

15 September 2005

The Committee Secretary
Parliamentary Joint Committee on
Corporations & Financial Services
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

Inquiry into Corporate Responsibility

The Group of 100 (G100) representing the Chief Financial Officers of large business enterprises in Australia is pleased to respond to the PJC's invitation. The G100 supports initiatives by its members and other corporations to develop reporting initiatives in respect of triple bottom line reporting. In order to facilitate the understanding of members, the G100 produced "Sustainability: A Guide to Triple Bottom Line Reporting" in 2004. This guide can be downloaded from our web site (www.group100.com.au).

Our responses to the questions raised by the PJC are set out below.

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

The G100 considers that directors are required to consider broader interests in addition to those of shareholders under their current obligations. Directors have a first duty to the interests of the company and would be derelict in their duty if they did not seek to ensure the long-term financial performance and health of the company. It is only by doing so that a company will continue to grow and add value to the community in which it operates. In order to do so directors must ensure that the company continues to give appropriate recognition to the concerns and expectations of the community.

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

While there may be instances where directors have abrogated their responsibility the G100 believes that, in the vast majority of cases, directors take account of a broad group of stakeholders including shareholders, credit providers, employees, regulators, government and the community in discharging their obligations. This is also emphasised in Principle 10 of the ASX Corporate Governance Council recommendations.

- c. *The extent to which the current legal framework governing directors' duties encourages or discourages them from having regard for the interests stakeholders other than shareholders, and the broader community.*

The G100 does not consider there is any need to change the present current legal framework under which a director is required to act in the best interests of the company. Under the present requirements directors may also respond to changes in community expectations about corporate behaviour in order to enhance the longevity of the company and to preserve its "licence to operate".

- 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 G100 considers that mandating change is unnecessary in view of the current Corporations Law and other requirements. In many of these areas, as evidenced in the Business Council of Australia findings, the imperative is to remove regulatory duplication and contradictions rather than to impose another layer of requirements which may inhibit progressive behaviour on the part of companies and directors. The best encouragement for entities is to create an environment in which experimentation with reporting in this evolving area is able to flourish. In a competitive environment the priorities and reporting of leading companies will induce improved reporting by other companies in response to changes in community expectations. This is unlikely to occur under a mandatory regime.

This approach is consistent with the view of the co-chair of the World Business Council for Sustainable Development 'Beyond Reporting' project that "leading companies build sustainable businesses by embedding strong governance and corporate responsibility into their strategies and culture. By earning the trust of their employees, communities, trading partners and the capital markets, companies with a culture of corporate responsibility are able to generate value where others cannot".

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

As indicated above, reporting on non-financial and sustainability issues is in its infancy and improvements will occur as a result of experimentation by different types of companies.

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

At present there are no formal reporting requirements other than requirements in respect of matters to be dealt with in the directors' report. The G100 considers that the current position is appropriate at this stage of development. Specifying requirements and imposing a "one size fits all" approach is likely to impede promising developments. In addition, in respect of listed companies, good reporting practice should lead to discussion of corporate performance on these matters in compliance with requirements for a review of operations and financial condition.

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

In view of the current requirement that directors act in the interests of the company, the G100 is not aware of approaches in other jurisdictions that should be transplanted to the Australian environment. However, in view of current approach to Trans-Tasman co-ordination on business law the G100 believes that, at a legislative and regulatory level, the issues should be addressed in conjunction with New Zealand.

The G100 considers that at the present stage of development of reporting on these issues it would not be appropriate to champion/require/adopt a particular approach when flexibility and experimentation with different approaches in applying competing methodologies is occurring. Current approaches which are popular may soon be superseded by other approaches as techniques and measurement methodologies evolve. In these circumstances it would be unfortunate to mandate an approach on the basis of a current fashion.

Yours sincerely

Tom Honan
National President