ECOS Corporation Pty Limited

Submission to Parliamentary Joint Committee inquiry into corporate responsibility

Pages 1 -13

Parliamentary committee inquiry into corporate responsibility - Ecos Corporation response to terms of reference

Introduction to our response to the terms of reference

Ecos believes that the inquiry into Corporate Social Responsibility (CSR) & Triple Bottom Line (TBL) reporting should investigate the objectives of these activities. In recent years there has been a greater expectation for companies to operate more responsibly toward society and the environment, and change the way they do business to be more sustainable. The rise of CSR & TBL is due to a demand for change, a change in how companies do business.

The integration of values and ethics into business operations builds the critical foundation for sustainability. Only from this foundation, which is really a foundation of integrity, can companies build long-term, sustainable shareholder value. A central focus on "value creation" is now a more effective way of creating business action on sustainability than a primary focus on the "moral imperative". More sustainability will be delivered faster by business if the profit motive becomes the dominant driver and framework for analysis rather than "corporate social responsibility" in its various manifestations.

Creating value drives change in business. Innovators with passion are the sparks, but real change led by business doesn't happen until an idea helps a company succeed. Market forces are driven by the pursuit of profit and growth. When an idea is commercially successful, market forces divert ever-greater resources to replicate it and trigger a self-reinforcing cycle.

Creating value – and reporting it at the financial bottom line using accepted accounting and reporting approaches – drives change in business further and faster than anything else.[1]

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility immediately implies obligation to do things that are against what business wants to do. In other words, to do things that are against the flow or natural state. Business wants to create value, not incidentally or by surprise, but actively pursue it as the central focus of business strategy. That is the nature of the beast.

So anything that is not in harmony with the pursuit of value and growth will soon be relegated to a second or third tier priority for business. This is not where sustainability needs to be.

WHEN IT COMES TO BOTTOM LINES THERE IS ONLY ONE THAT REALLY MATTERS

The concept of the Triple Bottom Line (TBL), developed and popularized by one of the world's leading and most successful sustainability advocates, John Elkington of SustainAbility, delivered very significant benefits as an agent of change.

TBL is easy to communicate and to understand as a high level concept. It provides a useful framework for reporting performance in areas beyond company financials, and it challenges a sometimes obsessive focus on short-term profits that can be imposed by the Wall Street-led

[1] single bottom line sustainability. HOW A VALUE CENTERED APPROACH TO CORPORATE SUSTAINABILITY CAN PAY OFF FOR SHAREHOLDERS AND SOCIETY. By Paul Gilding, Murray Hogarth & Don Reed, CFA. Copyright Ecos Corporation 2002. See www.ecoscorporation.com/library/Single%20Bottom%20Line%20Sustainability.pdf page 5

custom of quarterly financial reporting. TBL provoked new thinking and challenged the isolationist and narrow mindset of many in business. As an agent provocateur for sustainability, it has had few equals.

But now we need a revolution. Sustainability needs to move to center-stage for business decision-making and the TBL has fundamental weaknesses if companies try to use it as a framework for business strategy. The two key ones are:

- The self-reinforcing feedback loop for financial value creation is overwhelmingly powerful and fast, whereas the feedback loops for social and environmental performance are weak and slow. Thus the bias will overwhelmingly swing back to the traditional financial bottom line, making a TBL focus a slow change agent.
- The application of the idea tends to encourage a separation of environmental, social and economic performance, with the unspoken (and unintended) message to business being "we don't mind if you make money as long as you add social and environmental value while you're doing so". What's needed is a concept that integrates, not separates. It needs to clearly and simply say: "If you create more social and environmental value the right way, you'll create more financial value as a direct and measurable result."[2]

SUSTAINABILITY PERFORMANCE REPORTING IS NOT BUSINESS STRATEGY

Amidst all the confusion on what do about sustainability, many have gravitated to social and environmental reporting, and more recently sustainability reporting. This is hardly surprising, as reporting is a practical and specific action that brings significant benefits compared to the costs of doing it. Reporting teaches companies more about their own business, and thus often identifies opportunities for savings. It also sometimes opens up the company to new ideas and relationships. So reporting is a good starting point, but that is all it is.

Certainly if there were more consistency in reporting standards, and reporting were more widespread, it would be more useful. Projects like the Global Reporting Initiative (GRI) are seeking to make this so, and that is to be welcomed. However, it will still not drive large-scale change for the reasons cited above regarding feedback loops.

Too many companies now seem to view reporting as their strategy on sustainability, rather than as a starting point and a tool for self-awareness and education, both internally and externally. They seek out ways to show that what they're doing creates social and environmental benefits so they can tell the world about them. Reporting, however, rarely drives companies to aggressively seek new activities that create social and environmental value. Therefore reporting is predominantly a communications strategy – an important and effective one. But it is not business strategy and it won't drive change quickly.[3]

[2] single bottom line sustainability. HOW A VALUE CENTERED APPROACH TO CORPORATE SUSTAINABILITY CAN PAY OFF FOR SHAREHOLDERS AND SOCIETY. By Paul Gilding, Murray Hogarth & Don Reed, CFA. Copyright Ecos Corporation 2002. See www.ecoscorporation.com/library/Single%20Bottom%20Line%20Sustainability.pdf page 6

[3] single bottom line sustainability. HOW A VALUE CENTERED APPROACH TO CORPORATE SUSTAINABILITY CAN PAY OFF FOR SHAREHOLDERS AND SOCIETY. By Paul Gilding, Murray Hogarth & Don Reed, CFA. Copyright Ecos Corporation 2002. See www.ecoscorporation.com/library/Single%20Bottom%20Line%20Sustainability.pdf page 8

Ecos response to terms of reference

The changing operating environment for business – an Ecos perspective.

The operating environment for organisations is changing so that social and environmental issues that were previously only corporate relations issues now directly impact a company's core business and its bottom line

Major social and environmental pressures increasingly act as market forces, impacting how business needs to act to consistently create value for shareholders. These pressures include:

- Social and environmental "issues" - e.g. poverty, crime, climate change, drugs, health & safety, biodiversity.
- A new business context - e.g. increasing expectations but decreasing trust in corporations, global connectedness, increasing power of NGOs.

These growing pressures impose new expectations on business from key stakeholders – employees, the community & investors. This in turn puts value at stake for most companies in most sectors. Examples include obesity (fast food) GMO's (seed and food producers), climate change (auto and oil companies, insurance companies).

How companies and industries respond to these trends will help determine their success, in traditional terms of earnings stability, profitability and longevity.

Value at Stake on Societal Forces

Environmental & Societal Market Forces

- climate change
- resource degradation
- poverty & hopelessness
- mega cities
- inequity
- war & dislocation

Magnifying Trends

- increasing power of civil society
- changing role of gov't
- rise of market forces & corps
- globalization
- connectedness

Changed Operating Environment

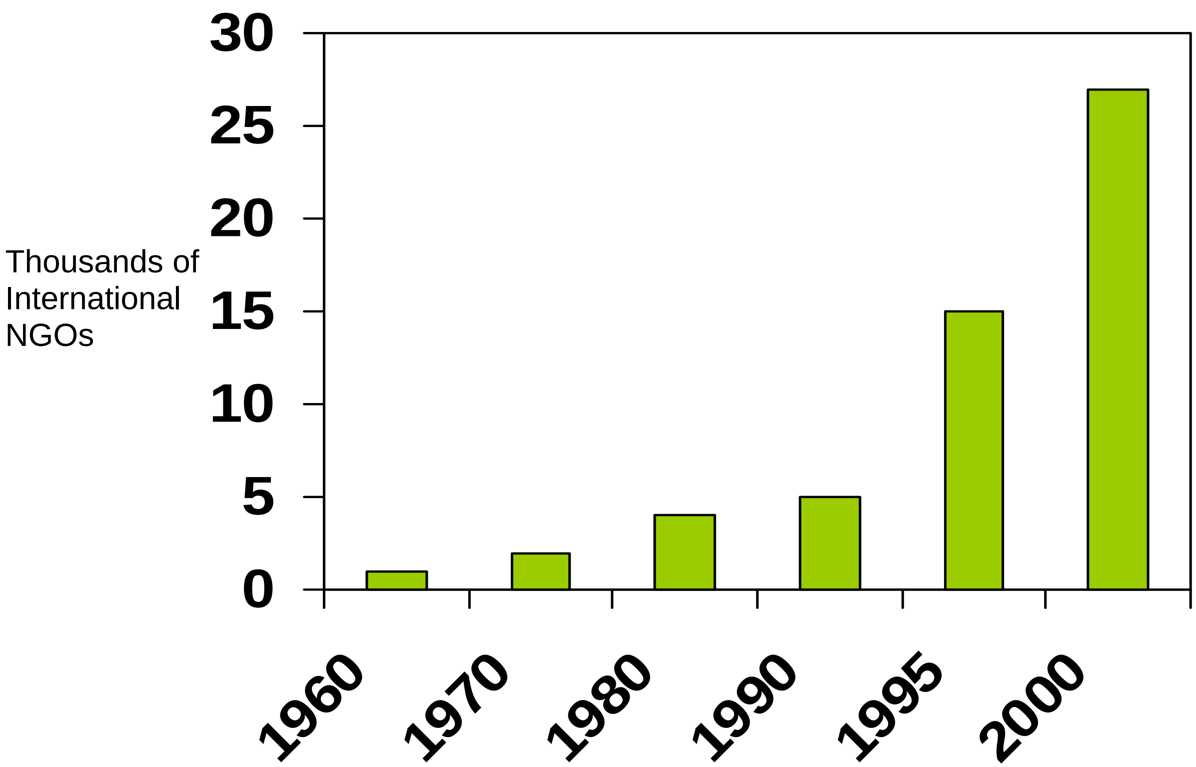
- more complexity & risk
- more opportunities
- increasing expectations, scrutiny & pressure
- good products are no longer enough

Corporate Responses

- goal is to create value
- sustainability integrated as business issue

- plan, measure & report value from sustainability
- create **societal value** & shareholder value together
- engage stakeholders

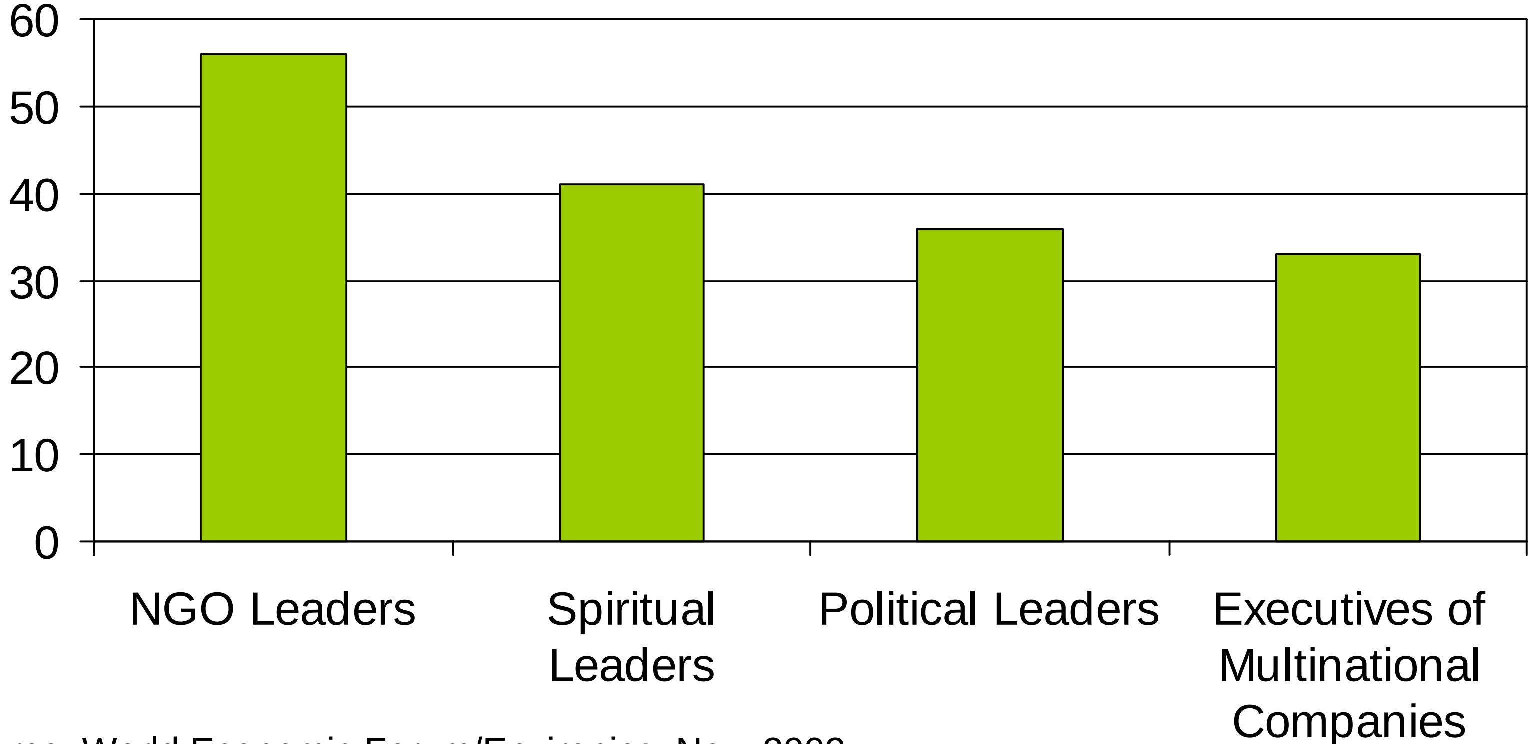
NGOs - A Growing Force in Civil Society?



Source: *The Economist.* December 15. 1999

Who the Public Believes

Percent saying "a lot" or "some" trust



Source: World Economic Forum/Environics, Nov. 2002

Sustainability Strategy Guide

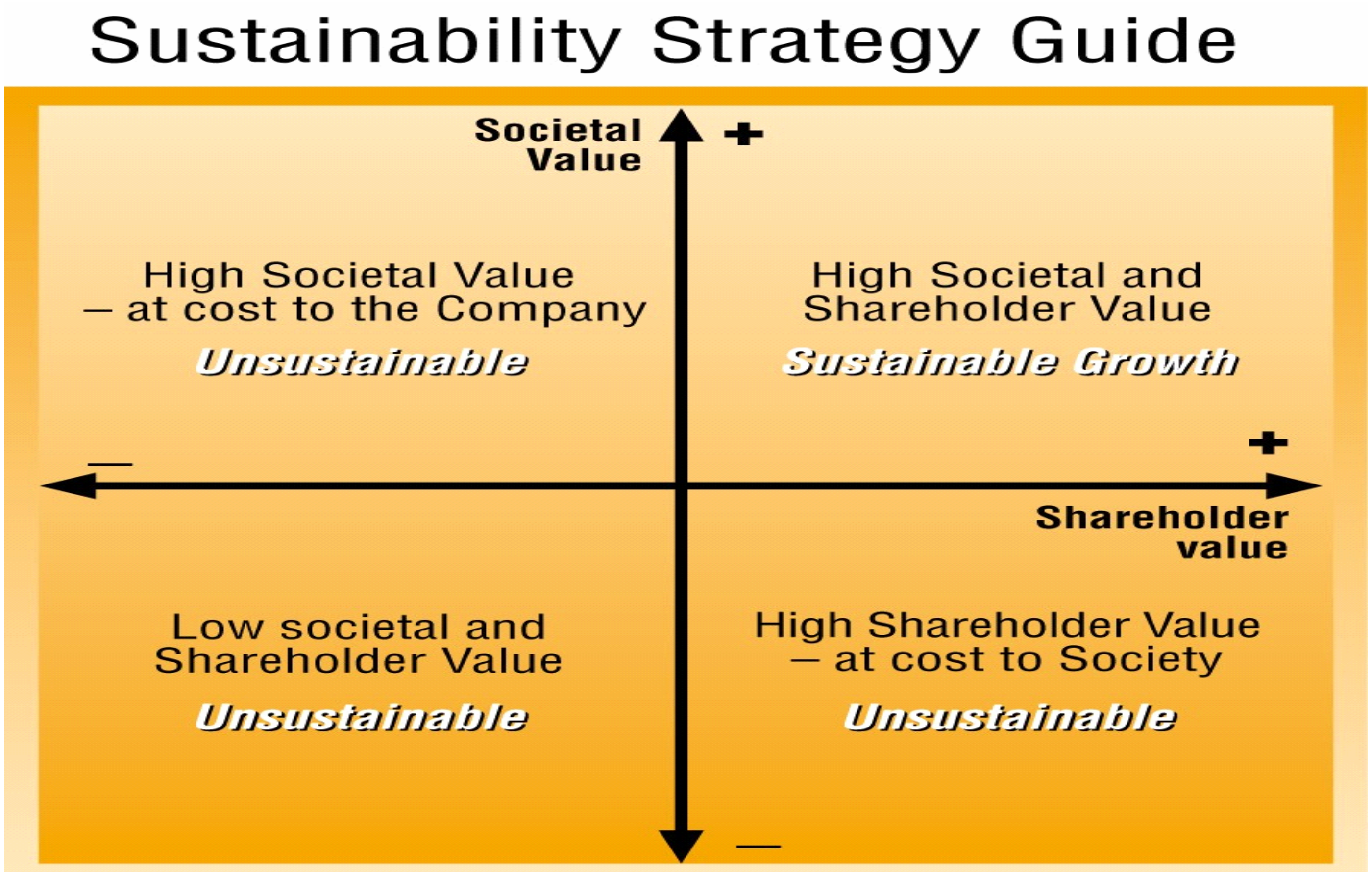
The Ecos **Sustainability Strategy Guide**, a framework for guiding strategy development, assists organizations to develop business strategies that align Societal Value Added and Shareholder Value Added. Such strategies are inherently more robust because, when aligned, the two SVAs are mutually reinforcing:

- More societal value leads to more value for shareholders because the increased societal value builds more support from customers, regulators and the community for the company's success.
- More shareholder value leads to more value for society because the increased shareholder value builds the company's capacity to replicate the creation of societal value.

This process helps companies review both their current business activities and proposed sustainability initiatives to ensure strategy is more robust across the board.[4]

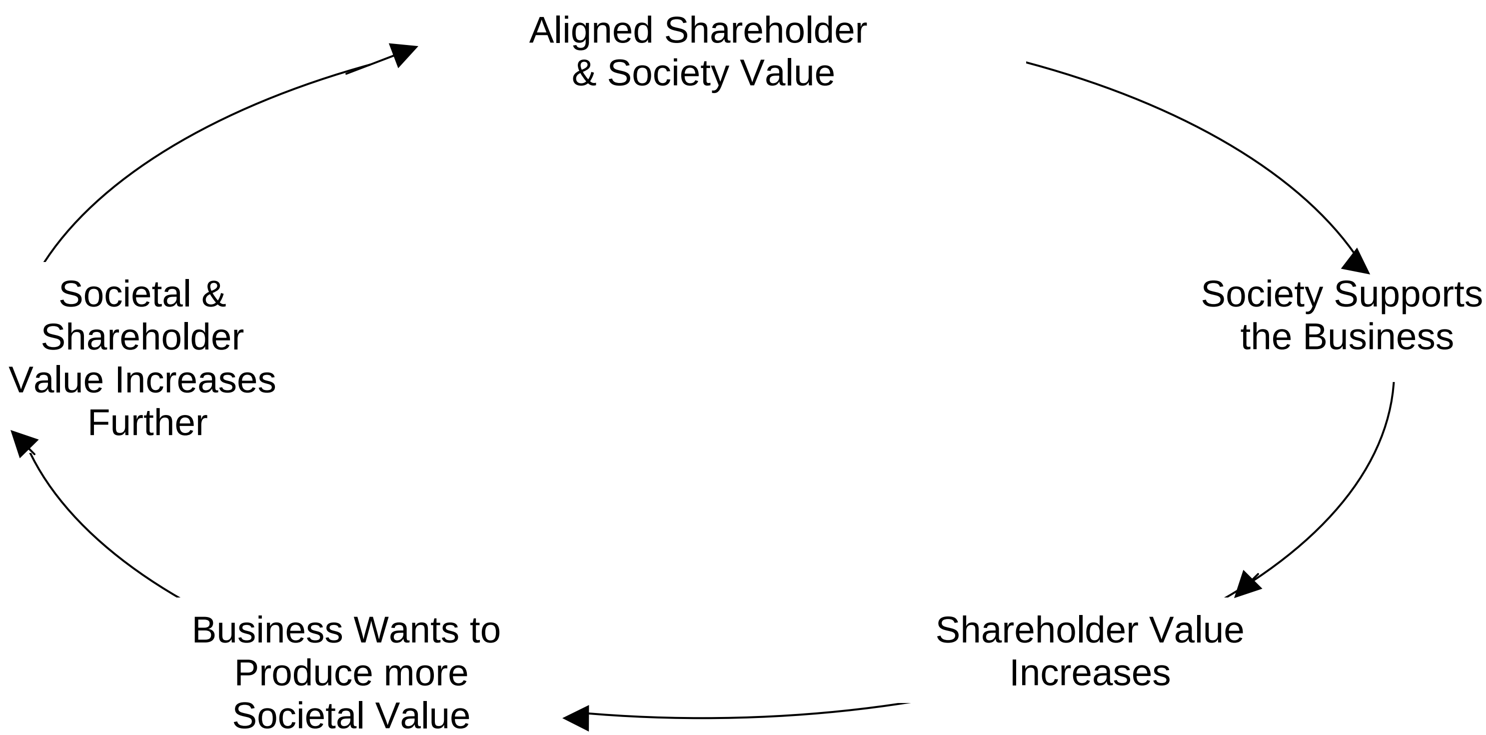
[4] single bottom line sustainability. HOW A VALUE CENTERED APPROACH TO CORPORATE SUSTAINABILITY CAN PAY OFF FOR SHAREHOLDERS AND SOCIETY. By Paul Gilding, Murray Hogarth & Don Reed, CFA. Copyright Ecos Corporation 2002. See www.ecoscorporation.com/library/Single%20Bottom%20Line%20Sustainability.pdf page 17

POSITIONING BUSINESS FOR SUCCESS IN THE NEW OPERATING ENVIRONMENT - A SIMPLE STRATEGY GUIDE



Companies need to be operating somewhere in the top right-hand quadrant in order to protect their social license to operate.

Shareholder & Societal Value Aligned
The reinforcing loop



The above thinking is a big move for many organisations. Most are still thinking about social responsibility in terms of the traditional perspective of connecting with the community through philanthropy and staff volunteerism that are often totally disassociated from the business.

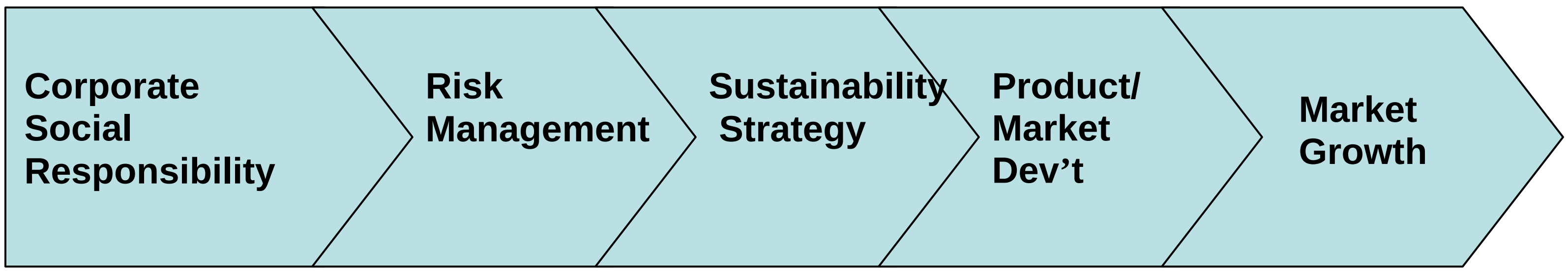
"There is confusion over whether CSR is what you do while you are doing your business; or whether it is how, you do your business. It should be about the how … much philanthropy – giving money to good causes – is PR veneer, doing what you can get away with making money.[5]

[5] Sydney Morning Herald, Insight section, "Green is good – Business seeking environmental alliances", September 14 2005.

Threats from ‘social responsibility’ issues are increasingly focusing on product and market growth where there is often the least work underway in organisations

Threats

- Class action suits
- Increases in Tax/regulation
to address any costs to society e.g. heath costs from tobacco



- Philanthropy
- Volunteering

- Lobbying via Industry assoc

- Environmental strategy
- other strategies specific to the industry

?

?

Initiatives

Conclusion

As companies appreciate some of the potential risk, they may get more involved in lobbying often via industry associations but only the real leaders have started to integrate these social and ethical responses to issues that drive value into their core business. This is despite the fact that social and environmental threats for many companies are likely to directly impact their bottom lines.

Stakeholders will continue to increase pressure for companies to act in a sustainable manner in the future. Ecos supports corporate philanthropy, staff volunteering, TBL reporting and CSR, but these are first steps along a path for a company to change how it operates in order for it to become sustainable. Companies that take real action on sustainability to change the way they do business will be successful. Ecos argues that companies that do not will ultimately fail.

ECOS Corporation

Founded in 1995, Sydney-based Ecos Corporation's mission is to drive change by creating value for business through sustainability — helping to raise the quality of life for all people while preserving ecological integrity. Ecos develops business strategies that build value through delivering social and environmental solutions. We do so because we believe market forces can be leveraged to speed the transition to sustainability.

Common questions Ecos Corporation helps our clients answer include:

- What is sustainability and how is it relevant to my business?
- Where is my company positioned on sustainability compared with our competitors?
- Do we currently meet the social and environmental expectations of customers, investors, regulators, government, non-government organisations and the broader community?
- What are the future social and environmental risk scenarios for my company and how do we manage relevant risks to create value?
- How do we create value for our shareholders through sustainability and how do we communicate that to others?
- How do I grow the market for my company's sustainable products and services?

Our niche is supporting business to respond to social and environmental trends in ways that create value for shareholders. A key part of our work is to connect our clients to external stakeholders and in doing so understand their perspectives.

We work with our clients to protect value which is under threat, by reducing risk and/or create new value by identifying & harnessing growth opportunities. Our approach is to integrate these issues into core business strategy and operations, rather than "manage" them as external trends (this is business strategy not issue management). This requires action by those who manage the business day to day and can involve changes to goals, strategies and business practices in areas such as product development, production, marketing or business expansion.

For more information about Ecos and our work, see www.ecoscorporation.com

This submission was made by Sam Weiss – Chairman, Ecos Corporation and David Truran – General Manager & Chief Financial Officer, and is submitted on behalf of Ecos Corporation.
Please contact David Truran on 02 9557-9888 or david.truran@ecoscorp.com should you have any queries. Ecos postal address is 97 Gowrie Street, Newtown NSW 2042.