

5 December 2005

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
Parliament House
Canberra ACT 2600
Australia

Dear Sir/Madam,

Re: Submission for Inquiry into corporate responsibility

I wish to lodge this submission into the Joint Committee's inquiry into Corporate Social Responsibility (CSR). In making this submission, I make known that I am doing so in my capacity as an individual who is currently a Director of a local subsidiary of a large foreign-owned company. I am a qualified CPA, and my responses to the terms of reference reflect on my personal experiences with accepted practices in corporate Australia and the various regulations that govern it.

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

I do not believe many organisational decision makers have an active disregard for stakeholders other than shareholders (i.e. there is no '*mean streak*' running through corporate Australia), rather the burdens placed upon them to maximise shareholder returns and comply with existing corporate regulations give decision makers little time to actively pursue anything else to enhance the interests of anyone other than shareholders. In particular, in many Small and Medium sized Enterprises (SMEs), it is my experience that there is a distinct disparity between the level of corporate regulatory compliance required and the availability of resources to take action. As a result, many businesses already struggle with the regulatory compliance workload and do not treat other stakeholders' issues with any great sense of urgency unless it has a direct impact on their financial performance.

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

It is important to retain individual freedoms and values in society and I do not view corporations any differently to wealthy individuals when considering this question. If an individual is wealthy, I would argue society would not automatically expect that person to contribute donations to charitable organisations. One may say that a wealthy person *should* help those less fortunate, but it is commonly accepted that what one gives as a voluntary contribution is entirely at the discretion and prerogative of the individual concerned. The individual's main aim is to make a better living for themselves, and in practice a corporation's main aim is to maximise returns for their shareholders. So why should we think of corporations any differently? Obviously having a regard for interests of other stakeholders is a positive reflection on a company's values, but I cannot see the logic in forcing companies to serve other stakeholders when community standards say we would not force it upon individuals.

There is no law that says everyone has to be nice. Diversity in opinions, values and beliefs all create a healthy dynamic economy and society, and in the end society and the economic marketplace determines who succeeds and fails. The fact that customers choose to buy from some companies and yet turn their back on others is the ultimate reflection of social standards. It would be presumptuous for the government to assume they know more about social standards than what society expresses every day in the economy.

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 current legal framework does encourage Directors to consider other stakeholders and numerous professions have standards and codes of conduct that already say as much. I do not believe this needs to be changed or enhanced.

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.

I do not believe increased regulations to force directors to consider the interests of stakeholders other than shareholders will have much of an impact on the underlying behaviour of organisations. With so much corporate regulation already in existence, any regulated framework for CSR will be seen as "just another" corporate regulation and most likely will achieve **compliance** to a standard, not necessarily **commitment** to the principles/values behind CSR.

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

I have argued above that increased regulation is not the answer to encourage companies to commit to CSR principles/values. However I believe the government has a big potential role to play in encouraging more voluntary reporting of CSR performance and adherence to high CSR standards. The various Federal and State Governments of Australia are some of the biggest customers of goods & services in Australia. The government is in a unique position to enforce, on all major supplier contracts, that they will only do business with companies that report their CSR performance in their annual report, and be willingly subjected to an audit if required. This approach would be similar to the push by government to only engage with ISO9001 quality accredited organisations many years back. This forced almost every major organisation selling to government to become quality accredited even though it wasn't (and still isn't) required by law. In short, the government has the ability to give CSR compliance a big kick-start without necessarily legislating for it.

The appropriateness of reporting requirements associated with these issues.

N/A as this would not be a legislative requirement on companies.

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

I have not seen any evidence of CSR regulation in other countries leading to a concerted increased commitment to CSR principles, rather than an increased compliance to legislative disclosure standards.

In addition, I would like to make the following general comments:

I do not see evidence of companies being punished in the marketplace for poor CSR practices or even unethical businesses. If one looks at the soaring share prices of big oil companies, tobacco companies, gaming companies, etc one can conclude the stock market still values companies by profits and profit growth, not by commitment to CSR values or even ethical/moral values. Until the issue of CSR becomes so important to investors that company's share prices are affected by negative stock market sentiment, then nothing much will change. Once companies are punished for being (allegedly) immoral/unethical corporate citizens by investors, only then will companies link Directors' pay & bonuses to CSR performance and only then will Directors give it the attention it deserves. Until then I believe the status quo will remain. My proposed solution, as mentioned above is for government to play an active role in encouraging CSR principles by enforcing CSR reporting in its major supplier contracts. This would have a more desirable and economically sound outcome for government, companies and society alike.

I thank you for considering my views and would be happy to provide further information if required.

Yours Sincerely,

Lakun Agrawal