examination of how to encourage CSR among a wider range of companies should focus on initiatives to foster the market based drivers of CSR.

³⁶ Leon Gettler, 'ANZ makes responsibility a key plank', The Age, 22 September 2005, page 5

Part 2

7. Inquiry Terms of Reference

The first part of this submission examined what is meant by 'corporate social responsibility', the various drivers for corporations to act responsibly and the wide range of activities that BCA Member companies are already engaged in that fall within the scope of corporate social responsibility.

Part 2 of this submission specifically addresses the terms of reference of the Committee's inquiry.

The terms of reference of the inquiry state:

The Committee will inquire into 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.*

7.1 Are Corporations Taking Broader Interests into Account?

- a. *The extent to which organisational decision-makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community.*

As Part 1 of this submission demonstrates, all Member Companies of the BCA are currently engaged in activities that fall within the scope of 'corporate social responsibility'. Many of these activities involve stakeholders other than shareholders. For example, many corporations engage in community based activities that involve members of local communities. Similarly, many corporations have programs that engage their employees in activities outside of the normal work arrangements of the corporation (such as supporting employee involvement in community and charity work).

More importantly, corporations need to have regard to broader stakeholder interests in their day to day decision making. For example, a corporation's reputation with its customers, suppliers, employees and the broader community, is determined by the sum of the multiple interactions those stakeholders have with the corporation. The corporation's reputation then affects its ability to attract and retain customers, suppliers and employees, and hence its ability to grow its shareholders' wealth.

7.2 Should Corporations Take Broader Interests into Account?

- b. *The extent to which organisational decision-makers should have regard for the interests of stakeholders other than shareholders, and the broader community.*

As well as examining the extent to which corporations do have regard for the interests of stakeholders other than shareholders, the Committee is examining the extent to which corporations *should* have such regard. The BCA's view is that corporations should, in their own interests, have regard for the interests of others, and as demonstrated in this submission, they do in fact have such regard.

In the view of the BCA, any company that has no "*regard for the interests of stakeholders other than shareholders, and the broader community*" will not flourish, or indeed survive, in modern society. The reality is that corporations operate within the context of society and require good relations overall with that society if they wish to sustain themselves and grow.

In Part 1, we identified eight broad reasons why corporations engage in social responsible behaviour, namely:

- employee recruitment, motivation and retention
- learning and innovation
- reputation management
- risk profile and risk management
- competitiveness and market positioning
- operational efficiency
- investor relations and access to capital
- licence to operate

Companies that do not have regard for broader stakeholder and community interests and concerns will find they experience the reverse of the benefits identified against these eight criteria. For example:

- they will find it increasingly difficult to attract and retain employees, particularly as demand for skilled labour increases;
- they are less likely to be innovative and adaptive to changing market and societal circumstances, resulting in the blunting of their competitive edge;
- they risk suffering reputational harm, with flow on consequences for their attractiveness to investors, suppliers, employees and customers;
- their risk profile will increase, potentially resulting in higher costs (for example, higher insurance premiums) and stricter regulation (which itself then adds to costs and stifles business innovation and opportunity);
- their competitiveness and market position will be eroded, for example, through loss of consumer support or through missed opportunities to develop better goods, services and processes;
- they will miss opportunities to improve their operational efficiency;
- they will find it increasingly difficult to attract investors and capital, particular where their activities harm their reputation, their risk profile and their competitiveness;
- they risk having their 'licence to operate' curtailed or even withdrawn. For example, a minerals company with a poor community engagement or environmental record will find it increasingly difficult to gain approval to explore and develop new resources.

There are therefore very strong reasons for corporations to have regard for the interests of stakeholders other than shareholders, and the broader community. The reality of these drivers is proven by the extent, scope and innovation in the activities engaged in by BCA Member companies.

It is important to remember, however, that a company's paramount obligation is to its shareholders. The two are not mutually exclusive. It is in the interests of shareholders to have their company flourish and grow. This is only possible in a sustainable way when the corporation takes into account the interests of other stakeholders, and the broader community, to the extent that these interests are relevant to the corporation.

While the BCA recognises the realities of the drivers towards greater corporate responsibility, and supports corporations having regard to the interests of stakeholders other than shareholders, there are limits to the extent that corporations can and should have regard to interests other than those of shareholders. The litmus test for any activity or responsibility is whether the performance of that activity or responsibility can reasonably be seen to be contributing to the growth of shareholder value. While some may argue this is too restrictive, the BCA believes it is a paramount principle entrenched in the basic nature of the corporation and its arrangement with the owners of its capital,

the shareholders. The BCA also firmly believes that this paramount principle does not limit the ability of corporations to take into account the interests of other stakeholders to the extent that these interests are relevant to the corporation. Nor does it restrict the diversity and innovation in the approaches that corporations can take to responding to the interests of other stakeholders, as witnessed by the wide range of activities BCA Member Companies are currently engaged in.

7.3 Impact of Current Duties

- 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.*

The BCA does not support the view that the current legal framework governing directors' duties provides a disincentive or barrier to Directors (or company officers) having regard to the interests of stakeholders other than shareholders, and the broader community.

The BCA is aware that questions have previously been raised by representatives of James Hardie about whether the duty owed by Directors precluded them from providing additional funding to the foundation established in response to compensation claims from asbestos-related disease sufferers³⁷. These claims have been extrapolated to suggest that some Directors may believe that their duties preclude them from taking into account interests other than those of shareholders.

The BCA does not believe, and has found no other evidence for the view, that Directors or officers in general believe they are precluded from taking into account the interests of other stakeholders and the broader community, to the extent that these interests are relevant to the company.

'Strategic' CSR is unlikely to offend the legal duties of directors because it is really a self-interested attempt to improve the company's reputation in accordance with the policy of profit maximization.

Minter Ellison, July 2005 Keeping Good Company

The essential element of the corporate social responsibility activities so widely engaged in by corporations is that these activities add value to both the broader community and to shareholders. The fact that these activities are taking place demonstrates that the vast majority of corporate Directors and officers do not feel that their duties restrain their ability to take into account broader interests.

Taking into account the interests of stakeholders other than shareholders can be a vital part of the strategic thinking and planning of a corporation. For example, taking into account the views of the local community when proposing a new business development

³⁷ See, for example, Elizabeth Sexton, *Directors: to whom do they owe care?*, Sydney Morning Herald, 4 July 2005, p 36.

allows a company to foresee and respond to potential impediments to its proposal, allowing the company to achieve its development plans more quickly and at lower cost. The case studies in Part 1 and [Attachment A](#) provide examples of how companies see engaging with the broader community as part of the strategic development of their corporations.

7.4 Need for Government Intervention

- 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.*

The BCA believes that law changes to “enable” corporations, Directors and company officers to have regard for the interests of stakeholders other than shareholders are unnecessary. As set out above, the BCA does not believe there is evidence that company Directors and officers feel that their duties prevent them from taking into account the interests of stakeholders other than shareholders, to the extent that those interests are relevant to the company and its shareholders (see Part 1, Section 3). Only if there is clear evidence that Directors and officers do feel so prevented, and that their views have some legal foundation, should consideration be given to an enabling provision in the Corporations Act that makes it clear that the duties of Directors and officers do not preclude them from having regard for the interests of stakeholders other than shareholders, to the extent that those interest are relevant to the corporation.

The BCA is strongly opposed to suggestions that the law needs to be changed to “encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders”. The BCA believes strongly that such legislative intervention is not only unnecessary, but would also be counter-productive.

Intervention Unnecessary

Business is often told that Government intervention through regulation is necessary because of market failures or the lack of initiative by business itself to deal with an issue. In other words, business is told that, had it responded itself to an issue, Government intervention would have been unnecessary.

The Australian business community’s response to CSR is a compelling example of where, without Government intervention, business has developed sophisticated responses to community issues. Without the need for prescriptive legislation, Australian corporations are already engaged in a wide range of corporate social responsibility activities, developed to suit the particular needs of the corporations and the communities they relate to. Increasingly, corporations are voluntarily reporting their performances in these areas and subjecting themselves to independent auditing and rating.

Some Australian corporations are world leaders in this field. Even where other corporations are not as well advanced in their approaches, there is clear evidence that Australian corporations are progressively increasing the range and sophistication of their corporate social responsibility activities. For example, while reporting on these activities

was unusual in the late 1990s, some 80% of BCA Member companies now report on their corporate social responsibility activities through stand alone reports, annual reports and/or through their websites.

Intervention Counter-Productive

Not only is legislative intervention unnecessary to get Australian corporations to take their broader responsibilities seriously, it would be counter-productive. At present, Australian corporations are engaging in corporate social responsibility activities in response to the drivers set out earlier in this submission. This has led to a situation in Australia where corporations are being competitive and innovative and are actively engaging with communities to develop and implement new programs that deliver benefits to both the communities and the corporation. If, however, a legislative requirement is put in place, the vast majority of these corporations will switch from this competitive and innovative approach to a compliance approach. In other words, they will shift their attention from focusing on how best to engage with the community, to how best to comply with the requirements of the law.

There are also real questions about the ability of Government to legislate in this area. There is an enormous diversity of engagements between corporations and stakeholders such as customers, suppliers, employees and members of the broader community. The nature of these engagements will vary depending on a wide range of factors, such as the type of business the corporation is in, the location and nature of its activities and the communities it is interacting with. To cover this wide range of engagements in legislation would either require such high level provisions that they would be largely meaningless in terms of compliance and enforcement, or such detailed and prescriptive legislation that it would add considerably to the complexity of the law governing the operation of corporations.

Finally, creating a positive duty on Directors or officers to take into account the interests of a broad range of stakeholders creates the very real possibility that Directors and officers will find themselves having to balance competing and conflicting legal obligations. For example, the interests of community stakeholders can always be furthered by a corporation donating ever-increasing amounts of money to community projects. Beyond some point, however, this would no longer be in the interests of shareholders. How does a Director or officer prove at law that they have taken the interests of community stakeholders sufficiently into account? There is also an interesting question about how any extended duties of Directors and officers would be policed and enforced. It suggests the Australian Securities and Investments Commission may need to develop expertise in environmental and social issues.

7.5 Alternative mechanisms

e. Any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and/or their directors.

The BCA is strongly of the view that any Government initiatives to promote CSR must focus on the existing market based drivers that have already convinced all BCA Member companies to engage in their own CSR activities.

In theory, there are a number of potential roles for Government that reinforce the existing drivers, including:

- publicly recognising the achievements of those corporations leading the way in CSR;
- raising awareness for corporations of the drivers and trends in CSR;
- providing guidance to corporations on developing and implementing CSR activities, drawing on the experiences of larger corporations;
- identifying and removing regulatory barriers to corporations implementing CSR activities, such as restrictions that can make it difficult for employees to negotiate more flexible working conditions; and
- facilitating discussions between businesses on approaches and experiences to CSR.

Governments are already involved in many of these areas through, for example, the Prime Minister's Business Community Partnership. It is important to note, however, that many of these roles are increasingly being taken up by the private sector and these activities should not be discouraged through Government intervention. In recent years, for example, Australia has seen the development of a number of ratings bodies around non-financial performance, including the SAM Dow Jones Sustainability Index, the Corporate Responsibility Index and Reputex. The integrity of the methodologies of these ratings processes and the quality of their analysis has improved in recent years and we would expect to see this trend continue as more corporations participate in ratings and more analysts and investors use the results.

7.6 Reporting Requirements

f. The appropriateness of reporting requirements associated with these issues.

In 1996, WMC Limited became the first major Australian corporation to produce a detailed environmental performance report. Less than a decade later, around one third of the BCA's Member companies produce standalone environmental, CSR, community and/or sustainability reports. Most other BCA Member companies report their CSR performance through their annual reports and/or on their websites, meaning that around 80% of BCA Member companies publicly report what they are doing in terms of CSR related activities.

Many of the studies undertaken that measure reporting levels focus on standalone reports. The BCA does not believe that this is an adequate measure of the level of reporting. As noted above, most BCA Member companies report through their annual reports or on their websites. Standalone reports may be appropriate where a corporation has significant and complex community or environmental issues to report on. For this reason, environmental and community report was pioneered by the minerals sector. Other companies may wish to produce standalone reports where they use CSR

as a major part of their strategy or branding. For many companies, however, their CSR activities form part of the mainstream operations of the business and it is appropriate that these activities are reported to shareholders and others as part of the company's annual report.

Mandating reporting through legislation presents problems. At one level, legislation can require that companies produce a report on CSR or similar performance. Compliance with such a provision requires a company to simply produce a report but the legislation says nothing about the contents of that report. In other words, it is open to companies to produce superficial reports. This is likely to lead those companies not currently reporting to see the reporting process as a pointless legislative impost, obscuring the benefit that companies can derive from developing and issuing their reports. It also contributes little to the community's understanding of non-financial performance by corporations.

To go beyond such a simple provision requires legislators to make judgments about the required content of reports. This is no simple matter, as appropriate reporting in one sector will not be the same as appropriate reporting in another. It also raises the risk of companies shifting to a compliance approach to reporting, stifling the innovation and competition that currently exists between many reporting companies. The size of the task is also illustrated through the experience of the Global Reporting Initiative, involving experts from around the world in a process taking many years.

For the reasons set out above, the BCA does not support the idea of increasing reporting requirements on companies.

7.7 International Experience

g. Whether regulatory, legislative or other policy approaches in other countries could be adopted or adapted for Australia.

The BCA has not been in a position to examine in detail international approaches to corporate responsibility, but cautions that, as a general principle, legislative responses from other countries should not be transplanted to Australia without a full appreciation of the context within which that legislation existing in other countries. The BCA's experience during the recent debate about corporate governance legislation, for example, was that international approaches were suggested by proponents of greater regulation without an appreciation of either existing Australian requirements in other areas or the context of the legislation in other countries.

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Appendix A

Why companies are embracing CSR

A collection of explicit examples for 'why' some of Australia's largest companies are embracing CSR, organised against the 8 value drivers promoted by the World Economic Forum

Case studies on 'why' companies are embracing CSR

Company:

ABN AMRO

Source of information
for case study:

Sustainability Report

Approach to CSR/corporate sustainability:

Our definition of sustainable development:

'To live our Corporate Values and Business Principles and to meet the needs of the organisation and our stakeholders, thus seeking to protect, sustain and enhance human, natural and financial capital needed in the future.'

Business case rationale – why companies are embracing CSR:

Employee recruitment, motivation and retention

A great place to work

Employees who feel fulfilled and energised and who embrace our Corporate Values, Business Principles and strategy as the basis for their behaviour, are what makes our business successful. Engaged and qualified employees are more productive and provide a higher quality of service to clients, leading to better results and the creation of greater sustainable value for all our stakeholders. So, to help us achieve these goals, we invest continually in our employees and in developing our current and future leaders.

Diversity in our workforce

A diverse workforce and collaborative culture are fundamental to our ability to build value. Our proactive approach to diversity and inclusiveness in the workplace helps us to retain valuable talent within our organisation, exploit new markets, create a more engaged workforce and strengthen our relationships with the communities in which we operate.

Reputation management

We believe that by taking a leading and proactive role in sustainability, we will create true value for all our stakeholders and for the bank. We want to contribute to raising the bar in our sector, driving change and realising responsible business opportunities and lasting reputational benefits.

We believe that accountability and transparency are of paramount importance to our ability to build trust among our stakeholders – shareholders, clients, employees, Non-Governmental Organisations (NGOs) suppliers and contractors and society at large.

ABN AMRO and stakeholders



Risk profile and risk management

Vesting a sustainability mandate in risk management

Comprehensive risk management is a core competency of ABN AMRO. We have taken a deliberate decision to vest the dedicated Group Sustainable Development department in the Group Risk Management organisation, which plays a central role in the bank's engagement assessment and decision-making processes.

Client Diagnostic Tool

We developed the Client Diagnostic Tool (CDT) to provide our client-facing, credit-structuring and risk professionals with a basic instrument for assessing clients in the extractive industries (the oil & gas and mining sectors). The CDT is used to establish the degree to which these sector clients have integrated sustainability into their business practices and management systems.

Evaluation tools and filters

Environmental, Social and Ethical Risk filter

The first level of screening of a potential transaction takes place through our Environmental, Social and Ethical Risk filter (ESE filter), which is part of the standard credit proposal format for all Wholesale Clients credit applications.

We are constantly working to embed sustainability ever more deeply into our business processes, reporting structures and decision making. In 2004, we continued to incorporate the 'triple bottom line of people, planet and profit' into our working practices, products and services. For example, we included sustainability measures in our management performance contracts and enhanced our social and environmental risk monitoring.

Competitiveness and market positioning

We believe that being a responsible provider of financial services creates business opportunities and helps us to build sustainable value. While demand from our clients for sustainable products is still relatively small, it is rising steadily. Our (S)BUs have been responding to this growing demand by developing a range of sustainable products

Our contribution will be mainly in the area of poverty alleviation (microfinance), education (social and community investment), protecting the environment (building our sustainable business processes and risk management framework) and developing and strengthening international trade and financial systems (our emerging markets and risk advisory services).

Microfinance	Brazil	India
Type of clients	Individuals or small enterprises who do not have facilities to gain access to credit through commercial financial institutions	Micro Financing Institutions (MFIs) who in turn lend the funds to their clients. In 2004, we developed partnerships with nine MFIs. The borrowers, mostly poor women in rural areas come together in groups of 10 to 20 individuals, each standing as guarantor to the others and undertaking to repay the loan on a collective basis in the event of an individual failure
Number of loans	4,348 (2003: 579)	Indirect via MFIs: 70,000 (2003: 53,500)
Size of loans	Between EUR 50 and EUR 3,000	Between EUR 100 and EUR 300
Total portfolio	EUR 1.1 mln (2003: EUR 0.2 mln)	EUR 4.1 mln (2003: EUR 2.7 mln)
Rate	Market pricing	Market pricing
Other	Offered in 8 regions, including the cities of São Paulo, Campinas and Rio de Janeiro	Our ambition is to reach out in a commercial, profitable and sustainable way to one million households by 2008

Case studies on 'why' companies are embracing CSR

Company:	ANZ	Source of information for case study:	Making a sustainable contribution to society
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Approach to CSR/corporate sustainability:

ANZ's values

- Put our customers first
- Perform and grow to create value for our shareholders
- Lead and inspire each other
- Earn the trust of the community
- Breakout, be bold and have the courage to be different

For us, putting our customers first is about being friendly and welcoming, making banking as simple and easy as possible and offering the best value for money.

Our goal is to become Australasia's leading, most respected and fastest growing major bank. We came a long way in 2004 while at the same time delivering another good financial performance. Importantly, we have rewarded our shareholders and shared the benefits with customers, our people and the community.

We aim to create an environment where ANZ employees can contribute their very best to our goal to become Australasia's leading, most respected and fastest-growing major bank. Our 'people practices' aim to be innovative, flexible and focused on the needs of our people.

ANZ is committed to enhancing the well-being and prosperity of the communities where our people live and work, and where our business operates. Our involvement is underpinned by a simple aspiration to earn community trust.

At ANZ, we recognise that as one of the world's largest banks we have a responsibility to the environment we live in and to reducing the cumulative impact of our operations and business activities. We are committed to making a difference by addressing our day-to-day office operations, through a broader focus on activities we finance, and by working with others to contribute to improved societal outcomes.

Business case rationale – why companies are embracing CSR:

Employee Recruitment, motivation and retention

We have set a new goal to achieve 'Best Employer' status in the globally recognised Hewitt Employee Engagement Survey. In this year's survey we achieved equal highest score among other large Australian corporations. Our survey result was 58% employee engagement; an increase from 53% in 2003, and ahead of the average score of 52% for all Australian survey participants.

Staff engagement and commitment

- ANZ has conducted a Group-wide staff satisfaction survey since 1999. When the survey first commenced, satisfaction at ANZ was 49%. By February 2004 it had reached 85% with more than 82% participation. The 2004 survey results show significant progress in a number of areas:
 - › 91% of staff have a clear understanding of ANZ's goals and aspirations (compared with 81% in 2002);
 - › 93% understand the role they are meant to play in the organisation (compared with 89% in 2002);
 - › 85% believe that ANZ maintains high standards of ethics and integrity (compared with 67% in 2002); and
 - › 82% would recommend ANZ as a place to work (compared with 64% in 2002).

Learning and innovation

Developed innovative programs to strengthen our connection with the community including responses to major social issues that involve the financial services industry such as financial literacy and inclusion.

Leadership, learning and development

- We employed 220 graduates in 2004. In addition to our year-long graduate program we introduced Grad Plus Track, a program designed to identify and develop ANZ's high potential graduates and further strengthen the 'pipeline' of future ANZ leaders. Applications for our 2005 graduate program increased 31% from 2004 to 7,486.

Risk profile and risk management

Environmental and social risk in lending

We completed an extensive review of the social and environmental risks associated with our Institutional Banking and Corporate Banking lending policies and procedures. The review aimed to help us better understand and effectively manage the direct and indirect impacts of our lending and investing activities on the community and the environment.

Competitiveness and market positioning

For us, putting our customers first is about being friendly and welcoming, making banking as simple and easy as possible and offering the best value for money.

We do this by providing leading, trusted and responsible financial advice, solutions and services that help our customers manage their finances, build their wealth, increase their financial security and realise their dreams.

Over the past few years we have focused on restoring our customers' faith in ANZ – our products, our services and the role we play in the community. We've made steady progress by getting the basics right – investing in the leadership skills, product and industry knowledge and customer service expertise of our people; providing quality, accessible, easy-to-understand and affordable products; enhancing our representation and geographic presence; and by working every day to meet and exceed our service promises to our customers.

We acknowledge that there is more we can do to improve our performance and match the regional and community banks which have customer satisfaction scores of 80% or more.

Operational efficiency

Performance management

- We introduced a Balanced Scorecard evaluation for our most senior executives in 2004. Approximately 40% of measures are financial and the remaining 60% focus on qualitative measures such as performance of our people, customers, and community agendas. A Balanced Scorecard of measures will form the basis of a new performance management system designed to encourage our people to deliver our performance, growth and sustainability agenda in 2005.

Energy audits of our commercial buildings throughout Australia were conducted to identify opportunities for energy efficiency improvement. Key findings included opportunities to reduce our energy consumption by improving the operating efficiency of engineering equipment and lighting and air-conditioning control systems. The findings will be used as the basis of an energy reduction strategy to be finalised in early 2005 and implemented throughout the remainder of that year. The performance of these energy reduction measures will be reported at the end of 2005 as a total change in energy use across the property portfolio. Individual properties and equipment featuring allocated metering, will be used across the property portfolio. Energy reduction of individual properties and equipment featuring allocated metering will be measured separately.

Licence to operate

ANZ is committed to enhancing the well-being and prosperity of the communities where our people live and work, and where our business operates. Our involvement is underpinned by a simple aspiration to earn community trust.

As a bank, we can help to address the issues that lead to low levels of savings, unsustainable levels of personal debt, financial stress and the personal distress this can create. Our goal is to ensure all Australians are equipped to make informed and confident decisions regarding all aspects of their finances. This, in turn, will help to create strong communities and a healthy economy.

Case studies on 'why' companies are embracing CSR

Company:	BHP Billiton	Source of Information for case study:	Working for a Sustainable future
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Approach to CSR/corporate sustainability:

The Company's commitment to sustainable development has evolved over our long history of operational experience and through lessons learned along the way. Working through complex issues associated with our operations has highlighted environmental and social performance as a critical success factor for the Company. We are well aware of the costs of getting it wrong but, more importantly, we recognise the value that can be created by getting it right. Consequently, we adopt a holistic approach to business strategy, seeking to realise value for all our stakeholders through sustainable business philosophy.

We know, however, that our bottom line performance is enhanced by excellence in health, safety and environmental performance and by addressing community, employee and stakeholder expectations. Each of these non-financial aspects is clearly capable of having a financial impact, either directly, through operating costs or litigation, or indirectly, by affecting our access to capital, 'licence to operate' and retention of quality people. Maximising the bottom line is therefore also about recognising the value protection and value add that can be achieved through enhanced performance in the non-financial dimensions of our business. The diagram below provides an indication of value drivers that may be delivered through effective management of our sustainability impacts.

BHP Billiton sustainability value add

If we get management of these right ...

- Fatalities/Injuries
- Employee Relations
- Short and Long-term Costs of Injuries/Illnesses
- Occupational Health Exposures
- Employee Skills and Morale
- Human Rights
- Community Health Impacts
- Access to Land and Resources
- Community Development
- Cultural Heritage
- Product Stewardship
- Depletion of Natural Resources
- Ambient Pollution
- Greenhouse Gases
- Water
- Biodiversity
- Land
- National Economic Impacts
- Global Economic Impacts
- Liabilities Post Closure (Environmental/Social)
- Local Economic Impacts
- Business Ethics

We can then deliver ...

- Increased long-term shareholder returns
- Improved attraction to and retention of workforce
- Improved workforce morale and productivity
- Security of operations
- Improved licence to operate and grow
- Enhanced brand recognition/reputation
- Enhanced stakeholder trust
- Self-sustaining communities
- Improved standards of living
- Improved operational performance and efficiency
- Enhancement of biodiversity
- Reduced business risk
- Improved access to and lower cost of capital
- Better ability to strategically plan for the longer term
- Enhanced economic contribution

Business case rationale – why companies are embracing CSR:

Employee Recruitment, motivation and retention

We recognise that our employees and contractors have a right to a safe work environment and that they have families and dependants whose lives can be devastated by losing a loved one. As well as doing the right thing by our workforce, our mission of achieving Zero Harm is simply good business. We need to be able to attract and retain talented people to work with us, and good people are attracted by high standards and performance.

The communities in which we operate and where we sell our products are concerned about the impacts of climate change within their national borders and globally. To earn their respect and attract and retain employees, we must be a responsible company.

Risk profile and risk management

To help us better understand and manage HSEC risks that are critical to our business, risk registers are in place and being maintained at all sites and at Customer Sector Group and Corporate levels of the Company, in line with our HSEC target. Work was also undertaken to better align HSEC risk assessment processes with our Enterprise-Wide Risk Management processes to improve the efficiency of assessments.

The effective management of non-financial issues is recognised as an increasingly critical part of effective risk management. For a company to effectively enhance shareholder returns over the long term, it must effectively manage non-financial issues as well. There is increasing evidence that companies that manage the environmental and social performance of their business well also outperform the general market in terms of traditional financial metrics.

Competitiveness and market positioning

Appropriately and effectively managing issues around access to resources is essential if we are to:

- obtain and maintain a licence to operate
- improve access to new business opportunities
- keep ahead of regulations and reduce regulatory intervention
- enhance and protect our reputation
- differentiate ourselves from our competitors.

These are all key to our sustainability as a business and our ability to deliver long-term share growth and shareholder value.

Investor relations and access to capital

To deliver long-term growth in shareholder value, we must continue to strategically plan for market shifts, threats and opportunities. An impetus for these can be climate change and the debate that surrounds it. For example, we expect that the market share for gas as a fuel for power generation will grow, given its lower greenhouse gas intensity, its proximity to markets and the desire of our customers to diversify their fuel supplies.

It is clear that strong governance in both the financial and non-financial arenas is a critical aspect of running a successful corporation. This is reflected in the continuing interest in the non-financial aspects of our performance from traditional stakeholders and also from those in the investment community who have begun to assess more thoroughly the social and environmental aspects of our business.

Licence to operate

To obtain and maintain a licence to operate, we must be seen by our host communities as a company that protects and cares for its people. We must also be able to continue operating within increasingly stringent regulatory frameworks.

We recognise, however, that simply arguing that the value of our products outweighs any environmental or social impacts is not acceptable, and hence we have been progressing a number of initiatives to better understand how we can minimise our impacts while maximising our broader contributions to society. To this end, in 1998 we joined with a number of other mining companies to establish the Global Mining Initiative, a major component of which was the [Mining, Minerals and Sustainable Development \(MMSD\) study](http://www.iied.org/mmsd/) (www.iied.org/mmsd/). The MMSD study was a major independent study aimed at better understanding the role of the mining industry in a sustainable future.

Case studies on 'why' companies are embracing CSR

Company:

Boral

Source of Information
for case study:

Sustainability Report

Approach to CSR/corporate sustainability:



"Boral embraces the principle of sustainable development – ensuring we meet today's needs without compromising the ability of future generations to meet their needs."

Dr Ken Moss,
Chairman



"Boral's overriding objective is to achieve superior returns in a sustainable way. We are focused on ensuring our businesses deliver sustainable financial results and are also sustainable in terms of their environmental, social and employee impacts."

Mr Rod Pearse,
CEO and Managing Director

FIGURE 1

Elements of the Boral Sustainability Self Diagnostic Tool (BSSDT)

1. Corporate and Business Unit Management

- Scope of Commitment
- Management Systems
- Accountability
- Risk Management
- Compliance Review and Reporting
- Continuous Improvement
- Supply Chain and Outsourcing

2. Financial Planning

- Planning and Budgeting
- Investor Relations
- Cost Controls

3. Human Resources

- Communications, Awareness and Training
- Employee and Labour Relations

- Health and Safety and Well Being

4. Social Responsibility

- Community Relations
- Business Ethics and Corporate Governance

5. Environment

- Land Protection, Remediation and Rehabilitation
- Environment and Ecosystem Protection
- Waste Management, Recycling and Reuse
- Energy Conservation and Climate Change
- Water Conservation, Extraction and Protection

Business case rationale – why companies are embracing CSR:

Employee recruitment, motivation and retention

To continue delivering Boral's Perform & Grow strategy in an effective way, it is fundamental that we have the right people working for us and that we plan for the future.

EMPLOYEE SHARE PLAN

During the year, an employee share plan offer was made to all permanent full-time and part-time employees in Australia and the USA. The purpose of the plan is to encourage employees of Boral generally to enjoy a greater involvement and share in the future growth, prosperity and profitability of Boral in a way which gives them a community of interest with shareholders and promotes a high standard of employer/employee relationships.

Learning and innovation

DEVELOPING OUR PEOPLE

Skills training is essential to ensuring safe, efficient, well-run operations as well as delivery of Boral's strategy.

Training and development is provided to Boral's employees in a number of ways, including through Boral's Learning Services department, through our frontline development programs, via local business-level training initiatives as well as other partnerships with educational providers.

Reputation management

ENGAGEMENT WITH OUR STAKEHOLDERS

We recognise that the ongoing viability of Boral's operations is dependent on working with all stakeholders, and as such we place importance on understanding the needs of our customers, our local communities and our shareholders.

Risk profile and risk management

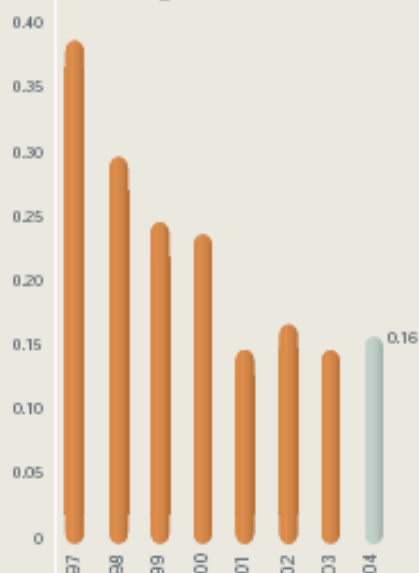
Level 1 Compliance/Reactive	Level 2 Proactive	Level 3 Industry best practice	Level 4 World best practice
Achieving basic compliance with regulatory requirements.	Achieving satisfactory performance in accordance with Company, regulatory and industry requirements and/or practices.	Achieving Industry or Sector Best Practice, with programs being integrated into normal business practice.	Stakeholders consider the business to be a global competitive leader/champion in the industry or sector.
Business is reactive to compliance requirements.	Business is proactive, has commenced assessing its risks and is implementing improvement programs.	Business has assessed all risks and has implemented ongoing improvement programs.	Business program(s) are developed with a strategic sustainability perspective and are fully integrated in normal business practice.
Minimal stakeholder involvement.	Stakeholder involvement is on an ad hoc basis, as set by the business.	Stakeholder involvement is common practice.	Stakeholder engagement is proactive and forms part of the decision making process.

Operational efficiency

FIGURE 19
Reused or recycled production waste in Boral's Australian Building Products operations

Product type	2002/03		2003/04	
	Amount of Boral waste recycled (tonnes)	As a % of Boral waste produced	Amount of Boral waste recycled (tonnes)	As a % of Boral waste produced
Bricks	30,128	93.5%	39,453	83.2%
Roof tiles	1,858	14.8%	6,740	44.0%
Masonry Products	23,650	65.7%	33,422	79.1%
Timber	430,033	95.5%	509,000	95.6%
Plasterboard	11,792	100.0%	12,214	100.0%
Total Building Products	497,461	91.6%	600,829	92.5%

FIGURE 11
Percentage Hours Lost %



Case studies on 'why' companies are embracing CSR

Company:

BP

Source of information
for case study:

Sustainability Report

Approach to CSR/corporate sustainability:

What we mean by 'sustainability' For BP, sustainability means the capacity to endure as a group, by renewing assets, creating and delivering better products and services that meet the evolving needs of society, delivering returns to our shareholders, attracting successive generations of employees, contributing to a flourishing environment and retaining the trust and support of our customers and the communities in which we operate.

'Responsibility' is a much-used term in the business world and it is important to be clear about what we mean by it. During 2004, we discussed this in some detail in BP and we concluded that responsibility operates on several levels, all of them closely linked to our business strategy.

Business case rationale – why companies are embracing CSR:

Employee recruitment, motivation and retention

1.4 Our people

Our efforts to become a sustainable company depend on our people. To operate successfully on a global scale, we have to attract, retain and motivate people who share our ambition to be competitive, successful and a force for progress.

These include people with the experience and expertise to extract oil from mature or newly discovered fields, to grow a retail business or secure a new market for gas, to negotiate with governments and to become leaders who inspire international teams. Safety expertise is required throughout our operations, as are the skills of engaging and working with local communities.

To attract such people, we offer rewarding careers, exciting challenges, equality of opportunity and flexible working practices. We state in our policy that every employee will be treated fairly, is entitled to feel included as part of an organization where people are recruited and promoted on merit, without discrimination, and has the right to form or join trade unions, consistent with local legislation. At the end of 2004, our global workforce stood at 102,900.

Learning and innovation

Our Olefins and Derivatives plant at Decatur, Alabama, US, which has three production areas, provided an example of reducing and reusing waste in 2004. Faced with the prospect of replacing a reactor and incinerator that were both used to treat production waste, the Decatur team instead developed innovative solutions that enabled much of the waste material to be recycled. These will reduce GHG emissions and provide annual cost savings of more than \$5 million.

One of the most valuable contributions a company such as ours can make, especially in developing countries, is to encourage enterprise – to create jobs, use local suppliers, share business skills, support training and promote further investment. In the case of the Baku-Tbilisi-Ceyhan (BTC) pipeline, we estimate that this 'multiplier effect' may be worth more than \$1 billion over the life of the project.

Risk profile and risk management

In our upstream business, our investments significantly increase government revenue in some countries, creating opportunities for faster development. However, historically such windfalls have often been associated with macro-economic instability, exchange rate over-valuation and corruption. Sometimes these issues have arisen from governments investing too fast, lowering value for money from public spending, or finding that the ongoing costs of operations and maintenance are too high.

To help realize the opportunities for development and mitigate such risks, we aim to work with host governments to address the challenges of resource revenue management.

An important factor is increasing the transparency surrounding the volume and flows of oil revenues. We are committed to the principle of revenue transparency, in the belief that improving accountability in the societies where we operate strengthens good governance and helps to reduce corruption, conflict and poverty.

Material issues Within an organization operating in a complex industry in more than 100 countries, it is important that we can identify the most important issues that could affect our business. As our reporting has evolved, we have begun to develop more robust processes for identifying the most material issues for inclusion in our group reports. Our current approach aims to combine an inside-out view of key issues and risks, as defined by our strategic priorities and internal risk management processes at group (enterprise) and regional levels, with the outside-in perspective of external observers.

Looking from the inside out, we identify material issues as those having a potentially major impact on the delivery of our strategy as well as those identified through risk management, a standard part of our operating processes. Risks are monitored and formally reviewed on an annual basis, including those that can affect operations and those that can affect our licence to operate, which in turn depends on the support and trust of many parties. We have also developed processes to become more responsive to external concerns, including a process of capturing all concerns that are represented in international media coverage, dialogue and engagement processes and peer review.

Competitiveness and market positioning

Engaging our customers

Earning and retaining the trust of 13 million customers a day is key to BP's long-term success. We therefore engage with them in many ways, including through market research. Twice a year we conduct our global brand health study among more than 6,000 motorists in 20 countries. This helps our business strategy by telling us what customers think of BP as an oil company, a retail station and a convenience store. But it also tells us what customers think about our record on issues that affect long-term sustainability. For example, we ask them about our record in making a real effort to protect the environment; taking social responsibility more seriously than other energy companies; being a company people would like to work for; and listening and responding to customers' needs

Product emissions If the world is to have the energy it needs to fulfil the needs of developing countries and to sustain economic growth in developed regions – while also stemming the recent trend of GHG emissions growth – then it faces two challenges. First, the energy we use must contain progressively less carbon in each unit of energy consumed and, second, we must use energy more efficiently.

BP believes that contributing in both of these areas will help us build a successful business in the lower-carbon world of the future. To help us do this, we have been seeking to improve our understanding of how our products can contribute to lowering customers' emissions. This happens in two main ways:

- Providing the energy customers need through fuels that contain progressively less carbon, for example, by increasing the share of natural gas in the portfolio of energy we supply.
- Providing products that help customers use energy more efficiently. The methodology we have developed for this forms part of our Product-Enabled Emissions Reductions programme (PEERs).

Investor relations and access to capital

Sustainability is fundamental to our purpose as a group. Everything we do is designed to achieve the goal that our board sets on behalf of our shareholders, to maximize shareholder value on a long-term basis. In order to maintain value in the long term, we not only have to develop a successful business strategy but pursue it in such a way that we earn the trust of shareholders, customers, local communities, governments and others whose support is critical to our long-term future. To retain that trust we have to behave responsibly and consistently.

Shareholders We have more than one million shareholders worldwide. Shareholders have the opportunity to interact with directors at our annual general meeting, to propose and vote on resolutions, and to ask questions. Presentations given at appropriate intervals to representatives of the investment community are also available to all shareholders by internet broadcast or open conference call.

In response to the growth of interest in our business activities from the socially responsible investment community, we actively communicate with this audience.

Case studies on 'why' companies are embracing CSR

Company:	CSR Limited	Source of information for case study:	Sustainability Report (part of Annual Report)
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Approach to CSR/corporate sustainability:

CSR HAS BEEN CONTRIBUTING TO THE AUSTRALIAN COMMUNITY FOR A CENTURY AND A HALF. BUT WE KNOW THAT WE MUST CONTINUALLY IMPROVE OUR PERFORMANCE AS A CORPORATE CITIZEN.

CSR's policy is to act responsibly always, ensuring that the company and our people deal effectively and appropriately with the communities in which we operate, to encourage and earn their support.

The CSR board's Safety, Health and Environment (SHE) Committee sets policies and standards and regularly reports to the board on management of the company's community responsibilities.

Business case rationale – why companies are embracing CSR:

Employee Recruitment, motivation and retention

MOTIVATING OUR PEOPLE Processes we use to boost our people's performance include providing market-competitive salaries and benefits, short-term and long-term incentives, and employee share purchase plans. As well, we ensure fair policies, challenging and satisfying work, and quality leadership.

To help align employees' interests with those of other shareholders, a share plan encourages our people to own shares – 2,407 employees, 58% of those eligible, took part.

ENSURING WE HAVE GOOD MANAGERS

The executive general managers of our businesses regularly meet to identify people with potential to fill CSR's most important positions and to plan for them to be provided with the necessary experience, support and training. As part of the review, the executive general managers also meet and assess younger employees.

We appointed a training and development manager to support our businesses in identifying development needs and to reinvigorate our training programs.

Risk profile and risk management

A TARGETED SAFETY PROGRAM

A prime value of CSR is for people to go home uninjured every day. Following an analysis of our safest sites – which operate as safely as any similar factories in the world – we have applied lessons learnt to those of our sites with relatively poorer performance.

CSR's systematic management of safety, health and environmental (SHE) risks has been based on measuring performance against CSR's SHE standards. Company wide standards are now being supplemented with controls based on an assessment of operational risks at individual sites.

Manual handling remains our most frequent cause of injuries (sprains and strains and other injuries from lifting, pulling and pushing). Some 35 people were trained in advanced techniques for assessing and eliminating such risks.

To reduce the risk of severe injuries or fatalities, we are standardising safety procedures in two potentially hazardous areas: for isolation of plant and equipment and for people around mobile equipment.

CSR'S AREAS OF FOCUS IN IMPROVING ENVIRONMENTAL PERFORMANCE

CSR FACTORIES	PRIME ENVIRONMENTAL PROTECTION FOCUS
BUILDING PRODUCTS	TO MINIMISE
Plasterboard and fibre cement	• waste, water, electricity and gas use
Concrete roof tiles	• waste
Terracotta roof tiles	• waste and energy use
Bricks and pavers	• waste, water and energy use
Insulation	• waste
SUGAR	
Raw sugar	• water use, solid waste and boiler stack emissions
Ethanol – Sarina	• water and energy use
– Yarraville	• waste, water and energy use

WASTE WATER MANAGEMENT Recycling process water at Plane Creek mill, Sarina, has more than halved the mill's intake of fresh water from local waterways and reduced the discharge of treated water to zero.

INSULATION RECYCLING To reduce waste rockwool insulation, CSR Insulation Systems (with the help of the CSIRO) is investing in a major scrap product recycling project. By compressing the light but bulky waste into dense briquettes which are readily used in the furnace, up to 85% of previously waste product will be recycled back into the production process. When completed, the project should benefit our Clayton, Victoria, plant and three rockwool insulation plants in Asia.

Following commissioning of the energy project at Pioneer mill, CSR's renewable energy production is expected to increase by almost 60% to 580,000 megawatt hours a year. This will power approximately 117,000 homes. The reduced carbon dioxide emission will be equivalent to taking 146,000 motor cars off the road.

Case studies on 'why' companies are embracing CSR

Company:	IAG	Source of information for case study:	Sustainability Report
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Approach to CSR/corporate sustainability:

Program	Desired outcome	
Stakeholder engagement and advocacy	<ul style="list-style-type: none"> - Stronger brands and improved reputation - Ability to act more responsively to community concerns - Increased sales - Increased employee retention - Reduced regulatory intervention - Access to lower cost of capital 	<p>Shareholder value</p>
Climate change research	<ul style="list-style-type: none"> - Improved reputation - Increased community education in benefits of reducing CO₂ emissions - Long-term reduction in claims 	
Workplace health and safety (including work-life balance, employee engagement, OH&S programs)	<ul style="list-style-type: none"> - Superior work environment - Increased employee engagement - Improved employee retention - Reduced costs 	
Supply chain	<ul style="list-style-type: none"> - Reduced claim size - Improved customer satisfaction - Reduced claims cost through improved operating cost 	
Product development	<ul style="list-style-type: none"> - Market differentiation - Increased sales 	
Community initiatives	<ul style="list-style-type: none"> - Stronger brand - Educate, engage, reduce claim size and frequency 	

Business case rationale – why companies are embracing CSR:

Employee Recruitment, motivation and retention

Retention specialist: IAG has recently focused on people retention as a key factor in workplace sustainability. The appointment of a retention specialist has led to various initiatives that have had an impact on staff redeployment. In 2003/04 the company saved approximately \$580,000 in redeployment (based on possible redundancy payouts). This result is not only pleasing financially, it also allows IAG to identify the skills of its people better and work with them to place them in roles that satisfy them.

Building a great Australian company is about more than just business results. It's about meeting the needs of employees and creating a great place to work. As an employer of over 10,000 employees in Australia alone, IAG works hard to ensure its people are motivated, safe, well informed and well rewarded. Employee sustainability is also about making sure people are interested in their work, proud of where they work and are able to balance work and family commitments.

Reputation management

Reputation: Since reputation is IAG's most valuable intangible asset, ethical and responsible decision-making is taken very seriously. The Code of Conduct extends to all employees. It is designed to encourage ethical and appropriate behaviour in all avenues of work, based on: acting honestly and openly in all dealings; complying with all laws and industry codes that regulate the Group's activities; abiding by IAG rules to prevent insider trading; maintaining confidentiality; and avoiding conflicts of interest.

Licence to operate

Like all businesses, IAG depends on the community for its social licence to operate. Without community trust and appreciation for its operations the Group would not exist. IAG invests in the community because it understands that a healthy community supports a healthy business sector. The Group uses its understanding of risk and knowledge about claims to advise people on how to mitigate risk, prevent accidents and reduce damage that may result in an insurance claim.

Risk profile and risk management

Insurers price products before their actual cost is known. That's made more difficult by the influence of long-term cycles outside our control. Weather patterns, investment returns, changing regulation, availability of capital and reinsurance, and shifting community attitudes towards risk, can all take years to manifest themselves. Insurers also deal with events that happen at a moment's notice, like the damage from a severe storm.

Although IAG deals in uncertainties, there is one thing we do know for sure. One in three households in Australia and New Zealand relies on us to protect them and their assets. It's a responsibility we take seriously, and one we believe requires us to deliver value in four ways:

- paying claims;
- understanding and pricing risk;
- managing our costs; and
- reducing risk in the community.

Aligning our people and our business around these four principles is the key to ensuring our future sustainability and creating value for our shareholders.

THE ENVIRONMENT

Our research shows a definitive link between rising global temperatures and the increased frequency and ferocity of weather events. Today, there is a higher probability of severe hailstorms, droughts, flooding, higher winds and more severe hurricanes, all of which put our customers and the community at greater risk. That's why Insurance Australia Group is reducing its own environmental footprint, and encouraging both its customers and suppliers to do the same. We also formed the Australian Climate Group which advocates lower CO₂ emissions.

IAG also recognises that the natural environment sustains everything society does, including business. The Group is acutely aware of how the environment can impact the insurance industry. Climate change has significant impacts on claims in Australia and beyond. For example, the last 19 out of 20 major insurance events in Australia have been weather related. With these types of natural disasters on the rise, the insurance industry has a vested interest in ensuring that the natural environment is preserved.

– *Helping to reduce risks.* One of the greatest benefits we can provide our customers (and the broader community) is to identify the very risks being insured against and help to reduce them.

Fewer risks mean customers can avoid unnecessary hardships, and they can benefit from lower premiums too. That's why we've focused our energy into reducing those risks most common or devastating for our customers including:

- Slowing the effects of global warming, which we believe is linked to the increasing number of catastrophes;
- Improving safety on the road and at work; and
- Reducing crime.

Investor relations and access to capital

Australia needs a strong and profitable insurance sector. Customers must have certainty that insurers have the financial strength to pay claims. At the same time, shareholders, who provide the capital to fund IAG's growth, expect returns that are commensurate with the risks associated with their investments. This year favourable conditions aligned for IAG from both an investment and underwriting perspective, helping to improve insurance profit to \$792* million. However, the size of profit should be viewed in context – IAG paid about \$4.2* billion in claims cost during the year and the company insures more than \$800 billion in property assets.

Case studies on 'why' companies are embracing CSR

Company:	Rio Tinto	Source of information for case study:	The Rio Tinto Foundation for a Sustainable Minerals Industry
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Approach to CSR/corporate sustainability:

We recognise that a sustainable development approach can raise performance standards generally, including improving financial performance and creating additional shareholder value. Respect for the environment together with healthy and constructive community relations provides a solid basis for uninterrupted mining and processing operations. This ensures supply to consumers and benefits society while securing rewarding jobs for employees.

Viable economic activity creates the capacity to provide society with materials, support community infrastructure, health care and education programmes, and the means to reward shareholders with a return on their investment. Further, it provides the means to develop innovative approaches to global environmental and social challenges.

For us, sustainable development is a global concept with local meaning. Varying circumstances in terms of location, communities, environment, commodities, markets and scale mean that local solutions must be found.

"The concept of sustainable development provides us with a framework in which to fulfil our **obligations** as a responsible business"

A contribution to sustainable development requires viable economic activity. This should be measured on more than the distribution of profits, or expenditure on social programmes and donations.

Our approach to corporate social responsibility rests on two pillars: understanding the issues which our stakeholders regard as our primary responsibilities, and closely engaging with appropriate organisations and individuals to ensure that the Group's policies and practices reflect stakeholder expectations.

Business case rationale – why companies are embracing CSR:

Employee recruitment, motivation and retention

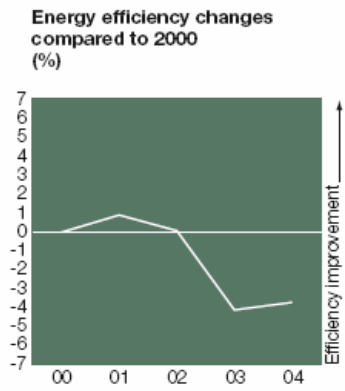
Whatever their personal beliefs, employees want to work for a company that not only respects their opinions as individuals but also observes their values in the broader world.

Rio Tinto recognises that business performance is closely linked to effective people and leadership development.

Managing the people dimension of Rio Tinto is about improving organisational effectiveness and meeting the business needs of the Group. Human resources management seeks to create an alignment of values between the Group and its employees. To safeguard our future, we ensure there is a steady flow of high potential people – tomorrow's leaders – in the pipeline of succession.

Operational efficiency

Mining and processing of minerals are energy intensive activities. The world needs a diverse range of energy sources. We strive to improve energy efficiency at our operations and ensure decisions on technology choice and equipment selection take into account the need to save energy.



Investor relations and access to capital

The business case underpinning our commitment to sustainable development has become more compelling. Companies that maintain high standards across the full spectrum of their social, environmental and economic performance have shown that they attract the best people, enhance the motivation and commitment of their employees and sustain the loyalty of their customers. They typically enjoy stronger relationships with other stakeholders and benefit from a stronger corporate reputation. All these add to shareholder value.

Licence to operate

Our businesses have social, environmental and economic effects on the regions and communities in which they operate. To ensure we contribute to sustainable development we need to build an understanding of the implications, benefits and opportunities that our activities exert on local communities and the overall economy.

Policy

Wherever possible, we prevent or otherwise minimise, mitigate and remediate, harmful effects of the Group's operations on the environment.

The standards help us manage components of our environment programmes including: climate change, product stewardship, energy use, water use, airborne emissions, mineral and non mineral waste disposal and closure.

Civil society has increasing expectations of business in relation to environmental management, community needs and corporate social responsibility generally.

We need to understand the issues that concern our stakeholders and build that knowledge into the management of our business.

Case studies on 'why' companies are embracing CSR

Company:	Shell	Source of information for case study:	The Shell Report 2004 Meeting the energy challenge - our process in contributing to sustainable development
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Approach to CSR/corporate sustainability:

Contributing to sustainable development for us means, above all, helping to meet the global energy challenge by responding to society's rapidly-growing need for energy and petrochemicals in environmentally and socially responsible ways. This starts with listening to our stakeholders, so that we understand society's changing expectations and learn to see our business through a wider lens. It then involves working with others to provide the innovative energy solutions needed to meet those expectations, as well as behaving honestly and being transparent about our successes and failures. This is how we aim to do our business. We know we have work to do to live up to this aspiration fully.

Contributing to sustainable development is part of our business principles. It is also something we must do to achieve our strategy and remain a leading energy and petrochemicals company.

Business case rationale – why companies are embracing CSR:

Employee recruitment, motivation and retention

Sustainable development continues to count in performance appraisals and pay. Bonuses are based both on individual achievement and on how well the Group performs. Environmental and social aspects of sustainable development make up 20% of how Group performance is measured, with the focus in 2005 on safety, reflecting the high priority being put on reducing fatalities and accidents. Sustainable development remains a prominent theme when we recruit new staff, in leadership development, and in technical and product innovation.

Key performance indicator

Diversity and inclusiveness (D&I)

In 2004, we continued efforts to create a workplace that values differences. We used three indicators to measure progress.

Targets on gender and nationality

Women filled 9.4% of senior leadership positions, unchanged from 2003. Our target is 20%. The percentage of women in positions below senior leadership continued to increase. We had local staff available to fill the senior Shell representative (Country Chair) position in 79% of our operations in 2004, down from 84% in 2003, mainly because of staff reassignments and reorganisations. Our target was 100% coverage.

Diversity and inclusiveness indicator

Since 2002, we have tracked employees' views on how inclusive their workplace is through the Shell People Survey. The 2004 results were slightly lower than in 2002.

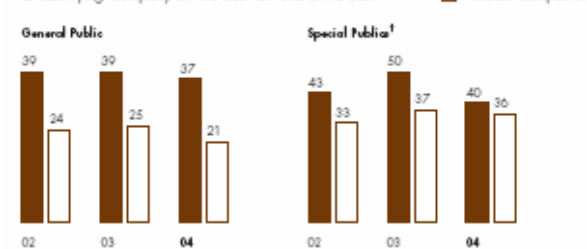
Diversity and inclusiveness standard

By the end of 2004, nearly 90% of our operations had adopted our D&I standard fully, unchanged from 2003. The rest had not because of conflict with local legislation or delays caused by reorganisation.

Reputation management

Key performance indicator

Reputation – Shell versus nearest competitor
% Identifying Company as 'the best' or 'one of the best'



[†] Including financial community, media, non-governmental organisations and government.

How we are addressing the environmental and social concerns that matter most to our stakeholders, our reputation and our business.

Rebuilding trust

We have an interest in more than 70 major downstream facilities. We lost the trust of people living close to a few of them. We are working hard to improve our environmental performance and to find new ways of working with the community to rebuild relationships.

How we are responding at locations identified as having environmental and social concerns that significantly affect our reputation and our business performance.

Risk profile and risk management

Managing political risks

We operate in more than 140 countries and face a range of political risks. These include civil unrest, international sanctions, governments nationalising our assets and operating in countries with poor human rights records. To manage these risks, we set clear rules and apply them using local knowledge.

At the same time, growing demand for oil and natural gas presents sustainable development challenges. Producing and using this extra energy will only be sustainable, and socially acceptable, if ways are found to deal with the risk to the climate, operate safely in biodiversity sensitive areas and avoid health, safety and environmental incidents.

Competitiveness and market positioning

Sustainable development and our strategy

We believe this strategy will improve our business performance and increase our contribution to sustainable development. Stronger emphasis on our upstream activities and fast growing markets will help us deliver the energy the world needs for economic growth and poverty reduction. Our increased focus on producing cleaner burning natural gas will help us contribute to reducing dependence on coal.

At our refineries and chemical plants, we know that good environmental and social performance, and good operational performance go hand-in-hand, lowering the risk of incidents, fines, environmental liabilities and disruptions from local communities, and contributing to the morale of our employees.

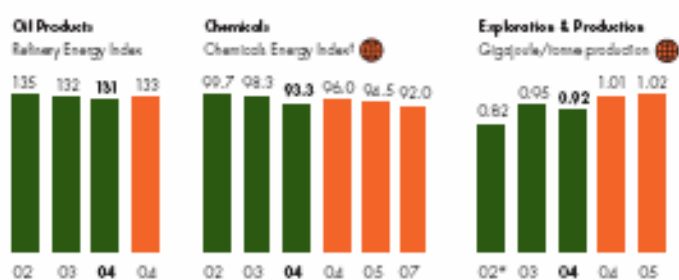
Our biggest contribution to sustainable development is helping to meet the energy challenge – finding ways to satisfy rising energy demand in environmentally and socially responsible ways. Last year, we highlighted one aspect of this challenge – making transportation more sustainable. This year we look at energy security.

Operational efficiency

Improvements in energy efficiency will help, as we operate our refineries and chemicals plants better and complete Energise™ energy efficiency programmes at many of them (page 28). But the biggest reduction by far – a further 15 million tonnes of CO₂ – will come from ending continuous flaring at oil production facilities, especially in Nigeria

Key performance indicator

Energy efficiency



Investor relations and access to capital

Good corporate governance is critical to our business success and to ensuring we live by our business principles, including our commitment to contribute to sustainable development.

We are committed to upholding the highest standards of integrity and transparency in the governance of the Royal Dutch/Shell Group of Companies. In 2004, we initiated important changes to our structure and the way we run the Group.

We recognise that we will not achieve our strategy and improve business performance for our shareholders unless we respond effectively to these key environmental and social concerns

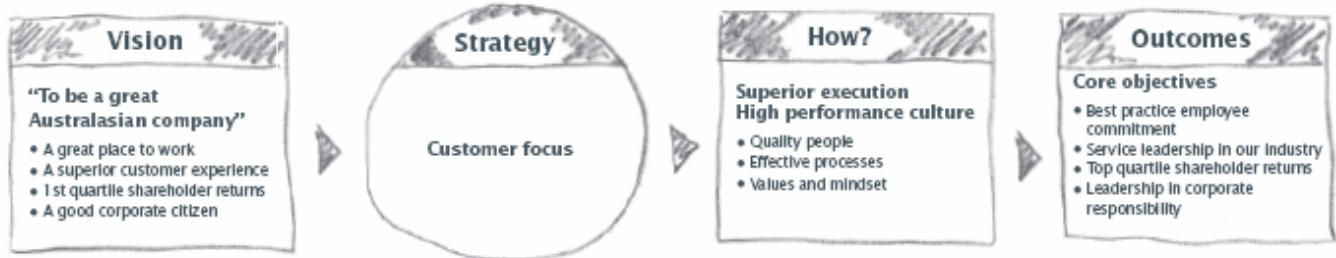
Licence to operate

The events of the last year have only reinforced my belief that making sustainable development an integral part of how we do our business is critical for our future success. The growth of energy companies in the decades ahead will depend on their ability to operate with integrity and to listen and respond to society's expectations for their operations and products.

Case studies on 'why' companies are embracing CSR

Company:	Westpac	Source of Information for case study:	Stakeholder Impact Report
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Approach to CSR/corporate sustainability:



We see our corporate responsibility practices as central to our long-term resilience and earnings sustainability. Perhaps it is because the value and loyalty of staff and customers is considered intangible and difficult to measure, perhaps it is because there has traditionally not been a great deal of transparency around them, but the fact remains that too little attention is paid to these critical performance drivers. We have seen them as critical to our success.

Our commitment to corporate responsibility is a simple one – it is about doing the right thing, behaving in a responsible, ethical, and trustworthy manner, while acknowledging our major impact on society and accountability to our diverse stakeholders.

It means conducting our business so that we meet our economic, social and environmental responsibilities in an aligned way through a set of values and behaviours that underpin the company's everyday activities.

Business case rationale – why companies are embracing CSR:

Employee recruitment, motivation and retention

So how our people feel about working for Westpac and what motivates them in their work is a vital part of our corporate responsibility program. This has forced us to have a good look at how well our workplace practices stack up in promoting responsible social, ethical and environmental behaviours and outcomes.

Employee satisfaction

Westpac Group-wide figures.

	% favourable			
	2004	2003	2002	2001
Community/Social	87*	86	93	90
Work life balance	61	60	65	68
Communication culture	67*	60	55	65
Training & development	69	64	68	63
Job security	72	66	64	54
Remuneration & benefits	37	37	40	44
Employee commitment	68	65	65	61

*Survey questions modified slightly since 2003.

Learning and innovation

The fact is we are only as good as our weakest link. So we want to get a lot better in recognising and managing the many social, ethical and environmental impacts that sit within our supply chain. We've discovered that we are not on this journey alone and there is much we can learn from our suppliers.

We have also discovered that there is much to learn from others. We are not alone in venturing into the screening of vendors and applaud our suppliers and corporate peers for their own innovation and willingness to share their experiences with us. Dialogue in this space is growing and the latter part of this year in particular has been very rewarding.

Balanced scorecard

We are committed to the balanced scorecard approach, where objectives set across the organisation must take into account the four quadrants – customers, employees, shareholders and corporate responsibility.

Within the Corporate Responsibility quadrant, we require objectives which target the social and environmental dimensions of both the internal work environment and our impact in the wider community. Across all quadrants, we provide guidance on the types of objectives and measures to be set within each section.

Having adapted the fourth quadrant from 'Community' to the broader 'Corporate Responsibility' in 2003, we are still finding that many people are more comfortable addressing social or community issues within this quadrant. Interestingly, many people have felt that critical issues which would usually appear under the Corporate Responsibility heading are already being detailed within the other three quadrants, and have found it difficult to separate out objectives from the 'business-as-usual' approach. Hopefully the more this is done the clearer the process will become.

We expect that awareness and organisational capabilities will gradually build across the organisation as the drivers, principles, beliefs and behaviours of the responsibility approach become more embedded.

Risk profile and risk management

Being green is about more than appearances. It is about running your business in a way which minimises the risks and grabs the opportunities. For a bank, this means reducing our environmental footprint and embracing our role as a catalyst for change.

This work has paid dividends

Our tools and templates have enabled us to screen all potential vendors with relative ease, and over the past nine months over 100 organisations have been assessed under the SSCM process, with this data then used in selection processes. We are now equipped to exclude vendors based on unacceptable sustainability practices but – more often – their lack of willingness to implement improvements. Most times this clear assessment data has allowed us to open a productive dialogue with vendors keen to improve their performance.

Climate change

We believe that climate change, and the need to cut global greenhouse gas emissions, is universally acknowledged as posing various risks to business. In a carbon-constrained marketplace, greenhouse gas emissions will become financial liabilities on many companies' balance sheets.

At the same time, carbon is becoming a tradeable commodity, allowing companies to hedge their risks, profit from emissions assets and turn this new discipline into a competitive advantage.

Competitiveness and market positioning

At the end of the day it's all about how the rubber hits the road. This is where the service-profit chain comes in – it establishes the relationship between our practices, employee commitment, customer satisfaction and loyalty, and profitability and value creation. We strongly believe that the only way to sustainably deliver value across our businesses is through the service-profit chain. One can draw a straight line between making superior service second nature and sustainable profit growth.

Consumer lending with a high social benefit

We consider that the provision of housing through home mortgage lending typically delivers positive social benefits to the community. As at 30 September 2004, our home mortgage lending totalled \$91.7 billion.

We are also involved in the No Interest Loans Scheme (NILS) in Tasmania. NILS provides interest-free loans between \$300 and \$1,000 to people who can't afford to buy personal or household goods. NILS was launched by the Tasmanian Government and Anglicare and is administered by the NILS network of Tasmania. Aurora Energy, a Government-owned electricity company, underwrites a Business Options Overdraft provided by Westpac.

Changing course

We are beginning to see real results. The average percentage of complaints resolved within five days has increased from 75% in 2001 to 81% in 2004. As at September, it was 85%. Significantly, we have seen the spread of complaint types move, particularly over the last year where we are beginning to see real change. Complaints on Staff Service Quality have dropped from 27% to 17% of all complaints and Information and Advice has dropped from 23% to 14% of complaints, reflecting our focus on customer service. A greater proportion of complaints are now about Fees, Charges and Interest Rates, which increased from 17% to 27%, and we are now looking to understand and address this area. We are also now resolving 91% of all complaints referred to the Banking and Financial Services Ombudsman (BFSO) with our customers, before they require a BFSO recommendation.

Assets under green management

Within our total range of Socially Responsible Investment (SRI) products detailed in the Customers section of this report, we also offer the BT Institutional Australian Eco Share Fund. This product applies a 'Best of Sector' approach and only invests in those companies which operate in a more environmentally responsible manner. As at 30 September 2004, we had \$31.4 million under green management.

We select companies for inclusion in this fund on the basis of eco ratings, which are undertaken by Monash Sustainability Enterprises and which rank the environmental performance of companies within each Australian Stock Exchange (ASX) industry sector. The Westpac-Monash Eco Index is Australia's first index of share price performance for leading eco-related listed companies. Results are updated monthly, and available on our website @ www.westpac.com.au

Market-based instruments and environmental outcomes

Our Environmental Markets Group focuses specifically on trading in environmental mechanisms, including carbon credits. This includes participation in Australia's only national environmental market, the Renewable Energy Certificate (REC) market. Our business focuses on providing risk management solutions for customers and our products are specifically tailored to meet individual requirements.

Over 25% of our REC customers have not participated in a trading market before and we assist them in managing their exposure to fluctuations in REC prices. The REC market was designed with the ability to bank RECs for surrender in future years. What is becoming clear to those who have contracted to buy the entire output of projects under long-term agreements, is the high capital cost of holding RECs as inventory for forward requirements.

Investor relations and access to capital

Our experience has shown us that corporate responsibility has to become a core part of our strategy if we are to deliver sustainable long-term shareholder value. As Australia's oldest company we know that we need to build organisational and individual competencies across the full governance and sustainability agenda to ensure the survival of our business well into the future.

In addition to our Value Management Framework and our balanced scorecard system, the Employee Share Plan has been established to create a stronger link between employee performance and increased shareholder value. We believe that the underlying motivation in promoting a longer-term perspective of performance is consistent with fostering sustainability. It also enables employees to have a greater involvement with, and share in, the future growth and profitability of Westpac.