

SOCIAL RESPONSE INDEX

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Parliamentary Joint Committee on Corporations and Financial Services
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INQUIRY INTO CORPORATE RESPONSIBILITY

Dear Committee Secretary,

Thank you for the opportunity to make a submission to your inquiry.
The submission relates mainly to sections a, b, d, e, f & g

SUMMARY

- Interests of all stakeholders to be of equal importance.
- Community interests to be only an option after stakeholder interests have been satisfied.
- Changes in the accounting standards to include non-core and core contributions.
- Review of terms for profit and not-for-profit.
- The establishment of the SOCIAL RESPONSE COMMISSION which is a legislative solution with various functions.

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KEY INQUIRY DEFINITIONS:

"Regard "

to relate to; concern; have a bearing on. (Implies a tangible effect.) - *Collins English Dictionary*

"Responsible"

being the agent or cause of some action. (Implies measurable effect.) - *Collins English dictionary*

"Interests"

....concerns with something or someone - *Collins English Dictionary*

"core contributions"

Financial or in kind contributions of a charitable nature made by corporations to stakeholders other than shareholders where a direct link to a positive effect on the financial bottom line of the company can be reasonably established.

"non-core contributions"

Financial or in kind contributions of a charitable nature made by corporations to the community where a direct link of benefit to the company financial bottom line cannot be reasonably established.

a) THE EXTENT TO WHICH ORGANIZATIONAL DECISION MAKERS HAVE AN EXISTING REGARD FOR THE INTERESTS OF STAKEHOLDERS OTHER THAN SHAREHOLDERS, AND THE BROADER COMMUNITY

- A decision maker naturally concentrates on goals to succeed and can see social responsibility and the focus on the broader community as a distraction taking away resources and energy. However contributions and focus on the community and stakeholders can be part of their core business creating valuable synergies and relationships to enhance the business.
- Programs that have a benefit for the stakeholder as well as the company are numerous and to be supported. An example is the Origin Energy program of social support and advice for families who had defaulted on payments.¹ These expenses are seen as core contributions as when the families stop defaulting a direct positive effect on the business can be seen.
- Generous gifts to tsunami victims showed corporates having a regard for the broader global community. These non-core contributions (No direct positive effect on the business can be seen.) were an extraordinary response to an extraordinary event. Are there benchmarks and guidelines for these non-core type contributions?²
- Telstra when questioned³ on Corporate Social Responsibility show-cased their foundation with a budget of approximately \$5mil. This would probably be classified as a core contribution as the foundation covers a wide cross-section of the population as their service does. Do companies have the right mix and placement of core and non-core contributions to meet social need?⁴
- As a group, dentists promote the use of fluoride⁵ which is a perspective leading to potentially less business. This regard for stakeholders on an equal footing with the financial bottom line is normal and to be encouraged.

¹ Australian Financial Review 3rd Sept 2004

² See section of submission on SOCIAL RESPONSE COMMISSION for answer.

³ Q & A time at the TELSTRA 2003 AGM

⁴ See section of submission on SOCIAL RESPONSE COMMISSION for answer.

⁵ Australian Dental Association Policy statement Community Oral Health Promotion Fluoride Use www.ada.org.au/media/documents/Policies%20and%20Guidelines/April05/FluorideUse2.pdf

b) THE EXTENT TO WHICH ORGANIZATIONAL DECISION MAKERS SHOULD HAVE AN EXISTING REGARD FOR THE INTERESTS OF STAKEHOLDERS OTHER THAN SHAREHOLDERS, AND THE BROADER COMMUNITY.

- Regard by decision makers for all stakeholders should be on an equal footing with the shareholder stakeholder group. All stakeholder groups need each other. If one group at any stage withdraws their support it would be devastating for the company. Any united stakeholder group or the broader community has the power to damage or destroy a company. Fear of a negative campaign launched by any stakeholder or community group over some inadequacy in social responsibility is a motivation for most for regard. This principle is accepted by the community and used in the operation of the union movement.
- Regard for the broader community (non-core contributions) is dependent upon the extent of funds left over after all stakeholders have been adequately serviced.

When all stakeholders have been adequately serviced including the shareholders who expect a return on their investment according to risk then the decision makers can distribute excess funds as they see fit.

There would need to be checks and balances in place to ensure the distribution is appropriate:

 - The decision makers (Directors) are elected by the shareholders who appoint the CEO. If shareholders don't like policy of the directors they can be removed. If the directors don't like how the CEO operates he can be removed.
 - The company would have a policy possibly in their articles to outline the extent and nature of non-core contributions. Non-core contributions should resonate with all stakeholders and should be to a charity known and respected by most stakeholders in the company.
 - The SOCIAL RESPONSE COMMISSION would have guidelines and policies to give all parties confidence to proceed into this area of corporate social engagement.
- The mission of a company should resonate with all stakeholders. A narrow mission statement of maximum returns for shareholders does not generally inspire or motivate and is only focused on one group of stakeholders. The mission of a corporate should be service focused and allow for tangible concern for the community and all stakeholders as the corporation may be the most effective means of meeting social need.
- Decision makers should accept that their company may be the most appropriate vehicle to make a specific social impact. For example Coca Cola has reached all parts of the globe therefore their advice could be needed by for example health awareness campaigns that need saturation global penetration. This social response would be acknowledged by the SOCIAL RESPONSE COMMISSION and may in time result in a bottom line benefit to the company.

c) 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

**** LEGISLATIVE PROPOSAL 1***

REMOVE THE DOUBT IN SECTION 181

Sect 181 should be amended to clearly allow directors to include stakeholders and community interests in their responsibilities. It needs to remove the doubt that a director may be doing something illegal if they choose to give for example to the victims of disaster such as tsunamis a non-core contribution.

**** LEGISLATIVE PROPOSAL 2***

REVIEW THE TERMS FOR PROFIT AND NOT-FOR-PROFIT

The inquiry is asked to review the terms and definitions of not-for-profit and for profit in Corporations Act and other legislation, regulations where applicable. These terms are seen as inadequate and misleading for describing these companies and new terms and definitions would help herald a new era and emphasis.

The term for profit implies the following **false** impressions:

- Investors/owners expectations of a return of investment according to risk are more critical than other stakeholder interests.
- Investors/owners needs to be favoured over other stakeholder groups.
- Putting profits ahead of people or safety.
- Its existence is only for profit.
- Key Performance indicators are only financial.
- cannot give core and non-core contributions.

Not-for-profit implies the following **false** impressions:

- That there is no intention/need to make a surplus or profit.
- Less professional than for profit.
- Makes a poor return on resources.
- Non-rigorous application of Key Performance Indicators.
- Culture needs to be totally different to a for-profit corporate.
- That there is not a good return on assets.
- does not pay income tax.
- that it is a charity.

The clause to indicate that a company has non-profit character could be amended as follows by adding the bold print:

The assets and income of the association shall be applied solely in furtherance of its above mentioned objects **which includes making core and non-core charitable contributions** and no portion shall be distributed directly or indirectly to the members of the association except as bona fide compensation for services rendered or expenses incurred on behalf of the association.

** LEGISLATIVE PROPOSAL 3*

NEW ACCOUNTING STANDARD FOR COMMUNITY/STAKEHOLDER EXPENSES

"Corporate Responsibility reporting to investors is in its infancy. Extra financial reporting is only at the start of the journey."⁶

Accounts already clearly describe the amount of income that goes to shareholders as dividends.

This proposal suggests transparency in the amount of income expense that goes towards other stakeholders and the community by introducing non-core contributions and core contributions as mandatory reporting terms.

The notes section could also give some sort of breakdown of these expenses.

This would also allow for financial analysis and comparison and greater transparency. It would show when corporations are making excessive/nominal core/non-core contributions so there is accountability.

• LEGISLATIVE PROPOSAL 4

Social Responsibility compliance responsibilities existing in the corporations Act such as for Financial Product Issuer becomes the responsibility of the commission outlined in the next section.

⁶ Accounting for Good The Global Stakeholder Report 2005 The 2nd Worldwide survey on Stakeholder attitudes to CSR reporting. A Pleon Survey.

e) ANY ALTERNATIVE MECHANISMS, INCLUDING VOLUNTARY MEASURES THAT MAY ENHANCE CONSIDERATION OF STAKEHOLDER INTERESTS BY INCORPORATED ENTITIES AND/OR THEIR DIRECTORS.

*** *LEGISLATIVE PROPOSAL 5***

SOCIAL RESPONSE COMMISSION

INTRODUCTION

The will, resources, energy and expertise are all available to meet all social needs. The government needs to show leadership to set up the right conditions for corporations to have a regard for stakeholders and the community until this is the dominant culture or other forces may bring this about.

The ideal is self regulation/voluntary mechanisms where social entities can regulate themselves to be good corporate citizens.

However a legislative solution is favoured as:

- The community and stakeholders would like all companies to account for how socially responsible they have been.⁷
- Confidence can be established that corporations are addressing social concerns in an effective way.

This proposal has an initial voluntary Stage 1 followed by a mandatory Stage 2.

The commission model considers business concerns (compliance increase, cost, loss of autonomy and relevance) providing mechanisms for them to be addressed and measured.

The commission process would need to be suitably independent of government political interference to maintain its credibility. Recommendations made by the commission would need to be completely independent of political bias and made public but the government would have the final say as to their implementation.

This commission concept would hopefully be backed by all the states who would also implement supporting legislation.

The commission approach is further supported as "There is now a clear majority (59%) of international stakeholders who want CSR reports to be verified by a professional assurance or verification body."⁸

⁷ The Global Stakeholder Report 2005 Table 22 Showed over 80% of NGO's, academics and the financial community wanted mandatory reporting.

⁸ Taking Account of Corporate Social Responsibility Reports by William Baue
www.socialfunds.com/news/print.cgi?sfArticleId=1806

THE OBJECTS OF THE COMMISSION

The objects of the commission are to:

- Part 1) Recommend tax relief and exemption from regulative/legislative burdens when a social impact has been achieved.
- (Part 2) Monitor social need/response and advise corporates of areas of need and where to direct non-core and core contributions.
- (Part 3) Educate in the area of Social Response.
- (Part 4) Set general social response benchmarks and the threshold level.
- (Part 5) Publish those corporates achieving the threshold.
- (Part 6) Authorize organizations/individuals to rate corporates relating back to the general benchmarks.
- (Part 7) Accredite analysts to evaluate codes and do research. Accredite agents and officers to carry out the objects at local or other level.

Part 1 Recommend tax relief, exemption from regulative and legislative burdens when a social impact has been achieved.

Tax relief

It is based on the principle that if corporates are meeting social need then there should be a measure and tangible recognition where appropriate. This idea already clearly operates in our tax system where charitable organizations obtain tax relief. If corporates are meeting social needs that would normally be met by the charitable sector or the government this is a saving to government. As long as the tax break is less than the saving it is a win for the taxpayer and the government. The commission after consultation and analysis would recommend taxes to be abolished.

Compliance

If a group of companies are showing evidence of being able to regulate themselves in certain areas then there needs to be a net decrease in compliance requirements. They would need to demonstrate this on an ongoing basis. The commission would recommend to government these decreases. If the commission were to take over responsibility for areas of social response compliance then this could be a more streamlined flexible process not requiring legislation for adjustments in compliance.

- **Part 2 Monitor social need/response and advise corporates of areas of need and where to direct non-core and core contributions.**

As corporates seek to be effective the commission would monitor areas of need and help corporates direct their energies. The web-site would allow corporates to identify almost instantly areas of need and who is taking responsibility. This could link to other sites to obtain a worldwide perspective. This would help corporates direct their non-core contributions and also show shareholders the validity of these contributions. Corporates may also be the first to be aware of needs and as part of their social response notify the commission.

Part 3 Educate in the area of Social Response.

Schools would have mandatory curriculum and universities/TAFE would offer courses. The commission would authorize organizations to run courses/seminars to be conducted within corporates.

- **Part 4 Determine general social response benchmarks and the threshold level.**

The commission can refine general benchmarks by synthesizing a number of available benchmarks and by consultation. A threshold level would be set on the general benchmark.

An example of a corporate general benchmark is outlined in Appendix 1 with the threshold level at 6.

Part 5 Publish those corporates achieving the threshold

- Consumers would want to buy products and services from socially responsible corporations.
- Potential employees would like to be associated and work for socially responsible companies.
- Socially responsible companies would like to be recognized.
- Corporates would like to relate to and do business with socially responsible organizations.
- Investors would like to know that the companies they invest in are socially responsible.

Note: This threshold ratings may be available on the ASIC website as well as the Commission website

Part 6 Authorize organizations/individuals to rate corporates relating back to the general benchmarks.

The commission would authorize groups/individuals and allow corporates to relate to these organizations/individuals instead of directly with the commission. This allows for diversity and flexibility for example a peak body may develop their own criteria and deal with issues related more directly to their group of corporates. This also allows relationships already in existence to be strengthened and for corporates to deal with experts within their industry.

Companies with existing systems could have one of their employees become accredited as an analyst and convert what they do to a general benchmark rating. The company is then in control of their rating setting up a self-regulation process. There would be checks and balances to maintain the integrity of this system. If a company was found to give misleading self evaluation then a suitable penalty would need to apply.

Existing benchmarking organizations would become accredited and be able to convert what they see as important into a general benchmark rating.

The commission would also have the power to include certain mandatory reporting for specific groups such as already occurs in the Corporations Act for example with the financial products issuers.

- **Part 7 Accredite analysts to evaluate codes and do research. Accredite agents and officers to carry out the objects at local or other level.**

An analyst would be able to convert existing codes into the agreed general benchmark and carry out varying levels of analysis of corporates evaluating their social response.

An agent would be the representative of the commission within an organization promoting and making people aware of their objects.

A local officer would promote the commission at the local level.

MINIMUM BOARD EXPERTISE

Community, Business, Computing/IT, Legal, Accounting, Media, Government, Charity

IMPLEMENTATION

Stage 1 (Non compulsory-with incentives for involvement)

- Free sponsored training seminars for those that are quick on the take-up.
- Voluntary rating/disclosure/threshold.
- Registration of all groups authorized to do rating.
- Establishment of website
- Goals for linking of social response breakthroughs with tax and regulatory relief.
- Feedback on draft general benchmark.

Stage 2

- Finalization of general benchmark
- Threshold rating mandatory.
- Suitable penalty for not being compliant
- Implementation of regulatory and tax relief for social response trade off.

FUNDING

The commission would likely have a mix of funding from:

- Government
- Fee for service
- Corporations

CONCLUSION

Companies can see themselves being part of an innovative, worthwhile solution which is under their control : decreasing taxes/compliance burdens, meeting targeted social needs, fulfilling stakeholder/community expectation and generally improving their triple bottom line.

The community can see who are the good corporate citizens without having to understand a different complicated system of analysis for each group of companies.

This model addresses pitfalls in solutions identified by Senator Grant Chapman "an overly prescriptive reporting requirement that leads to token responses that create the illusion of progress rather than real solutions." ⁹

This SOCIAL RESPONSE COMMISSION can be supported by all, facilitating a Win! Win! Win! for corporations, stakeholders and the community.

⁹ Australian Financial Review September 27th 2005

f) THE APPROPRIATENESS OF REPORTING REQUIREMENTS ASSOCIATED WITH THESE ISSUES

The analysis process by the corporation does not need to be exhaustive and time consuming but thorough enough to accurately determine their social responsibility general benchmark rating. Companies can choose their own rating method or develop their own within guidelines prescribed by the commission.

The only publicly available information produced by the commission would be whether the company has reached the social responsibility threshold rating or not. The actual details of the rating would be up to the company as to whether they wish to disclose it.

- Public companies can easily report threshold rating via ASX.
- ASIC website is a possibility for others to report.
- The commission website would be another obvious reporting site.

Not generally appropriate for companies to simply write a statement in their annual report as this is a report to shareholders and not the general community.

g) WHETHER REGULATORY, LEGISLATIVE OR OTHER POLICY APPROACHES IN OTHER COUNTRIES TO BE ADAPTED OR ADOPTED IN AUSTRALIA

The Global Reporting Initiative (GRI) is an example of guidelines from overseas which have been adopted by larger Australian companies. These are being refined and the G3 guidelines from the GRI are to become available in 2006. These guidelines do not suit all companies but would more than likely deal with all the main areas of social responsibility that the Social Response Commission would be analyzing. This would lead to a SOCIAL RESPONSE COMMISSION threshold rating for these companies without further analysis. Companies may with time choose a more effective rating mechanism for themselves and with verification from the commission proceed down that more productive path.

FINALLY

Thank you for considering these ideas and I look forward to supporting the process you have begun in any way I can.

Yours sincerely,

Paul Gordon Smith
SOCIAL RESPONSE INDEX

APPENDIX 1

CORPORATE RATING BENCHMARKS¹⁰

RATING	FEATURES
8-10	<ul style="list-style-type: none"> • Exceptional governance practices with clear performance indicators. • Excellent standing within industry. • Outstanding communication on an issue of benefit in their area of expertise. • Great social impact in the community. • Clear effective mission strategy.
6-8	<ul style="list-style-type: none"> • Fine contribution to their industry. • Best practice in evidence in a number of areas. • Effective statement on an issue of concern and substance to the wider community. • Productive mission strategy linked to goals. • Notable contribution to the community.
4-6	<ul style="list-style-type: none"> • Credible evidence of implementation of functional key performance indicators. • Sound evidence of adding some value to their industry. • Suitable stand on an issue of concern and substance in appropriate forum. • Appropriate efforts to help needy in the community. • Satisfactory strategy and efforts to find and implement mission.
0-4	<ul style="list-style-type: none"> • Nominal evidence of functional key performance indicators. • Indication of a contribution to industry. • Minimal stand on an issue of concern in an appropriate forum. • Minor evidence of contribution to community. • Some evidence of understanding and implementation of mission.

Note: This general rating benchmark above gives a broad indication of more specific social response issues that would be addressed. Threshold level set at 6.

¹⁰ www.socialresponse.com.au