Response by Positive Outcomes to Parliamentary Joint Committee on Corporations & Financial Services

Inquiry into Corporate Responsibility

September 2005

Introduction – who we are

Positive Outcomes is a specialist corporate social responsibility advisory firm. We assist companies to develop their own picture of what corporate social responsibility (CSR) means to them in their business today. It starts from what they are already doing and builds from there.

CSR is complex. Companies know they should be doing more but often don't know where to start or what the end point should look like. At Positive Outcomes we help companies work this out and our speciality is making sense of the social dimension of CSR. Positive Outcomes has extensive experience working with a broad cross-section of major corporations in Australia and New Zealand including GBE's and government departments. We are proud of the fact that many of our clients are regarded as leaders in corporate social responsibility.

We have prepared this submission to the inquiry in response to the Terms of Reference set out on 23rd June 2005. We welcome an opportunity to appear before the Joint Committee to elaborate further on our ideas in relation to corporate responsibility and triple bottom line reporting for incorporated entities.

Interests of stakeholders other than shareholders

Positive Outcomes is strongly of the view that companies, and in particular organisational decision-makers, must clearly take account of the interests of stakeholders other than shareholders in developing company policy, strategies, and behaviours that will by implication have an impact on others apart from shareholders.

Present Company Law is relatively unclear in relation to stipulating the extent to which company directors and company decision-makers should have regard to stakeholders other than shareholders. In Australia, organisations such as the Institute of Company Directors, the Association of Shareholders and the Business Council of Australia have tended to take a rather narrow and legalistic interpretation of the responsibilities and duties of Directors as set out in existing legislation.

This can be contrasted sharply with the behaviour of leading edge companies and market leaders both in Australia and globally who make it very clear that it is strategically intelligent to take account of the interests of a broad range of stakeholders beyond shareholders.

Positive Outcomes supports this notion which in turn drives stakeholder engagement and relationships in companies as diverse as Rio Tinto, BHP Billiton, Shell, Cisco Systems, Westpac, Unilever and Vodafone. All of these companies are market leaders who adopt a broader interpretation of the responsibilities of decision makers to take account of stakeholders beyond shareholders.

A significant group of stakeholders are *future investors*. Today's shareholders must recognise that they have a responsibility to conserve the assets of the company, and by extension the context in which it is able to generate revenue, so that future shareholders will also have a right to achieve a reasonable level of return on their investment.

It is vital that company directors and organisational decision makers take into account the long term nature of investments, specifically where funds are held by superannuation companies. For many such investors if companies do not take account of broader long term considerations, it is unlikely that their investment will provide the income that they need to sustain them over a long period of time.

Clearly, with the advent of compulsory superannuation and the great rise in shareholdings within the general population the time has come for a broader debate and discussion in our society about the expectation we have on companies to consider long term, as well as short-term returns.. The issue of whether this needs to be provided for in detailed legalisation is quite open. We recognise that this is an area that needs careful discussion, as the role of stakeholders in a company is not clear-cut. However, there is a role, and it needs debate.

One clear area for this debate is to what extent a company pays for goods and services that it draws up to create wealth, but does not in fact pay for. Access to clean water, clean air and an educated workforce are just some examples of that.

Positive Outcomes believes that the existing legalisation should be amended to clarify the duties and responsibilities of directors as well as organisational decision makers to take account of a broader range of stakeholders. HOW this is done is an area for informed consultation and debate.

An important step in accountability to a wider group of stakeholders is through **performance reporting**. Current legislation requires companies to account to shareholders though the annual reporting processes and though continuous disclosure provisions matters that impact on shareholders and their interest. It is a logical next step that the legislation should be revised to require similar accountability through annual reports to this broader stakeholder group on the performance of the group, in terms of its environmental and social impacts.

Positive Outcomes believes that clarification of the legislation in this regard will not be an unreasonable burden on companies. Neither will it require addition red tape or onerous compliance requirements; instead, it will clarify the situation and enable directors and organisational decision makers to be clear on such a broader focus.

Accountability and a legislative framework

Currently a number of voluntary compliance codes provide considerable guidance and advice to companies around accountability and reporting in relation to corporate responsibility. Examples of these include:

- Global Reporting Initiative (GRI)
- the UN Global Compact
- the OECD Guidelines for Multinational Corporations.

In Australia, through Environment Australia, we have a very sound framework for environmental reporting: *A Framework for Public Environmental Reporting – An Australian Approach*. By 2003, approximately 100 companies published reports. In

2003, Environment Australia published a Guide to reporting against environmental indicators[1], in line with the GRI. (a similar Guide for social impacts was prepared but has not, to our knowledge, been published).

In relation to the UN Global Compact – over 1,200 companies have signed up to this. This is a very small proportion of companies globally, for this voluntary set of principles. Yet it is a very sound set of principles, based on existing UN conventions.

There are good tools around; there now needs to be greater incentives to use them.

Positive Outcomes believe that these voluntary frameworks and initiatives provide a considerable opportunity for companies to build a framework for accountability and reporting of their social and environmental impacts and performance.

We believe further that legislators need to strike a fine balance between encouragement and legislative compliance measures. It is clear that a legislative compliance framework has had a very positive impact on occupational health and safety, diversity, equal employment opportunity and in some cases environmental performance.

In relation to social responsibility however, Positive Outcomes believes that given the complexity of social impacts of business there is much more to be gained from an encouragement and guidance strategy than from a legal compliance framework.

One of the most important things that is needed to encourage initiative around social responsibility is for government to demonstrate leadership and to encourage excellence in social responsibility performance and accountability. This must go far beyond community-business partnerships.

Positive Outcomes believes that until the Australian Government exercises significant leadership of this nature it is premature to suggest that social responsibility will be better served by creating legislative compliance requirements in this very complex field.

There is already a raft of legislative compliance requirements for many elements of a company's social and environmental responsibility. Existing environment law, work place relations law, human rights legislation, freedom of association legislation, freedom of information and privacy laws and well as occupational health and safety laws provide significant compliance responsibilities on companies in matters pertaining to corporate social responsibility.

Internationally, Positive Outcomes believes that the most significant advances in encouraging both greater social responsibility and accountability of organisational decision makers to a wider range of stakeholders has come from initiatives which demonstrate significant leadership and reward excellence and outstanding performance as apposed to mediocre compliance.

The UK model of the Minister of Social Responsibility is a model that Positive Outcomes strongly endorses as it has had a particularly good impact and has served to highlight leadership and excellence in social responsibility behaviour and performance.

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[1] *Triple Bottom Line Reporting in Australia: a guide to reporting against environmental indicators* Environment Australia June 2003

Accountability and reporting

Reporting on social and environmental impacts is a key step to companies seeing corporate responsibility as a way to ensure business practices create value and progress towards sustainable development. It serves the dual purpose of:

1) giving businesses a framework to assess their environmental and social impacts, and to link this to their business strategy

2) giving stakeholders the opportunity to understand what a company is doing, and then make their judgements about its performance. This is enhanced if the company uses the GRI framework.

There are many diverse and creative approaches that companies take, in response to the growing prominence of corporate responsibility. There are strong expectations on companies from society and the markets about how they manage their impacts. But these are uneven. Companies with a significant brand and reputation to protect will give more attention to the market, than other operators who do not have a global brand to protect.

Does reporting make a difference to corporate responsibility? In itself – not necessarily. Companies who have a significant brand and reputation to enhance and protect will invest in sophisticated sustainability reports, and this is expected of them. Yet the bigger challenge is to drive corporate responsibility to the core of business strategy, rather than it being seen as a voluntary add-on and a glossy sustainability report.

Yet it is a significant step for companies, and we believe we need to 'raise the bar' on how companies communicate to stakeholders about their performance. Reporting on social and environmental impacts is core to this.

Our recommendations

Positive Outcomes makes the following recommendations to stimulate the development of corporate responsibility in Australia:

1. **That Government work collaboratively with key business organisations across Australia to encourage and reward excellence in CSR performance and reporting.**

Further, and specifically we recommend that this Joint Committee Inquiry into Corporate Responsibility strongly urge Government and business organisations to:

2) **raise expectations that companies should report on their social and environmental, as well as financial performance.** We strongly advise that the GRI is the best tool to do this. While we believe this should be voluntary at this stage, there is a need for incentives and rewards through opportunities for profile and recognition.

3) **such expectations should also extend to Government, and larger non-profit organisations.** The GRI have released Public Sector Guidelines (of which the Australian Government and other Australian stakeholders played a significant leadership role). These are an excellent tool for use by these organisations.

4) **lead and stimulate debate about how to create business value through corporate responsibility**, so it is seen to be more than an ethics statement and glossy sustainability report

5) **promote existing frameworks** such as the GRI and the UN Global Compact.

6) **set up a two year consultation / debate / discussion framework** to stimulate robust debate and discussion around what corporate responsibility means to business value, from the perspective of diverse stakeholders. We strongly urge Government to use this opportunity to engage business organisations in leading this robust discussion, rather than have it led by Government alone. We believe however, that Government can have a catalyst role, through funding, and other means.

Concluding remarks

The comments contained in our submission come from over 12 years combined corporate social responsibility experience of the Directors of Positive Outcomes.

Our work with such a broad range of companies as our current client base has given us particular insight into issues of stakeholder engagement, compliance, accountability and reporting. This expertise enables us to have a unique perspective on what works best to encourage companies to exercise leadership and excellence around their social and environmental responsibilities.

We would be delighted to discuss these issues further with the Committee in person.

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