



30 September 2005

The Secretary  
Parliamentary Joint Committee on Corporations and Financial Services  
Suite SG.64  
Parliament House  
CANBERRA ACT 2600

email: [corporations.joint@aph.gov.au](mailto:corporations.joint@aph.gov.au)

Dear Sir

### **Re: Boral's Response to the Inquiry into Corporate Responsibility**

We are pleased to respond to your invitation to make a submission to your inquiry into corporate responsibility and triple-bottom-line reporting in Australia. We have provided our comments under the Terms of Reference headings.

In our view, regard for stakeholders and the broader community can be referred to as "Corporate Social Responsibility" (CSR) and in the case of our submission the two broad terms are used interchangeably.

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

Business *does* have an important regard not only for the interest of its shareholders but the interests of its employees, customers, suppliers, neighbours, members of the communities in which it operates and other stakeholders. Of course, having regard for the needs of stakeholders and the broader community has substantial benefits for the company's shareholders, which often means that the focus on the community and broader stakeholders is driven by shareholder value.

In most cases, on a day-to-day basis, Boral's operational line managers have a greater regard for their neighbours, community members, employees and customers than for Boral's shareholders because the viability of their operations depend on having community and government support, a cooperative and productive workforce, a satisfied customer base, and a strong and reputable brand. Having regard for our non-shareholder stakeholders and the broader community ultimately leads us to delivering shareholder value.

A broad CSR program generally means that sound risk management is in place, there is a focus on reputation and brand management, the community is more likely to be supportive of new business developments, there is less chance of withdrawals or closures due to community protests or action, and there are fewer problems with the granting of regulatory licenses. Hence, **without an appropriate focus on CSR, shareholder value can readily be destroyed**. This is particularly important for a company like Boral, which is involved in manufacturing and quarrying activities across some 650 operating sites, predominantly in Australia but also throughout Asia and the USA.

Boral places significant importance on its CSR obligations, because it is both the right thing to do and because it makes good business sense. Our overriding business objective is the *deliver superior returns in a sustainable way*. We are focused on ensuring our businesses deliver sustainable financial results and are also sustainable in terms of their environmental, social and employee impacts.

For example, Boral has several **community partnership programs** that are very important to us and to our partners, including partnerships with the Juvenile Diabetes Research Foundation, Outward Bound Australia, the Bangarra Dance Theatre, Taronga Zoo Foundation, Conservation Volunteers Australia, Wesley Homes for Hope and World Vision. We do not support these community groups because of a legal requirement to do so or necessarily because it is core to our operations. We proudly support these groups because:

- it contributes to the Company's goodwill in the community, which is important because it is the members of the community – government, neighbours and so on - who effectively provide us with our “license to operate”;
- it adds to the economic and cultural prosperity of the communities in which we operate, which is ultimately good for business;
- it motivates, engages and adds to a better work-life balance for our employees, which we believe leads to enhanced loyalty and productivity and a greater ability to attract new talent;
- it enhances our customer relationships, product exposure and brand awareness; and
- it assists with communicating key messages that we want to promote to various groups.

Whilst there is a strong “feel good” factor associated with our community support programs, most of our partnerships provide clear business benefits for Boral.

Similarly, **other areas of CSR** are adding value to our business and are not driven by a legislative requirement. For Boral these programs include:

- community consultation and communication programs (eg. open days, newsletters, school visitations);
- environmental based initiatives (eg. using recycled waste in products and fuels, koala fodder corridors on buffer lands, sustainable product development);
- education and training programs (eg. funding for industry apprenticeship programs, work experience programs, university and other scholarships); and
- employee-based programs (eg. wellness programs, paid parental leave, family re-discovery programs).

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

Generally speaking it should be true in all companies that having a regard for the interests of stakeholders and the broader community is a necessary precursor for having regard for shareholders. However, the focus on CSR may be more evident and perhaps more critical in some sectors than others. Or at least various aspects of CSR will be more or less important from sector to sector and potentially from company to company.

The manufacturing and mining sectors need to have regard for the interest of its neighbours and local communities to ensure their businesses are sustainable over the long-term. This may be less important for service industries, for example. However in service industries, managing brand and reputation risk is extremely important, which may encourage more innovative approaches to working with the broader community. Thus, different organisations necessarily have **different CSR priorities and approaches**.

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

Clearly there are a number of **legal frameworks** in place that drive and influence aspects of CSR such as OH&S legislation, environmental regulations and workplace relations laws.

In addition, the legal framework under the **Corporations Act** governing directors' duties indirectly encourages directors to have a regard for the interest of non-shareholder stakeholders (including employees) and the broader community. This is true because, as already indicated, having a regard for shareholder value requires a broader focus on CSR issues in terms of managing risk, reputation, brand, community expectations and costs. Failure to consider CSR issues could readily lead to directors failing to meet their fiduciary duties.

It makes good business and financial sense for directors to consider the needs of the community and the company's broad group of stakeholders, which is indirectly supported by legislative frameworks currently in place. It cannot be argued that the primary regard directors are required to have for shareholders under the Corporation Act should in any way discourage them from having a regard for other stakeholders and the broader community.

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 the obligations that exist in laws other than the Corporations Act**

As indicated above, we believe that the current legislative framework, including the Corporations Act, is supportive of directors and incorporated entities having a regard for the interests of non-shareholder stakeholders (including employees) and the community. We see no need for a revision of the Corporations Act to further encourage or direct companies or their directors to increase their focus in this area.

It is important that companies continue to be afforded flexibility in the way they operate their CSR agenda. **Flexibility allows meaningful impacts and contributions** to be delivered to the community and encourages innovation as companies strive to improve and deliver a competitive advantage from their CSR programs.

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

In 2000, Boral developed an in-house tool which we now call the **Boral Sustainability Diagnostic Tool (BSDT)**. We use the BSDT to measure and monitor where Boral's businesses are at in their journey towards sustainable development and against which to develop improvement targets. In developing and refining the tool we referred to several reporting frameworks - **the Global Reporting Initiative, Global Environmental Management Initiative, Social Venture Network, Australia's Corporate Responsibility Index** and a number of other key sources. There is certainly no shortage of

operating and reporting frameworks available to organisations to consider and adopt as appropriate.

One of the most pleasing aspects for Boral in our “journey” to develop and refine our operating and reporting framework is that it has not simply been a box-ticking exercise. It has been most important for us to ensure “buy-in” and ownership at the business level before Boral’s corporate office expanded its public reporting. It is a difficult balance for companies to get right – to ensure that there is appropriate focus on the key issues throughout the organisation to drive change as opposed to the reporting of sustainability issues being the stand-alone, and not necessarily the most appropriate, driver for change.

The sustainability framework against which we operate and report has taken some years for us to refine and adapt; it is an ongoing process of continuous improvement.

In early 2000, Boral made a commitment to participate in the then recently introduced **Good Reputation Index**, which later evolved into the **RepuTex** index. Whilst we did not score terribly well in the early index ratings we were committed to assisting with the development of a well-researched and properly conducted process that measured and benchmarked the reputations and non-financial performance of companies. There were a number of teething problems in the first couple of years around methodology, fairness and transparency but the reputation rating industry has matured considerably over recent years.

Boral now actively participates in the St James Ethics/Fairfax **Corporate Responsibility Index (CRI)** and has done so for three years now. Whilst the CRI is rigorous and challenging to complete we believe it provides a very sound and fair approach to corporate benchmarking in the area of corporate responsibility. We support the voluntary nature of the index – there is no public “naming and shaming” for companies that choose not to participate. We suspect however, that there is an increasing amount of peer pressure for companies to participate, particularly as the participation rates increase and the recognition of the Index grows both in Australia and globally. Pleasingly, the Index is available to a broad group of organisations and is not limited to the ASX 100 companies.

f) **The appropriateness of reporting requirements associated with these issues**

Of course for some time now there has been a real risk of survey fatigue amongst Australia’s largest companies particularly in the area of social responsibility/sustainability/reputation. Boral has experienced this problem as much as any other company. To address this issue, we decided that our Sustainability Report would be our key public statement around our non-financial performance and CSR impacts. We are comfortable to be judged on what we report.

Pleasingly, this approach has served us well. Earlier this year Boral was included in the **FTSE4Good Index** based solely on our publicly reported information.

We believe that **Boral is a good example** of the progress being made in terms of commitment, activity and reporting. Boral’s progress has been voluntary and has not been driven by a prescriptive legal framework.

**Boral’s Sustainability Report** is published in conjunction with our Annual Report and sent to Boral’s shareholders. (We have attached a hard copy of Boral’s 2005 Sustainability Report with this letter and the website link to our on-line report with the email.) Our 2005 Sustainability Report details our performance (both good and bad), activities, targets, and goals in the management areas of People, Health & Safety, Environment, Stakeholders (including shareholders, customers, suppliers and community members), and Community Partnerships. Our sustainability reporting has consciously and consistently improved year-on-year over the past five years. In 2000, our non-financial reporting consisted of three pages in the main body of our Annual Report. Today, it has expanded to more than

40 pages (effectively in a stand-alone report) of text, graphs, charts and images to effectively explain and illustrate our performance and impacts.

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

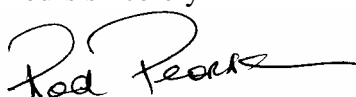
One could argue that a single legislated framework for reporting CSR matters would eliminate the current duplications and inefficiencies in data collection from groups such as reputation/governance rating groups, socially responsible investment (SRI) funds/indices, state and federal government departments and agencies, and other interest groups. However, the current voluntary environment allows companies to adopt a flexible, appropriate management and reporting approach aligned with their business activities and current situation. There is not a one-size fits all solution to sustainability management and reporting; **flexibility is paramount.**

The **CRI** is a good example of the complexity of issues associated with CSR reporting and benchmarking. Whilst the CRI offers a fair and flexible approach to measuring a company's CSR performance it is relatively complex and can be challenging to grasp. Based on the **UK's Business in the Community** model, the CRI addresses the diverse needs of business while retaining an appropriate and relevant basis for measurement and benchmarking.

Whilst we see no need for the development of further reporting frameworks, if a legislated CSR reporting framework is developed, it needs to consider current voluntary frameworks and the fact that there are a number of current and proposed Federal and State regulatory initiatives<sup>1</sup> which will require much more detailed and accurate reporting of energy usage, greenhouse gas emissions and water usage. There is clearly a need to avoid duplication, maintain consistency in approaches and standards, and avoid the creation of unnecessary, bureaucratic reporting.

**In summary**, we believe that Australian business should and does have regard for the interest of stakeholders (other than shareholders) and the broader community. Corporate social responsibility is the right thing to do and makes good business sense and whilst it is not entirely driven by a legal framework, it is well supported by the legal frameworks currently in place. We see no need for the development of a new legal or voluntary CSR reporting framework. There is currently a sufficient number of overlapping frameworks (both within Australia and overseas) available to companies to adopt and adapt to suit their needs. The risk of introducing a prescriptive reporting framework is that it forces companies to report in a way that is less appropriate and less meaningful to their business and to the community and that it adds unnecessary costs and bureaucracy.

Yours sincerely



**Rod Pearce**  
**CEO & Managing Director**  
**Boral Limited**

cc: Kylie FitzGerald, General Manager, Corporate Affairs and Investor Relations

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<sup>1</sup> Including the NSW Greenhouse Gas Abatement Scheme (already operating); Greenhouse Challenge Plus (which is introducing mandatory reporting for large fuel users who wish to obtain Federal Government fuel tax credits in excess of \$3 million per annum); the Federal Government's Energy Efficiency Opportunities program which from early 2006 will require reporting by up to 60 Boral businesses over a 5 year period; Energy Savings Action Plans for high energy users in NSW; and Water Savings Action Plans for high water users in NSW.