Futureye Pty Ltd
Level 2, 388 Bourke St, Melbourne 3000
T: (03) 9642 2088 / F: (03) 9642 1033 / www.futureye.com

Futureye
Real eye openers

4 November 2005

**Submission to the Parliamentary Joint Committee on Corporations and Financial Services
Inquiry into Corporate Responsibility**

Futureye commends the Parliamentary Joint Committee on Corporations and Financial Services for undertaking this inquiry into Corporate Responsibility.

Over the last decade the traditionally understood roles and impacts of corporations in society and the responsibilities of organisational decision-makers have been laid open to question. Concepts of corporate responsibility, the 'Triple Bottom Line' and sustainable development have grown enormously in profile and practice. It is thus timely for Parliament to be asking fundamental questions about the role of the corporation, and its broader duties to society, beyond those it owes to its shareholders.

We therefore welcome the opportunity to make this submission to the enquiry.

About Futureye

Futureye is a strategic advisory firm that helps organisations to address the challenges of sustainable development. Our clients include a wide range of large domestic and major multinational corporations, primarily in the mining, energy resources, forestry, pharmaceuticals, banking and telecommunications industries. We also undertake a broad range of work for government departments and authorities, and government-owned enterprises.

Futureye provides specialist research, communication, strategic planning and stakeholder engagement services to develop proactive organisations that will succeed in the new stakeholder era. Our clients earn greater trust and become more responsive to their major risks and opportunities, meeting changing expectations of organisational behaviour.

Futureye's direct experience in assisting organisations in meeting new expectations means we are well placed to give comment on the matters set out in the enquiries terms of reference.

The Challenge to Address

Futureye's experience working directly with major corporations on stakeholder relationships indicates that many large companies have come to realise that in order to create long-term shareholder value, organisational decision makers need to think more holistically and take into consideration the impacts (both positive and negative) of their activities on a wide range of stakeholders. Such companies have come to understand that failure to meet stakeholder and community expectations carries with it major long term risks and costs.

In other words, in the long-term, there is a significant degree of alignment between the interests of shareholders and the interests of other stakeholders. In the short term, however, the picture is often quite different. Protection of the rights of employees, of local communities in which corporations operate, or of the environment, often comes at a direct financial cost to corporations and their shareholders.

Futureye thus proposes a focus by directors and organisational decision-makers on long-term value as one mechanism to improve the extent to which corporations take into consideration the interests of non-shareholder stakeholders. The principle benefit of such a mechanism is that it does not compromise the benefits with regard to market efficiency of clarity of accountability that stem from an overriding obligation to shareholders. Rather, it seeks to align the interests of shareholders and other stakeholders more closely.

Futureye therefore supports amendments to the current Corporations Act to prioritise the creation of long-term shareholder value (as opposed to immediate returns) as the overriding responsibility of company directors. Futureye also supports initiatives that will increase directors' engagement with issues of long-term risks and opportunities that stem from a corporation's impacts on stakeholders and communities. Futureye

therefore supports a requirement for corporations to report on social and environmental performance, with a focus on:

- Understanding the major issues of relevance to different stakeholder groups;
- Practicing transparent disclosure of all impacts of relevance;
- Evaluating risks and opportunities in regard to long-term value arising from these issues;
- Assessing future directions accordingly.

Responses to the Terms of Reference

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

Whilst every organisation must take into account the interests of its customers and employees, many corporations have traditionally failed to take into account the interests of a broader range of stakeholders. Futureye believes that while a growing number of corporations have recognised the need to take responsibility for their impacts on stakeholders and communities, a large number have yet to make significant progress in this regard.

In a number of major, high profile cases over recent decades, corporations have been seen to have acted in ways that were clearly out of step with community expectations. In many of these instances, ranging from BHP's experiences at Ok Tedi in the 1990s to the recent scandal over James Hardie's efforts to limit its asbestos liabilities, these revelations of corporate performance clearly at odds with public expectation have led to major costs for these corporations. BHP learned just how significant that cost can be when it felt forced to write off the entire $148 million dollar value of its 52% shareholding in the Ok Tedi mine, giving the mine away to a not-for-profit fund established to run the mine for the benefit of the Papua New Guinea community. James Hardie, similarly, has had to pay a significant price for its actions, as a result of major reputation damage, legal liabilities, and consumer boycott.

The rising cost of doing business in a manner that is out of step with community expectations is thus becoming apparent. Many corporations are coming to understand that their ability to carry out their business depends on more than just meeting minimum legal obligations and creating a profitable return for shareholders. Above all, to remain profitable in the longer-term, and protect themselves from the risks that accompany public outrage, corporations are coming to understand that they must maintain a 'social license to operate'.

As trust in corporations has decreased, and expectations of corporate performance have increased, a number of corporations have learned that they need to become 'literate' in issues of corporate responsibility and sustainable development. Many have recognised the need to consult with NGOs and local communities where they operate about their impacts, and endeavour to reduce negative impacts that form a major source of concern. A number have recognised that many of their current business models are socially or environmentally unsustainable in the longer-term, and will also be financially unsustainable in the face of a changing regulatory environment, rising expectations, emerging legal liabilities, changing market conditions, and a range of other pressures.

A number of companies have begun to think about ways of mitigating negative impacts, and have begun to develop exit strategies from unsustainable 'sunset' industries, examining business models to move into newer, more sustainable methods, technologies or industries.

These corporate responsibility 'literates' have a genuine understanding of their responsibilities toward a broader range of stakeholders, and have begun to grapple with issues relating to their social and environmental impacts. They understand that if these impacts remain unaddressed, they may hinder their ability to deliver shareholder value over the longer term. Many of these firms are in industries (such as oil and gas) in which investments are paid off over a timescale of twenty to fifty years. As a result, long-term thinking around risk has become a necessity in these organisations.

In their current activities, many of these firms remain very heavily invested in industries and technologies that pose major social and environmental threats over the longer term. Whilst these firms may be positioning themselves for future change, some stakeholders may question how genuine the commitment to change really is.

These firms have identified a degree of alignment between their shareholders interests, and those of their broader stakeholders. So long as both interests are aligned, they are prepared to have a considerable

regard for interests of stakeholders other than shareholders. Where the two remain in conflict, shareholder interests will usually be chosen above stakeholder concerns. Many of these firms still stumble against strong, remaining, internal barriers toward progress in improving social and environmental performance. Whilst many aim for genuine transparency in their dealings toward stakeholders, and believe that it is in their long-term financial interest to do so, Futureye's experience is that a number are also still prepared to act secretively in the short-term, when they believe they will not be punished for doing so, or where they don't perceive a benefit in communicating about an issue before its solved.

A very small number of firms have moved beyond the literates, to achieve genuine leadership status. They are endeavouring to define new markets and new business models, where sustainability is a core aspect of their competitive advantage. These firms aim for complete alignment of stakeholder and shareholder value, delivering long-term financial performance for shareholders by generating social and/or environmental value.

At the same time, however, a large number of firms remain corporate responsibility 'laggards'. These corporations either do not recognise the impact that the of interests of non-shareholder stakeholders can have on their risks and financial value, or they still operate in a business context where low social and consumer awareness, or a weak legal and regulatory environment means they remain able, at least in the short run, to produce healthy returns for shareholders without giving due consideration social and environmental impacts. Where such corporations acknowledge the need for corporate responsibility, this is largely viewed by stakeholders as a public relations façade, applied for purely cosmetic purposes. As Clive Crook of *The Economist* magazine has suggested,

> *For most conventionally organised public companies – which means almost all of the big ones – CSR [Corporate Social Responsibility] is little more than a cosmetic treatment. The human face that CSR applies to capitalism goes on each morning, gets increasingly smeared by day and washes off at night.*[1]

Table 1 – Corporate Responsibility: Laggards, Literates, and Leaders:

CR continuum:	Generalised organisational profile:
Laggards	• Limited recognition of the need to change due to changing social expectations, little understanding of the 'business case' for corporate responsibility and sustainable development, or not yet developing the necessary competencies and systems; • **Stakeholder and shareholder interests are not aligned, with stakeholder concerns frequently traded-off against short-term financial performance, and little consideration of the requirements for long-term performance;** • Only interested in stakeholder interests when there is an immediate threat to shareholder interests (i.e. adverse media coverage, scandals, etc.). **These organisations tend to:** • Be high-risk, distrusted by stakeholders; • Risk failing to deliver on new expectations; • Be reactive, focussed on minimum compliance measures and litigation solutions; • Take a defensive position on responsibility/sustainability issues; • Have poor social and/or environmental performance; and • Operate often in crisis mode, reacting to stakeholder outrage, acting secretly, concealing bad news.

[1] Crook, C. 2005. 'The Good Company (a survey of corporate social responsibility)', The Economist, January 22, p3.

Literates	• Recognition of the need to manage stakeholder risks more holistically and have developed an understanding of the 'business case' for corporate responsibility (i.e. 'license to operate', reputation, emerging regulations, changing stakeholder expectations, changing market conditions, legal liabilities, etc.); • **Recognition of a significant, but limited degree of alignment between stakeholder interests, and the creation of long-term shareholder value;** • Not yet wholly transformed – some 'unsustainable' activities still are seen as being in these organisations in their current financial interests. **These organisation tend to:** • Be lower-risk, more trusted by stakeholders; • Aim to proactively track emerging issues to meet new expectations; • Aim beyond legal compliance in social and environmental performance; • Be consultative, involving stakeholders key decisions and responding to their concerns; • Aim toward transparency in their dealings with stakeholders, disclosing bad news; • Continuously improve their social and environmental performance; and • Have systems in place to assess stakeholder risks (e.g. to reputation, social license to operate, etc.).
Leaders	• **Stakeholder and shareholder interests are highly aligned through a sophisticated long-term perspective;** • Sustainable development is seen as a key part of the company's future, and is thus fully resourced, and integrated; • Addressing stakeholder interests and concerns is seen as a prerequisite for creating long-term shareholder value, so structures are adopted to empower stakeholders. **These organisations tend to:** • Be applauded by stakeholders for engaging them in strategic business planning; • Be innovative, seeking to create sustainable business models; • Assess their cultural capacity vis-a-vis community expectations; • Define CSR and sustainable development KPIs and recognise that sophisticated skills are required; • Understand best practice and seeks to create new frontiers; • Resolves key strategic issues publicly; • Values strategic foresight and a long-term perspective; • Converge silos and facilitate holistic thinking; and • Advocate public policy and regulatory change.

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

The question of the extent to which organisational decision-makers *should* have regard to stakeholder interests beyond those of their shareholders is a central topic of the current 'corporate social responsibility' (CSR) debate. The notion that corporations need to pursue objectives broader than a simple financial 'bottom line' has become a widespread theme of discussions of corporate social responsibility. Advocates of CSR, including a growing number of global senior executives, have advocated the need for business to consider the interests of, and be accountable to a wide range of stakeholders, and contribute socially and environmentally to the societies in which they operate.

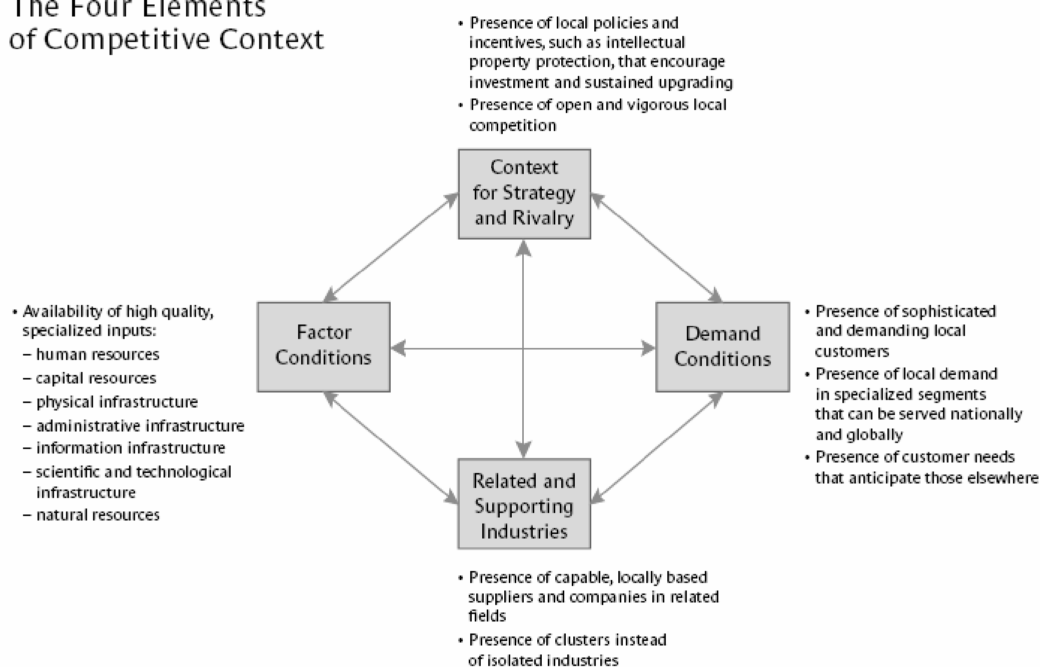
This view of the proper obligations of business would appear, at first glance, to be sharply opposed to that presented by neo-classical economics. Drawing on a particularly rigid interpretation of Adam Smith's notion of the 'invisible hand', economic orthodoxy of recent decades has traditionally suggested that corporations (and indeed all non-government economic actors) generate the greatest benefit for society when they act not out of 'benevolence' (to quote from Smith's *The Wealth of Nations*), but rather 'with regard to their own interest'. Through maximising profits, economic actors are guided 'as if by an invisible hand' to also maximise social utility. Thus, suggested Milton Friedman famously in 1970, 'the only social responsibility of business is to increase its profits'.[2] Corporate expenditures that are incurred without the aim of profit-maximisation in mind (Friedman cites as one example the reduction of pollution below the amount that is in

[2] See Friedman, M. 1970. 'The Social Responsibility of Business is to Increase Profits', New York Times (Magazine), 13 September.

the best interests of the corporation or that is required by law) amount to 'spending someone else's money for the general social interest', and thus, in essence a form of taxation – a power that should lie solely with government.

Too often, this dichotomy of views has characterised the debate on corporate social responsibility. Thus it is that *The Economist* weighed into this debate earlier this year, suggesting that CSR proponents, in calling for a broader view of the responsibilities of business, had failed to understand the fundamental insights of the discipline of economics. Corporate responsibility, *The Economist* suggested, was potentially highly dangerous, as it could lead to corporate decisions that were not made from straightforward rational self-interest, and which thus represented economically sub-optimal allocations of resources.

There is no doubt that many proponents of CSR do not adequately consider the functioning of markets, or the extraordinary improvements in standards of living across the world over the last century that have been wrought by capitalism as a result of the self-interested pursuit of profit. These two positions, however, need not be dichotomous. As Harvard management academic Michael Porter has pointed out, long-term business success requires corporations to focus on the full range of elements that make up what he terms 'competitive context. This includes access to high quality factor inputs, including human and natural resources; a governance environment conducive to efficient operation including sound, transparent government and governance; access to sophisticated and demanding consumer markets; and thriving supporting industries.[3]



(Porter, M and Kramer M. 2002. 'The Competitive Advantage of Corporate Philanthropy',
Harvard Business Review. Reprint RO212D)

Thus, corporations that take a long-term view of their performance must proactively tend to all of these areas. Corporations that fail to adequately consider the interests of non-shareholder stakeholders and local communities ultimately run major risks in all these areas of competitive context – and in particular in regard to factor and demand conditions.

On the factor side, access to natural, capital and human resources are all become steadily more difficult for corporations whose performance fails to meet community expectations.

- Numerous resource companies over recent decades have discovered the difficulties in renewing environmental licenses, or obtaining major project approvals, that go along with poor social and environmental performance. North Limited's 1996 failure to receive project approval from the NSW government for its proposed Lake Cowal mine is just one example of this.
- Debt capital is steadily becoming more difficult to obtain for social and environmental laggards. Increasingly, major banks are conscious of the project risks and risks to their own reputations that

[3] Porter, M and Kramer M. 2002. 'The Competitive Advantage of Corporate Philanthropy', Harvard Business Review. Reprint RO212D

accompany lending to controversial projects. As a result, an increasing number maintain sustainable lending policies and refuse to finance projects that do not meet certain social and environmental standards. The 'equator principles' are one example of such sustainable lending criteria, which Westpac is currently the one Australian bank, amongst a number of international banking firms, to sign up to.

- Increasing environmental costs can also be seen in an increasing number of cases to discount the value of equity capital, particularly as 'socially responsible', 'sustainable', or 'ethical' investment criteria become an increasing part of mainstream investment strategies.[4] Southern Pacific Petroleum's share price collapse and eventual move in 2003 into receivership –attributed in a significant part to activist campaigns and mounting concern over environmental liabilities around shale oil, as well as poor conduct of community relations – represents one example of this phenomenon.
- Reputations for poor social, ethical or environmental performance can present whole industries with major risks in regard to access to human resources. Sted Garber, former CEO of SantaFe Corporation asked at the end of the 1990s, "The only engineering majors that have fewer applicants and fewer participants than petroleum engineering are nuclear engineering and mining. Where are we going to get our young people, and how are we going to keep them?"

On the demand side, poor social and environmental performers have also been shown to face major risks.

- A 2002 Environics international survey found that 29% of consumers surveyed in developed countries had used their purchasing decisions to punish firms seen as socially irresponsible. A further 20% had not actually done so, but had considered doing so – in other words almost half of the total survey sample had either directly used purchasing decisions to punish a firm that did not meed their social or environmental expectations, or had considered doing so.[5]
- Data released in December 2003 shows that in the UK 52% of all consumers boycotted at least one product during 2002, whilst two thirds of consumers claimed that they would never return to a product once it had been associated with unethical practices. The total cost of these boycotts to firms operating in Britain was estimated to be £2.6 billion of business lost, in 2002 alone.[6]

These risks, along with other growing risks from legal liabilities and increasing regulatory standards mean that in the longest term, there is a high and increasing degree of alignment between shareholder and stakeholder interests. Businesses that look to long term success must, in the process, create sustained benefits for the societies in which they operate.

This, however, does not suggest that market forces alone will therefore cause corporations to pay heed to the interests of non-shareholder stakeholders. Very clearly, recent examples like the James Hardie controversy demonstrate that many corporations have not.

Numerous market imperfections mean that many corporations remain able to continue with less-than-adequate social and environmental performance, without bearing the costs for these failings – at least in the short run. One reason for this is the existence of major 'negative externalities' in many markets – economic costs that are not factored into market transactions, but which are instead borne by society. The costs of pollution, or of human rights abuses in developing nations, or countless other examples, are very rarely factored into the transactions that cause these effects. For as long as this remains the case, markets alone will not be able to prevent such undesirable corporate practices – only government intervention will be capable of achieving this. As Professor David Vogel of the Haas School of Business at the University of California, Berkely, has suggested,

> *Since the market is largely incapable of identifying, let alone rewarding, relatively responsible firms and punishing less responsible ones, corporations do not have sufficient incentive to devote resources needed to ameliorate the problems corporate social responsibility is intended to address.*

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[4] According to research recently released by Mercer Investment Consulting, 60% of investment managers surveyed indicated they believed that screening on the basis of environmental, social and governance issues would be part of mainstream investment practices within the next three-to-ten years. See <http://www.superreview.com.au/articles/3a/0c03683a.asp>

[5] Environics International 2002. *3rd Annual CSR Monitor* Environics International. See <http://www.globescan.com/news_archives/csr02_press_release.html>

[6] Co-operative Bank. 2003. *The ethical consumer report.* London: Co-operative Bank.

In other instances, the short-term focus of many financial market participants, combined with imperfect information on risks and liabilities arising from poor social and environmental performance, mean that corporate responsibility 'laggards' generally remain able to operate in a manner that produces short-term profits for shareholders, at the expense of communities and the environment.

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.

and

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.

<u>Long-term value</u>
From the above analysis, it should be clear that the major factors encouraging corporations to give due consideration to the interests of stakeholders and the broader community are those stemming from issues of long-term value. By contrast, immediate considerations of short-term returns to shareholders often act to prevent corporations from adequately addressing stakeholder concerns. In the long term, there is a significant degree of alignment between stakeholder and shareholder interests. In the short term, however, they are often significantly at odds.

Modifications to the legal framework to sharpen the focus of directors on long-term value thus present one means of improving the regard held by organisational decision makers for stakeholder concerns, without diluting the market accountability benefits that flow from an overriding responsibility to shareholders.

Futureye thus supports the recommendation made by the Monash University Department of Business Law and Taxation, in submission to the committee, that:

> *Directors could also be permitted to place stakeholders' interests ahead of shareholders', where the company's reputation or long-term viability would be at risk if the directors failed to do so. This would involve legislative recognition of directors' capacity to act other than with a view to ensuring short-term returns to shareholders, and enabling them to act in accordance with the principle of "enlightened shareholder value" (in line with current law reform proposals in the United Kingdom)*

We further propose that revisions to the Act should be considered in order to emphasise a duty to create long-term value, above purely short-term returns.

<u>Regulatory compliance and social and environmental performance</u>
In regard to directors' duties, it is also worth noting that ensuring the compliance of corporate activities with all relevant laws and regulations is an obvious current duty – but one that is perhaps not as straightforward as it seems.

Significant anecdotal evidence suggests that where compliance with existing laws and regulations (including those directly related to the interests of stakeholders, such as discrimination provisions, or environmental regulations) is in strong and direct conflict with short-term financial interests, many organisational decision makers currently chose to prioritise duties regarding profitability above those concerning meeting regulatory requirements. This is particularly the case where penalties for legal and regulatory infringements are minor in comparison with the costs of compliance – something that has too often been the case, for example, with regard to environmental regulations. Futureye therefore recommends that the Committee examine directors' current understandings of responsibilities and approaches in circumstances where responsibilities regarding profit and responsibilities regarding compliance are in conflict.

In addition, the high degree of economic power generally held by large corporations often also provides them with significant political power with regard to setting the terms on which issues such as community health or the environment are regulated. As a result, in the past, numerous corporations have been able to lobby successfully, behind closed doors, for legislative or regulatory exemptions to permit ongoing poor performance. As a result, Futureye suggests that a focus simply on ensuring legislative compliance is not always, by itself, sufficient to ensure adequate social and environmental performance.

A requirement to ensure 'international standards' are met with regard to issues such as community health and environmental management might be desirable in this regard, however the difficulties in ensuring a common understanding what such standards entail, and therefore in enforcing compliance, are evident. Requirements in relation to mandatory reporting on social and environmental performance, however, may represent a significant point of leverage on corporate performance in this regard. Reporting might be required to transparently evaluate performance on issues such as community health and environmental management with reference to international standards, and detail what actions are being taken to meet standards where performance currently falls below internationally acceptable levels. Futureye's views on mandatory reporting are dealt with in further detail in section f below.

Finally, Futureye also supports the recommendation of the Monash submission for a requirement on directors to ensure regular consultation with local communities in relation to all activities that have a significant impact upon the natural environment.

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

At the international level, several voluntary codes of conduct with relevance to CSR have been developed including the United Nations Global Compact, OECD Guidelines for Multinational Enterprises and the Global Reporting Initiative, among others.

Some examples of voluntary initiatives of particular relevance to Australian industry include:

- The Corporate Governance Council of the ASX voluntary corporate governance principles for publicly listed Australian companies;
- Forest or Marine Stewardship Council accreditation;
- Enduring Value: The Australian Minerals Industry Framework for Sustainable Development; and
- The Equator Principles to be applied by signatory banks with respect to new project financing.

Many of these initiatives are highly laudable, and a number have created profound change amongst those companies that have signed up to them. Promotion of such initiatives is thus undoubtedly highly valuable.

Futureye does not, however, believe that voluntary initiatives alone will provide an adequate incentive for corporations to focus on interests of stakeholders other than shareholders.

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

Reporting on sustainability / social and environmental performance is a major tool for encouraging a focus on long-term value and hence on stakeholder interests. The key value in sustainability reporting lies in the 'materiality' of a report – the extent to which it provides transparent data and information that matches the concerns of the stakeholder audience to which it is targeted.

As sustainability reporting has mushroomed in recent years, too many reports have been produced that have been one-size fits all documents, full of the data required by standards such as the Global Reporting Initiative, but failing to adequately address the fundamental concerns held by an organisation's stakeholders. UK based CSR consultant Steve Hilton has described the general approach to such reports as being characterised by 'identikit bureaucrats', suggesting

> *I can tell you in all honesty that as someone who is sent many of the social reports that are published, and (somewhat heroically, I would suggest) tries to read all those that are sent, I tend to emerge deflated and somewhat deadened from my encounters with these documents, reeling from the relentless uniformity and studied humility that characterises the genre.*[7]

In order to produce sustainability reports that accurately reflect stakeholder concerns, corporations must engage those stakeholders in order to understand what the issues of concern to them are. They must then

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[7] Hilton, S. 2004. 'Identikit bureaucrats or romantic crusaders?', *The Guardian,* Monday November 8. Accessed at: <http://society.guardian.co.uk/givinglist/story/0,10994,1343539,00.html>

ensure that these are adequately reported on in a manner deemed by the Board to be transparent – that is fully disclosing all known negative social and environmental impacts of interest to stakeholders. Stakeholders engaged in this process should include:

- Employees;
- NGOs/activists;
- Investment community;
- Industry;
- Customers;
- Communities in which they operate; and
- Government.

Above all, effective sustainability reports must demonstrate that the impact of decisions on long-term value are being incorporated into strategic planning and decision making. This should include an analysis of risks in regard to stakeholder expectations, and the impact of these on long-term value. It should also include demonstration of engagement by senior corporate leadership with questions regarding the long-term changes required to create more sustainable business models.

Genuinely 'material' reporting by all large corporations would promote corporate learning, reflection and innovation, encouraging corporations that have not yet recognised the impact of stakeholder concerns on long-term shareholder value to engage with these issues.

Such reporting, if undertaken by all large corporations, would also be a significant tool in improving the information available to financial markets about the long-term risks and benefits associated with social and environmental performance. Such a move, when viewed in conjunction with the adoption of social and environmental screening practices in mainstream investment practices that is already beginning to occur, could be a major influence in improving corporate focus on long-term, 'enlightened' shareholder value, and thus on improving the extent to which stakeholder concerns are considered and acted on in organisational decision making.

Futureye therefore supports a legislated requirement for all large corporations to report annually on social and environmental impacts. We further recommend that any such requirement should focus on:

- Requirements on directors to ensure that such reporting addresses the principle impacts and issues of concern to relevant stakeholder groups;
- Requirements to ensure that reporting is transparent, fully disclosing known negative social and environmental impacts of interest to stakeholders;
- Requirements to ensure that reporting examines the risks and threats to long-term value posed by such impacts; and
- Requirements to ensure that reporting includes an examination of the longer-term changes to strategies and business models needed to minimise such risks in the future.

Where reporting is not mandatory, it seems reasonable to expect that only 'good' performers will seek to take it up, as a strategy to build or protect their reputations. It is arguable, however, that it is through full-disclosure by the poorer corporate performers that society has the most to gain. Under the current, purely voluntary approach, these companies seem to be the least likely to report.

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

In response to growing public concerns, governments in some countries have introduced mandatory requirements for social and environmental reporting and disclosure for companies. Such legislation broadens the scope of existing corporations' legislation to include aspects of good 'corporate citizenship'.

Since 2002, listed companies in France have been required to comprehensively report on the environmental and social impact of their operations. In South Africa, it is a requirement that all companies listed on the Johannesburg Securities exchange report against social and environmental indicators according to the Global Reporting Initiative (GRI) framework.

Futureye supports the application of similar initiatives in Australia, as consistent with our recommendation that large companies be required to report annually on social and environmental impacts. Futureye believes that that the GRI, as an emerging global standard, provides a useful framework in this regard to aid comparability, but also stresses the need to address the issues raised in the above section concerning 'materiality' and stakeholder engagement.

In the United Kingdom, a Bill that would have imposed similar reporting requirements on company directors, as well as establish a new regulatory body to set ‘corporate citizenship’ guidelines, failed to receive the approval of Parliament in 2002.

The UK has, however, since become an international leader in non–regulatory activism in promoting CSR. Specific initiatives have included:

- Appointment of a Minister of Corporate Social Responsibility;
- Coordination of CSR policies and activities across government;
- Initiatives to raise the profile of CSR, develop a framework for social and environmental reporting, and promote the spread of best practice;
- Provision of assistance to small and medium size businesses regarding the adoption of CSR strategies as a business advantage;
- Assistance in the development of CSR skills through the provision of education and training.
- Promote the link between CSR and productivity; and
- Fund research into CSR.

The UK has also enacted a range of enabling legislation, including an amendment to the *Companies Act 1985* in April 2005 that requires company directors to prepare an *Operating and Financial Review* report. The report must include information not only on a company’s objectives, strategies and key drivers of the business but also on a range of other factors including environment, employee, social and community issues.

Futureye believes that such non-regulatory interventions are to be encouraged, but that should not replace appropriate modifications to directors duties, or mandatory of reporting requirements.

Concluding Remarks

Futureye makes the above comments as the result of significant experience working with leading corporations on issues of social responsibility, sustainable development, and stakeholder engagement.

We would be happy to discuss any of these issues further with the Committee in person.

Katherine Teh-White
Managing Director