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24 March 2006

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

Dear Sir/Madam

The Centre for Corporate Public Affairs is pleased to provide a submission to the Parliamentary Joint Committee on Corporations and Financial Services' Inquiry into Corporate Responsibility.

The Centre for Corporate Public Affairs was established in 1990 in response to demand from corporate and public affairs professionals for a support organisation for their activities. It has around 120 members from the ranks of corporate Australia, industry associations and government business enterprises. The Centre provides professional development and training, ensures peer group dialogue and mutual learning and conducts and provides access to the latest research on public affairs best practice internationally.

Please find attached a copy of our submission.

Best regards,

A handwritten signature in blue ink, appearing to read 'Wayne Burns', is written over a light blue circular watermark that contains the text 'The Centre for Corporate Public Affairs'.

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Submission to the Federal Parliamentary Inquiry into Social Corporate Responsibility in Australia

Wayne Burns, Director, Centre for Corporate Public Affairs

The state of corporate community involvement in Australia, based on the efforts and expenditure of large organisations, including many members of the Centre for Corporate Public Affairs (see Appendix A), is in good shape.

The Centre will leave to its member organisations and their submissions to the Inquiry the opportunity to highlight and discuss their individual corporate social responsibility commitments and involvement.

The Centre's submission, however, makes two primary observations.

The first is that many Australian corporations have developed sophisticated approaches to involvement in the community that is at or leading international best practice. This has occurred without government regulation or legislation or the hint of such compulsion.

The second observation is that corporate community involvement in Australia among large organisations is continuing to evolve, and has entered a "Third Wave" of development, again free of government or agency directives or legislation.

This Third Wave of corporate community involvement is being guided by community expectations and has been swelled by companies seeking competitive advantage.

It is also being pushed by more employees, in a tight skills market, wanting to work for corporations that have community values and genuine commitments to the communities in which they operate. In this market, corporations are also motivated to develop sophisticated approaches to corporate social responsibility (CSR) to retain and attract employees.

Market-driven corporate community involvement

How corporations interact and involve themselves in the Australian community in the societal sphere has developed largely without government intervention. Most activity has been 'beyond compliance' with the nation's laws and regulations.

Reasons for this include:

- international and local competitive pressures for corporations in Australia to differentiate themselves from competitors to be a neighbour choice, employer of choice, supply chain partner of choice and investment vehicle of choice;
- decisions by corporations to focus on their long-term sustainability by engaging with and investing in the community to maintain permission or “license” for the corporation to continue to operate over a sustained period;
- competitive pressures setting new, non-regulated benchmarks for engagement with and involvement with stakeholders, including community stakeholders;
- changing community expectations about the role of governments, NGOs and corporations;
- deliberate Board and management decisions to look for opportunities to invest in the community where there is a common and shared business and community benefit; and
- providing company staff with opportunities to participate in and guide corporate investment in communities as part of attracting and retaining good employees, and better engaging existing employees in a competitive market for skills.

The work of the Centre over the past 15 years — including its association with affiliates internationally including the Boston College Center for Corporate Citizenship, the Public Affairs Council (US) and the European Centre for Public Affairs — suggests Australian corporations are at or ahead of world best practice in many areas of corporate social responsibility (CSR).

There are numerous reasons for this, including that a number of Australian industry sectors have been at the forefront of CSR activity internationally.

The mining industry in Australia was one of the first sectors to lead the way in CSR activity in the 1970s and early 1980s, after stakeholders demanded it better engage the communities in which it operated. The key issues the community wanted addressed were land access, indigenous employment and environmental impact. These issues were linked with the social and community license to operate.

Australia's banks are acknowledged internationally as leading corporate social responsibility and community involvement efforts in their sectors. Bankers have acknowledged publicly that their efforts to engage with and invest more in the community is a result of stakeholders being very critical of the behaviour and engagement of banks with their customers in the 1980s. Corporate social performance is also now very much a part of the weaponry of the major Australian banks.

The integration of Australia into the international economy since the mid 1980s has exposed corporations here to competitive pressures that did not exist in the 1970s or early 1980s. More competition (and for companies who also operate offshore, a completely new suite of stakeholders) has forced corporations to better understand and interpret community expectations so that they can grow and remain profitable.

Australia also shares with other developed nations a new generation of business executives, many of whom believe there can be a commonality of shareholder and wider societal interests in areas such as the environment, education and skills, literacy and crime reduction. This has seen some corporations capitalising on what leading UK CSR commentator David Grayson calls 'corporate social opportunity'¹, where corporations look for 'win win' opportunities for their shareholders and the community in their community involvement.

How Australian companies stack up internationally

The USA

Most large corporations in the US are now only just beginning to move from a community involvement mindset, anchored firmly in arms-length philanthropy, to a more active model of engagement and partnership with non-government organisations (NGOs) to address societal and community issues.

And despite the US's reputation for high levels of philanthropy, performance is stronger in some sectors and regions than in others.

Until now, the vast majority of formal community involvement by large corporations has been via third party philanthropic trusts or national community-focused organisations such as The United Way.

There are notable exceptions to this prevailing approach, but the US is recognised by leading academics who study this area (including those from the Boston College Center for Corporate Citizenship) to be in transition from a

¹ Corporate Social Opportunity, David Grayson and Adrian Hodges, Greenleaf Publishing, UK, 2004



community involvement model dominated by philanthropy to one where active community involvement will be more common. The Centre, based on its regular International Best Practice Study Tours to the US, has also noted this transition.

Because of the scale of the US market, the scale of its large corporations and the prevalence of corporate philanthropy, companies in the US *do* have excellent infrastructure and systems to facilitate their employees donating money and time to community projects and charities (again, often through a third party such as The United Way.)

More corporations in the US that have domestic operations only are looking for opportunities to relate corporate community involvement to their business objectives and operations as a way of securing community license to operate, strengthening reputation and as a means of engaging stakeholders, including employees.

Leaders in this regard include Federal Express, Starbucks, KPMG, StateFarm, Levi's, Timberland, 3M and IBM.

Large corporations that operate internationally, especially in resources and financial services, have a more developed approach to CSR and stakeholder engagement.

The transition in the US is occurring in the absence of specific legislation or regulation.

The UK and Europe

In Western Europe, and the UK particularly, there is a more developed expectation than in Australia among stakeholders of large corporations that companies will partner with NGOs and governments to address community and societal issues. Such expectations are tethered to the social-democratic and corporatist traditions of government that have developed since World War II.

In the UK (but less established in Australia) companies often focus their prime community involvement efforts through a coordinating vehicle. This is manifested in the UK by the very successful and authoritative Business in the Community (BITC). It works with 700 of the UK's leading companies on projects and initiatives to improve the nation's health and education, reduce homelessness, improve life opportunities for disadvantaged young people and strengthen environmental outcomes.

(The Australian Business Community Network has been established in Australia by senior business executives, led by Insurance Australia Group's Michael Hawker, and overseen by the Network's Chief Executive Carey

Badcoe. It is playing a similar role to BITC in Australia. Its focus is skills and education for young people.)

Of special interest to the Inquiry may be that the evolution of corporate social responsibility and corporate community involvement in the UK has also occurred in the absence of government legislation or agency regulation.

Government has only played an active role to date in working with BITC in an effort to develop a universally accepted CSR reporting system for the purposes of public accountability.

Indeed, many NGOs, including BITC, counsel against CSR legislative or regulatory compulsion in the UK or the rest of Europe.

They argue — and especially in the face of noises from the European Commission that it may be interested in setting minimum CSR standards — that innovation in CSR as companies search for competitive advantage and consumer and stakeholder expectations have spawned and now drive the CSR efforts of many large UK corporations.

They argue that regulation would create a “lowest common denominator” approach to CSR, stifle innovation and smother progress.

In the UK, the Government has created an online “CSR Academy” for business, which is essentially a website to assist small and medium enterprises boost and bolster their CSR efforts.

Asia

In Asia, where the Centre services members, conducts research and offers professional development opportunities, multinational corporations are at the forefront of formal corporate social responsibility activity.

Multinational corporations trading in Asian nations have for some time been juggling the different expectations of stakeholders across disparate markets — including those at home. Many of these corporations have highly developed community involvement expertise.

As well, philanthropy has been used by multinationals and home-grown conglomerates in Asia as a means of engaging with governments and stakeholders, and as a key tool to support access to markets.

Large, homegrown corporations domicile in Asia operate across the entire spectrum of community involvement — from no involvement to formal activities reported annually to stakeholders. Because of the massive diversity of cultures and nations in Asia, community expectations and corporate

community involvement activity varies dramatically. So do community expectations about the role of corporations, NGOs and governments.

Home-grown philanthropy in Asia has in many instances been characterised by philanthropic bequests and projects sponsored by wealthy Asian family companies, post substantial wealth having been generated by those enterprises.

The Third Wave of community involvement in Australia

Research by the Centre and data and information collected from Australian corporations suggests that Australia is in the midst of a 'Third Wave' of corporate community involvement, first identified by the Centre in 2003.²

Since the 1990s, the evolution of corporate social responsibility and corporate community involvement has included:

Phase	Timeframe	Phase of corporate community involvement
First Wave	Early 1990s	Discretionary and cheque-book philanthropy. Little reporting of activity.
Second Wave	Late 1990s	More strategic approach to corporate community involvement based on a business case. Most activity in manufacturing and resource sectors. Move to CSR reporting.
Third Wave	Present	Strategic corporate community involvement involving more partnerships with NGOs and more focus on societal issues based on mutual interest and community expectations. Now includes most sectors of the private economy. Financial services and IT have been especially active. CSR reporting is common.

Source: Centre for Corporate Public Affairs, 2006

First Wave – Philanthropy

An excerpt from the Centre's 2005 Newsletter that looks back on key developments since the Centre was founded in 1990, authored by Centre

² Community Involvement — A Third Wave, Dr Dahle Suggett, Centre for Corporate Public Affairs Newsletter, Vol 13, Number 1, 2003.

Chairman Geoff Allen, summarises neatly the First Wave of corporate community involvement in Australia.³

“In 1990 ‘Philanthropy’ was still the word used in Australia to describe corporate social contributions, although, as today, there was a blurred line with marketing oriented ‘sponsorship’”.

The first Newsletter, in 1991, reported “an interesting start....to measure and better understand philanthropy in Australia”. The study sponsored by The Australian Association of Philanthropy concluded, inter alia:

- corporations are reactive, rarely seeking out suitable beneficiaries;
- budgeting limits, if set, are arbitrary;
- most have no strings or corporate benefits attached;
- companies rarely develop, or at least publish, criteria for philanthropy. Often this is because of the view that this would lead to a flood of requests.

That same edition announced President Bush (Snr) had just launched the Points of Light Foundation to encourage community service initiatives, including volunteerism.

Within six months the Centre Newsletter was discussing “strategic philanthropy”. One observer was quoted calling this “cleverly positioning” to create relationships based on trust. Reflecting new management literature and the current corporate direction, the US Public Affairs Council was quoted as differentiating strategic philanthropy from

“charity...

- based on long-term corporate self-interest;
- owned by top management, but involving operating people;
- clearly defined objectives and well planned;
- objective evaluation criteria;
- actively managed and evaluated for results;
- linked to proactive (not reactive) issues analysis”.

This was a major shift, quickly taken up and explored in the Newsletter, and particularly in a 1994 Centre workshop styled Corporate Giving (sponsorship/philanthropy) in which a dozen companies elaborated on their journey towards modern concepts of corporate social engagement.

³ The Centre Turns fifteen, Geoff Allen, Centre for Public Affairs Newsletter, Vol 15, Number 1

Some Australian corporations maintain a philanthropic focus as part of their overall CSR efforts, but for most, this is just one aspect of their CSR approach and activities.

Again, this is in stark contrast to the US where many major corporations believe they discharge their corporate social responsibility through philanthropic activity, including corporate donations to Trusts that operate independently and may have no links to the corporation, its stakeholders or the community in which it operates or its employees.

Second Wave — the business case arrives

In 2000, the Centre and the Business Council of Australia collaborated on the study *The Business Case for Community Involvement*, published by the Prime Minister's Business and Community Partnership.

This study, which captured the view and activities of 155 large Australian corporations, established that major Australian companies believed they had a role beyond Milton Friedman's assessment that the primary business of business, is business, and that shareholder considerations are the only considerations that really matter.

Many of these businesses were prepared to invest staff time, resources and funds in community involvement if such activity was supported by a business case. The research indicated that some corporations were developing formal approaches and systems to make such judgements and to test opportunities.

The corporation hoped that such involvement would enhance its reputation, help forge better relationships with community stakeholders, help secure community license to operate and boost employee morale.

The sales and marketing and brand benefits of CSR were important for many companies during this Wave. Sports and cultural sponsorships remained an important part of the community involvement mix.

The lion's share of CSR activity during the Second Wave in Australia could be found in the manufacturing and resources sectors.

The Third Wave

Since the 2000 research, the Centre has noted a Third Wave of corporate community involvement.

One of the most important developments during the Third Wave is the development of sophisticated approaches to corporate community

involvement in the services sector — especially IT, financial services and telecommunications.

As noted by the Centre in its 2003 first quarter Newsletter⁴, corporate community involvement via partnerships with NGOs and direct community investment has evolved to be separate from sponsorship or philanthropy activity. Today, philanthropy is a less important part of the mix for corporations.

The Third Wave is also characterised by corporations proactively assessing community involvement to identify ‘win, win’ opportunities whereby the interests of community stakeholder can be enhanced or protected while also providing a benefit to the corporation. This benefit may be enhanced reputation, opportunities for employee engagement, engagement with a fence line community or important customer catchment.

Our observation is that corporations are now very focused when approaching community involvement opportunities. They are also more concerned than ever before that its CSR activity produces results, rather than grabbing media attention. Frequently, corporations are concerned that media reporting of their involvement may be perceived cynically in the community, and until the involvement racks up some successes, shy from media coverage.

Rather than community involvement being the preserve of management by public affairs areas in corporations, the Third Wave also involves efforts to ‘deepen’ the capacity of many more layers of the company to manage and engage employees around CSR activity. It is also characterised by active efforts to affect a skills transfer from corporation to NGO/community, and from NGO/community to the corporation.

Increasingly in Australia, corporate Boards and executive management teams have committees overseeing CSR policy, direction and activity. CSR is becoming an across-the company concern, with policy and direction set at the highest levels. This confirms its growing importance to how companies operate and sustain themselves.

Finally

The Centre has noted significant developments, and against international activity, progress in the approach that Australian corporations have taken to CSR and their community involvement since the 1990s.

⁴ Community Involvement — A Third Wave, Dr Dahle Suggett, Centre for Corporate Public Affairs Newsletter, Vol 13, Number 1, 2003.



The embrace of CSR — a beyond development that sees corporate activity beyond any need to comply with laws or regulation — has occurred without the compulsion of regulation or legislation.

Australian corporations are in the midst of a Third Wave of corporate community involvement, characterised by sophisticated partnerships with NGOs and community projects, looking for 'win, win' opportunities. Much of this activity is at or leading world best practice in this area.

Appendix A: List of Centre members

ABB Grain	Local Government Association of Queensland
ADI	Loy Yang Power
Alinta	Macquarie Bank
Airservices Australia	Mayne
Alcoa World Alumina Australia	McDonald's Australia
Ancor Australasia	Medibank Private
AMP	Merck Sharp & Dohme (Australia)
ANZ Banking Group	Microsoft Australia
Australia Post	Minerals Council of Australia
Australian Automobile Association	Mitsui & Co (Australia)
Australian Local Government Association	National Australia Bank
Australian Prudential Regulation Authority	Newmont Australia
Australian Tourist Commission	Nestlé Australia
Australian Training Products	News Limited
Australian Pesticides and Veterinary Medicines Authority	New Zealand Automobile Association
Australian Rugby Union	Novartis Pharmaceuticals Australia
Aviva Australia	NRMA Motoring & Services
AWB	Origin Energy
BankWest	Pacific Coal
BHP Billiton	Powercor Australia
BlueScope Steel	Powerlink Queensland
Boral	Prime Minister's Community Business Partnership
BP Australia	Promina Group
Brambles Industries	Qantas Airways
Bristol-Myers Squibb Pharmaceuticals	Queensland Energy Resources
British American Tobacco Australia	Queensland Transport
Business Council of Australia	RailCorp
Caltex Australia	RACV
Chevron Australia	Rinker
Citigroup Australia	Rio Tinto
City of Sydney	Roads and Traffic Authority, NSW
Coca-Cola Amatil	Santos
Coles Myer	Sensis
Commonwealth Bank of Australia	Shell Australia
Connex Group Australia	Sinclair Knight Merz
CSIRO	SingTel Optus
Dairy Farmers Group	St George Bank
Deutsche Bank	Tattersall's
Diageo Australia	Telstra Corporation
Downer EDI	Tourism Tasmania
Energex	Toyota Australia
ETSA Utilities	Transfield Services
ExxonMobil Australia	Transport Accident Commission
Foster's Group	Transpower New Zealand
Freehills	TRUenergy
GE	Unilever Australia
GlaxoSmithKline	University of Melbourne
GRD	University of Wollongong
Hamersley Iron	Visa International
HBF Health Funds Inc	Wesfarmers
Holden	Western Power Corporation
Hydro Tasmania	Westpac Banking Corporation
Insurance Australia Group	Woodside Energy
Insurance Council of Australia	
Integral Energy	
Investment & Financial Services Association	
James Hardie Industries	
Johnson & Johnson	
JP Morgan	
Kimberly Clark Australia	
Kraft Foods	
Land & Water Australia	
Leighton Holdings	