st james ethics centre

24 February 2006

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

Dear Sir,

Re: Response to Question on Notice – Inquiry into Corporate Responsibility

As requested, I wish to respond to your question on notice asked at the recent Parliamentary Joint Committee Inquiry into Corporate Responsibility.

> Senator WONG—Would you be prepared to take a question on notice? If you have anything to add in terms of more thinking on what incentives parliament could provide, we would be grateful to receive that.
> Dr Longstaff—Okay.
> (page CFS25)

Part 1: Background

This brief excerpt from our earlier submission to the Joint Parliamentary Inquiry highlights the core of our position as reflected in this document:

> We believe that the use of legislation, regulation and surveillance as the principal means for protecting the interests of stakeholders other than shareholders is misguided. Our concerns are twofold. First, an over-reliance on such an approach is largely ineffective because it invites a negative culture of compliance characterised by indifference to the principles that inform the legislation or regulations. In these circumstances, corporations become adept at playing a game of ‘regulatory arbitrage’ – across jurisdictions and through the exploitation of loopholes.
>
> Second, we believe that an over-reliance on regulation and surveillance can inadvertently weaken the ethical sinews of society. When people comply by merely ‘ticking the box’, then they are absolved (or absolve themselves) of any responsibility for choosing to act in a manner that is

Dr Simon Longstaff Executive Director
GPO Box 3599 Sydney NSW 2001 Australia
Tel: +61 (0)2 9299 9566 Fax: +61 (0)2 9299 9477 Ethi-Call ... the good decision line: 1800 672 303
ABN 83 637 740 533 ARBN 094 609 015

> right and good. One of the unintended consequences of a system designed to ensure that people cannot choose to do what is wrong is that they can no longer choose to do what is right. They no longer choose at all – they merely comply. This weakening of the ethical sinews of society generates considerable, latent risk. If for any reason the regulations fail, the lack of underlying resilience can lead to a broad failure of responsible conduct.

We should be clear on one point; the corollary of our argument against an over-reliance on regulation and surveillance is that business voluntarily seek to maintain and improve its conduct and that its performance be measured and reported on using a credible, independent instrument to do so.

Part 2: Parliament's role in promoting corporate responsibility

With the aforementioned in mind, we have addressed, in this section, some ways in which parliament might provide incentives. In general, we would encourage the parliament to facilitate greater uptake of voluntary programs for participation and reporting by companies. There are a number of avenues which are listed as follows:

a). Government support for a voluntary business-led benchmarking tool

Currently the market is quite fragmented with no standardised, voluntary reporting tool in the market. Government leadership in this area, through active engagement and support for the role of business benchmarks can assist in resolving the current confusion and allow for greater coordination of the voluntary efforts made by corporate Australia. It will also lead to greater transparency and comparability for users of this information.

b). Inclusion of benchmarks in Government procurement and investment decisions

The parliament can encourage the Government to take leadership on the issue of corporate responsibility. As Australia's largest investor and purchaser, the Government has a multi-billion dollar opportunity to stimulate corporate responsibility by investing in or purchasing from companies who have demonstrated their credentials in this area through such initiatives as voluntary reporting and benchmarking. Some of the benchmarking tools currently available in the market can become a useful measure of performance on these issues.
Avenues for consideration include:

i. The investment mandate of the Future Fund
ii. Government superannuation bodies (subject, of course, to the fiduciary duties of trustees)
iii. Government procurement policy

The aim would be for government to send a clear message that corporate responsibility is a priority.

c). Senate Estimates

The most direct way in which the Parliament can exert influence on government is by way of its scrutiny of government expenditure and performance. For example, Senate Estimates Committees should enquire into the extent to which government integrates relevant principles of corporate responsibility into its own operations.

d). Regulatory relief

Consideration should also be given to the provision of regulatory relief for those companies that voluntarily demonstrate a commitment to the highest standards of corporate responsibility. Identifying such companies could be done using public benchmarking exercise, or other agreed forms of reporting. Given that the CRI is already in place – and that the information it relies upon is subject to independent, professional validation, there may be some advantages in developing the CRI so that the information it provides could inform decision-making by regulatory bodies such as APRA, ASIC or the ATO.

These avenues should be explored by a working group of regulators, corporate lawyers, csr practioners, business and community leaders; working together to facilitate discussion around what regulatory relief could be provided – on the condition that such reductions lead to a measurable increase in genuine commitment to the values of corporate responsibility and therefore a nett reduction in risk to the community.

In considering what measures might be appropriate, it is important that voluntary participation in benchmarking initiatives is not interpreted as a weak ‘opt out’ from compliance with current regulation.

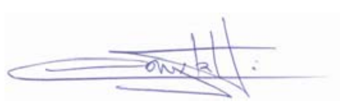
In conclusion

The Commonwealth Parliament has a major role to play in the mainstreaming of corporate responsibility. Encouragement of greater engagement in corporate responsibility by its own leadership and provision of market clarity are two ways this can be achieved.

Having reviewed other indexes in the market, it is the view of the St James Ethics Centre that the Corporate Responsibility Index (CRI) is well equipped to deliver positive outcomes for the Australian community.

For your information, I have attached a summary and background of the CRI. Please feel free to contact me should you have any further questions or if I can be of any assistance in your deliberations.

Regards,



Dr Simon Longstaff
Executive Director
St James Ethics Centre

APPENDIX 1.

The Corporate Responsibility Index

St James Ethics Centre is trustee of the Corporate Responsibility Index (CRI) in Australia. As such, it is a disinterested participant in the process – seeking only to improve the performance of Australian business in a manner that benefits the wider community.

The CRI is currently the only voluntary self-assessment tool for measuring corporate responsibility in Australia. Critical to its credibility is the existence of a robust, professional and independent validation process. The CRI is an existing tool with global credentials with strong support from participants, partners and members of the CRI advisory groups[1].

Designed by business for business, the principal purpose of the CRI is to help companies drive improved performance. The public reporting of high level results, for company performance, provides additional information for investors (who increasingly see the relevance of such data when making mid to long-term investment decisions) and helps to build public confidence in the ability of business to self-regulate.

Desired State

To achieve a shift in business focus to long-term performance with the principles and practices of corporate responsibility widely adopted as the accepted standard of good business practice (across the board).

Intended Purpose

To assist Australian business to be more sustainable (high trust=lower costs) through the establishment of a voluntary, credible and independent tool by which Australian business can measure and improve its performance across the leading indicators of corporate responsibility.

CRI background

- Research conducted by Business in the Community[2] (BITC) in 2000 identified a need for reliable, standardised information that would enable a company's performance to be compared with that of its peers. On the back of these research findings and the seven year success of the Business in the Environment Index, BITC designed the CRI framework in conjunction with over 80 UK businesses.
- St James Ethics Centre identified a similar need for an Australian voluntary, business-led Index. Using sound methodology this Index was to engage with companies from all sectors and focus on corporate responsibility.
- BITC donated the CRI under licence to St James Ethics Centre for use in Australia. St James Ethics Centre is trustee of the CRI in Australia, overseeing the quality and integrity of the project. The CRI has been implemented as a partnership between St James Ethics Centre, media partners *The Sydney*

---

[1] The CRI external stakeholder advisory group involves representatives from industry (for example, Financial Services Institute of Australia, ICAA, AICD), NGO groups (for example, Greenpeace, ACF, Amnesty, EPA Victoria) and sustainability practitioners. An advisory group from business has also been established with representatives from current participating organisations (BHP Billiton, Rio Tinto, Toyota Australia, Westpac Banking Corporation).

[2] Business in the Community is a unique movement of 700 member companies in the UK committed to improving their positive impact on society. Please refer to www.bitc.org.uk for further information.

Morning Herald and *The Age*, and Ernst & Young who validate company submissions[3] to the CRI on a *pro bono* basis.

- The CRI was launched in Australia[4] in late 2003 and is now in 2006 in its third cycle. To date, 32 Australian businesses have participated[5], including 14 from the ASX50. Sectors represented include: consumer discretionary, consumer staples, energy, financials, healthcare, industrials, information technology, materials, professional services, telecommunication services and utilities. We have also had one New Zealand participant to date.

The CRI is now in its fifth year in the UK with over 130 participants drawn from FTSE 100, FTSE 250, DJSI sector leaders and selected members of BITC.

CRI Framework

The CRI is comprised of four key components on which companies must report. These include:

i. **Corporate Strategy**: examines how a business' activities influence its company values, how these tie into strategy and how they are addressed through risk management, development of policies and responsibilities held at a senior level in the company.
ii. **Integration**: examines how companies organise, manage and integrate corporate responsibility throughout their operations. Is it part and parcel of the company culture? Is it integrated into the strategic decision-making processes of the company and linked through into internal governance and risk management systems?
iii. **Management**: successful integration is assessed through the Management section where the processes for managing different stakeholder relationships are reviewed. It examines the policies, objectives and targets set to manage key issues in the Community, Environment, Marketplace and Workplace arenas and how these are communicated, implemented and monitored.
iv. **Performance and Impact**: examines how a company is actually performing in practice across a range of social and environmental impact areas and whether targets for performance and management improvement are being set and met across these impact areas.

Advantages of the CRI model

- **A Management, Measurement and Reporting Tool Allowing Benchmarking**: the CRI is a management tool that helps organisations to improve their actual performance and to benchmark within and across sectors.
    - To date, the CRI has seen two cycles of measurement and reporting completed in Australia.
    - In the second cycle, a number of companies demonstrated significant progress, reflecting both management and performance improvements. This is evidenced in the average scores of companies completing the CRI, on their Australian operations in both 2003 and 2004, which rose from 78.7% in 2003 up 4.3% to 83% in 2004. This was achieved despite the need for participating companies to overcome a challenging timeframe (the first two cycles were run only six months apart instead of according to the normal annual cycle).
    - The value of the CRI as a gap analysis tool was also demonstrated by the exemplary performance of one participating company which increased its results by over 15% to achieve a final silver-star rating within a six-month period.

---

[3] Ernst & Young validate all submissions in Australia, except global submissions, which are validated by BITC.
[4] Please refer to www.corporate-responsibility.com.au for further information on the CRI in Australia.
[5] Companies formally invited to participate include the top 250 business enterprises listed annually in BRW magazine and members of the Business Council of Australia (BCA).

- Results for the 2005 CRI are due out on 15th May 2006. An initial analysis indicates that a similar trend in improvement is likely amongst continuing participants, demonstrating the CRI's usefulness as a management tool and framework.

- **Improved Business Performance**: research demonstrates a link between corporate responsibility and improved business performance. The results of the AMP Capital Investors 'Financial Payback from Environmental and Social Factors' survey states that companies with a higher corporate social responsibility rating[6] have outperformed the ASX200 Index by more than 3.0% per annum over 4-10 year periods[7].

- **Improved Stakeholder and Public Confidence**: a voluntary approach by business, supported by sound external verification of claims, and reported publicly, assists to improve public confidence and trust in business.

- **Reduces the need for Regulation**: the CRI encourages a principles-based approach, reducing the risk of a compliance-based culture. It assists companies voluntarily to improve corporate behaviour by providing a framework for building internal capacity. Increased public confidence through greater business transparency will reduce the need for regulation. It is possible that a model of regulatory relief may be considered for those organisations demonstrating good performance[8].

- **Broadly Applicable**: the CRI is relevant to a wide range of organisations. It is currently completed by both public and private organisations and interest has been expressed by government organisations and non-profits. Furthermore, the creation of an integrated suite of tools associated with the CRI is currently under development which will facilitate uptake across the board from SMEs and 'starter' companies to companies at the leading edge.

Barriers to Participation

Participation in the CRI is yet to reach a critical mass. One of the significant implementation challenges currently faced is encouraging companies to participate in a voluntary, public benchmarking exercise for the first time.

The primary barriers to increased participation have been identified as:
- the need for broader market exposure – there is currently a lack of awareness and understanding regarding the CRI tool
- reticence by some businesses to partake in a voluntary public analysis and disclosure of their business practices
- the high level of resourcing needed to complete the CRI, particularly in the first year
- lack of an industry standard

Support from Government could assist to overcome these hurdles faced by first time participants through both encouragement of voluntary benchmarking and reporting, and supporting the development of transitional tools.

---

[6] Based on companies selected for inclusion in AMP Capital Investors Sustainable Future Australian Share Fund.
[7] AMP Capital Investors 'Financial Payback from Environmental and Social Factors', page 1.
[8] Current models exist (for example, EPA Victoria, ATO) whereby companies demonstrating better management of specific issues, and thus classified as lower risk, are subject to lighter scrutiny/regulation.