Headquarters: Keizersgracht 209
P.O. Box 10039
1001 EA Amsterdam
The Netherlands
www.globalreporting.org

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

12 August 2005

Dear Sir/Madam,

Re: Parliamentary Joint Committee on Corporations and Financial Services
Inquiry into Corporate Responsibility

Thank you for the opportunity to respond to the inquiry into corporate responsibility reporting. The Global Reporting Initiative (GRI) is not in a position to provide a detailed response to those parts of the terms of reference which pertain specifically to the Australian context, but we will address -

- (b) the responsibility of organisational decision-makers towards stakeholders other than shareholders
- (e) alternative mechanisms to enhance the consideration of stakeholder interests
- (f) the appropriateness of reporting requirements
- (g) regulatory, legislative or other policy approaches in other countries

1. Background on the Global Reporting Initiative

The Global Reporting Initiative is a global non-profit organisation, governed by an international multi-stakeholder Board and advised by a Stakeholder Council and a Technical Advisory Committee. Its operations are coordinated by a lean secretariat of professional staff based in Amsterdam. GRI has a global network of experts from accountancy, business, civil society, investment, labour and others, who contribute on a voluntary basis to the governance of GRI and to the development and dissemination of GRI's *Sustainability Reporting Guidelines* and wider framework.

GRI's purpose is to make sustainability reporting as common and widespread as financial reporting so that it will be routine for companies and other organisations to account for the contributions they make to - and the impact they have on - the globe's natural resources, societies, and economies.

To this end GRI publishes regularly updated *Sustainability Reporting Guidelines*, which offer reporting organisations and users of reports a globally common set of principles and indicators for sustainability reporting. The *Guidelines* are equally applicable to for-profit and not-for-profit organisations and are complimented by an expanding collection of Sector Supplements and other resources – together with the *Guidelines* these form the *GRI reporting framework* which are produced as a Global Public Good and are made freely available.

Sector Supplements are designed to be used in conjunction with the Guidelines, and provide sector specific guidance that helps to interpret the Guidelines, and offers new indicators to ensure that reporting meets the focused needs of industry sectors and their stakeholders. Supplements are available for: Automotive, Financial Services, Mining and Metals, Public Agencies, Tour Operators, Telecommunications, and are under development for Apparel and Footwear, Energy Utilities, and Logistics and Transportation.

As of 1 August, 700 organisations in 51 countries have declared their use of the GRI *Guidelines* which have been translated into 9 languages.

To assist users of the reporting framework GRI is developing supporting services in the area of capacity building and training, along with monitoring and communications about the evolving global trends in sustainability reporting. These are scheduled to roll out when GRI releases the next iteration of the *Guidelines* in late 2006.

2. Responsibility of decision-makers to stakeholders other than shareholders.

Sustainability performance i.e. the social, environmental and economic impact of an entity's activities is now an important element in the current discourse on good governance. Whether we call it corporate citizenship, corporate social responsibility, accountability or triple bottom line – it has now become generally accepted that companies have a significant role to play in working towards a solution to the sustainability question and it is in their business interest to do so.

In a world constrained by issues which all relate to sustainable development – water scarcity, land degradation, biodiversity loss – successful companies need to meet these constraints with innovative solutions not only to increase efficiency but also to give them a competitive edge in the marketplace. It makes good business sense to do so.

Twenty years ago the relationship between good corporate governance and shareholder wealth creation was not clear – now that connection is well recognised. The link between good sustainability performance and long term shareholder value will clearly follow the same path over the next decade.

Whether motivated by a public relations exercise, a search for the competitive edge or a genuine acknowledgment of the need to change, the impetus for business and other organisations to put environmental and social performance on high their own agendas has thus far been driven primarily through risk management. What is at risk is a company's most precious asset, its reputation.

Risk management is an iceberg. Financial performance is the most visible aspect of a company's operation. However often hidden below the surface a company's non-financial performance can badly damage corporate reputations. There are many examples where non-attention to environmental performance has had a significant impact. Major corporations also need to negotiate their place in society on a much broader range of social indicators. They now need to enter into a form of social contract with a broad range of stakeholders as customers, consumers and others are demanding to be consulted on those aspects of corporate activity which impact on them directly.

Attention to the non-financial impacts is not all negative. Opportunities for cost reduction can be identified through drivers such as pollution, consumption and waste which can then lead to introduction of clean technologies with repositioning for the future.

In a world captured by short-termism, the focus in the future will turn to long term shareholder value rather than on quarterly returns. So what started with risk management is now moving more to long term value creation.

3. Alternative mechanisms to enhance consideration of stakeholder interests

Just as good sustainability performance is being recognised as good for business so too is the need for transparency and public disclosure. To many in the NGO world, the concept of Corporate Social Responsibility (CSR) is highly suspicious. Many regard CSR, with some justification, as elaborate greenwash. At the 2003 World Economic Forum the issue of trust was highlighted by a survey indicating that trust in global and large national companies was only just beaten by politicians as the most untrustworthy in society.

A credible and transparent reporting process is important as an external communication mechanism, facilitating dialogue between a company and its stakeholders and establishing a platform of trust. A GRI report must outline stakeholder engagement activities including a report on the process for defining an organisation's stakeholders and for determining which groups to engage, the type of information generated by the consultations and the use of the information obtained.

Increasingly we are now finding that the reporting process is also important from an internal management perspective.

For example, in a recent report by the organisation Business for Social Responsibility on *Reporting as a Process* the importance of sustainability reports as a vehicle for communicating with employees was highlighted. A number of companies said that the stakeholders with the most interest in the social and environmental performance were their very own employees. Employees want to work for a company they are proud of. One company said that the report "made a huge difference internally in terms of energy of the employees" Others said that employees use the report to help with decision-making in their jobs and that it helped create "an institutional memory" in the company.

Sustainability reports were also used as a knowledge management tool. Having information systematically gathered together in one place assisted in the flow of performance information to key decision makers internally. The process was valuable in exposing gaps in either data or policies. As the saying goes 'you can only manage what you measure' and the reporting process allows managers to track their company's performance from one year to the next. They can then focus on areas of efficiency gains and opportunities for innovation.

4. Sustainability Reporting and Regulation

One of the most frequent questions arising globally for GRI is: "When and how will the application of the GRI's *Sustainability Reporting Guidelines* and other reporting framework documents become a legitimate policy in a global, national or local legal environment?"

The answer lies in the credibility and legitimacy of GRI and the *Guidelines* as a potential basis for legislation. The legitimacy of GRI's reporting framework is directly derived from three key elements:

- The *Guidelines* are complementary to, and reinforce, the international legal framework that underpins most national legal frameworks, including the ILO Conventions, UN Declaration of Human Rights, and major environmental treaties to name a few.

- The *Guidelines* are meeting a felt need by organisations producing reports - as is manifested by the rapidly increasing voluntary use of the *Guidelines* - and a demand by information seekers – mainly the investment industry.
- The multi-stakeholder and global nature of the GRI processes with the voluntary participation and commitment from thousands of experts worldwide from the spectrum of stakeholder groups, giving their time and resources to the creation and improvement of the GRI reporting framework, and governance of the network and institution.

As a reflection of its basis of legitimacy, GRI remains neutral on the role of regulation in sustainability reporting. The international multi-stakeholder engagements have revealed a diversity of views on voluntary vs mandatory reporting. In some jurisdictions and cultures regulation is seen as a positive instrument, while others follow alternative approaches such as economic incentives. Currently, there is not a global consensus on the issue of regulation, not even within the business community or within civil society. Until such time as a mutual understanding evolves GRI will refrain from advocating a unified approach.

From GRI's perspective it is increased quality and quantity of reporting that is more relevant. Different approaches will be needed to achieve this goal in different places, depending on the cultural context, legal and economic frameworks, and the level of understanding between stakeholders.

It is GRI's objective, in the mean time, to continue to develop *Guidelines* that offer global and local relevance in a world where, while globalization is drawing cultures closer to each other, sovereignty is expressed differently when it comes to matters like regulation. We anticipate that the number of organizations producing GRI-based reports is likely to increase further, because they serve all parties irrespective of the regulatory position:

- The *Guidelines* are applicable to jurisdictions without regulation to demonstrate that best practice paves the way to progress.
- The *Guidelines* are also appropriate where regulation is followed as they provide an agreed upon set of principles and indicators for use by any organization.

The 2002 *Guidelines* were a first step in this direction, and the G3 *Guidelines* for release in 2006 will take this to the next level. Our stakeholders have given GRI a strong signal that the G3 *Guidelines* need to be of a quality that whether used in a voluntary environment, or a strongly regulated political culture, they will encourage more informative, more transparent, and more comparable reporting.

5. Some policy approaches in other countries

- The Institute of Directors for Southern Africa released a groundbreaking contribution to the field of corporate governance in 2002 in the form of the "King Report on Corporate Governance for South Africa" which lays out a code of conduct that companies should follow and includes regulatory recommendations that non-financial and sustainable development issues should be considered, managed, and reported by boards both with and without the presence of legislation. www.iodsa.co.za
- The Certified General Accountants Association of Canada recently released a comprehensive study entitled "Measuring up: A study on corporate sustainability reporting in Canada." It takes stock of current legal frameworks, reporting trends, and sets out recommendations for the future. www.cga-canada.org

- The United Nations Environment Programme (UNEP) recently commissioned a worldwide study of different approaches to sustainability reporting regulations. It provides an overview of different national approaches and some analysis on these. This is obtainable from Mr. Cornis van der Lugt of UNEP, Paris. cornis.lugt@unep.fr

Many of the leading practitioners in GRI's global network are from Australia, and some of the global best practice examples of sustainability reporting by corporations have emerged from Australian companies. Australia is also the global pioneer in building capacity for reporting by public entities as evidenced by the support of various levels of government for GRI's recent Public Agency Sector Supplement (a reporting framework for agency's) and the opening of the Centre for Public Agency Sustainability Reporting which is a collaboration among GRI, City of Melbourne, State of Victoria and hosted by ICLEI-ANZ in Melbourne. The Centre should be approached directly for their views on what role regulation may play in the Australian context.

Thank you for the opportunity to make these observations. I would be happy to provide any further information if required – my contact details are below.

Yours sincerely

Judy Henderson

Dr. Judy Henderson
Chair of the Board of Directors
Global Reporting Initiative

"Roslyn"
Repton
NSW 2454

Tel: 02 66554237
Fax: 02 66554238
Mobile: 0414 754 237
Email: judy.henderson@tpg.com.au

CC.

- Ernst Ligteringen, Chief Executive (The Netherlands)
- Linda Funnel-Milner, National Australia Bank. Chair of the GRI Stakeholder Council (Sydney)
- Michael Nugent. IFAC. Member of the GRI Technical Advisory Committee (Melbourne)
- Robyn Leeson, Director of the Centre for Public Agency Sustainability Reporting. (Melbourne).

Enclosures:

- Annex 1: Australian organizations that have used the GRI Guidelines to report

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- AMCOR
- Anglo Coal Australia (Anglo American)
- Argyle Diamonds
- Australia Commonwealth Department of Family & Community Services (FaCS)
- Australian Ethical Investment
- Australian Gas Light Company (AGL)
- BHP Billiton
- British American Tobacco Australia
- City West Water
- Department of the Environment and Heritage (DEH)
- Energex Limited
- Ford Australia - Broadmeadows Assembly Plant
- Ford Geelong Assembly Plant
- Forests NSW
- Grampians Wimmera Mallee Water
- Insurance Australia Group
- Integral Energy
- Landcare Australia
- Landcom
- Loy Yang Power
- MIM Holdings
- National Australia Bank
- Newcrest Mining
- Origin Energy
- Port of Brisbane Corporation
- Ports Corporation of Queensland
- QCL Group
- Singtel Optus
- Sydney Water
- Tarong Energy
- Telstra
- The Water Corporation
- Thiess
- VicSuper Pty Ltd
- Visy Industries
- Western Mining Corporation Resource Ltd (WMC)
- Westpac Banking Corporation
- Yallourn Energy