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30 September 2005

Dr Anthony Marinac
Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Suite SG.64
Parliament House
Canberra ACT 2600

Submission to the Inquiry into Corporate Responsibility

Dear Dr Marinac,

RepuTex Ratings and Research Services is pleased to provide a submission to the Joint Committee's inquiry into Corporate Responsibility.

RepuTex is an independent private company engaged in the provision of quality research and ratings services in the area of Corporate Social Responsibility (CSR) and reputation. The company has an extensive knowledge of the CSR market in Australia, internationally and particularly in Asia. In the Asia Pacific region RepuTex is the pre-eminent leader in the provision of Social Responsibility Ratings and other reputation related research services.

RepuTex has chosen to address all seven elements of the inquiry's Terms of Reference in its submission.

Please do not hesitate to contact me if you would like to discuss further the issues and recommendations raised in this submission.

Yours sincerely

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RepuTex Submission: Inquiry Into Corporate Responsibility

Hugh Grossman & Michael Moran

Since assuming office in 1996 the Federal Government has identified Corporate Social Responsibility (CSR) as an effective and practical instrument of social policy. Acknowledging the historical philanthropic deficit prevalent in Australian society, the Government has sought ways to promote an enhanced culture of corporate giving to enable the corporate sector to provide an ancillary to the functions traditionally performed by public agencies. However, while commendable, these efforts have tended to lack the supporting structures and frameworks prevalent in other comparable jurisdictions, notably the United Kingdom (UK) and France. A more active role in facilitating CSR would enhance corporate sustainability and encourage directors to take greater consideration of stakeholder interests. This may also avert pressures to increase regulations and amend legislation such as the *Corporations Act 2001* (Cth).

This submission provides an overview of the current framework implemented in Australia to support and promote CSR. Part one of the paper contends that a misunderstanding of CSR concepts by commentators has led to confusion as to what amounts to social responsibility. An accurate definition of CSR is presented based on risk management principles associated with governance, environment, social and workplace issues. Part two of the submission provides an overview of the current directors duties framework, outlining the current scope afforded to directors to engage in CSR activities, and the potential for reform to expand directors duties as a mechanism to promote CSR. Discussion focuses on legislative developments in the UK, and the potential for ambiguity associated with integrating the interests of stakeholder groups with shareholder primacy theory. Part three of the paper outlines the effectiveness of voluntary and mandatory reporting mechanisms, more specifically the application of prescriptive legislative instruments as adopted in France. Further detail is provided regarding the take up of voluntary devices in Australia in comparison to other jurisdictions. An examination of the performance of Australian companies in the RepuTex Social Responsibility Ratings is also undertaken as one indicator of the effectiveness of current public policies to promote CSR. Part four of the submission examines the approaches employed by policy-makers in the UK where CSR has moved from a fringe activity to one increasingly accepted as a mainstream corporate governance tool used by directors of publicly listed companies. It is suggested that while this remains fundamentally driven by the idea that 'business can do well by doing good', government can play an important role in facilitating the growth of CSR. Finally some policy options are put forward, which are widely implemented across jurisdictions that share similar economic and political systems to Australia, such as the UK.

PART ONE: DEFINITION OF CSR

1.1 MISINTERPRETATION OF CSR PRINCIPLES

Debate over the potential reform of Corporations Law in Australia has exposed an inherent misunderstanding of CSR principles by commentators and business leaders. Many fail to appreciate the foundation of CSR in risk management and instead view "social welfare" as the *only* component of CSR engagement.

Parkinson, in line with many commentators, defines CSR, which he terms "profit sacrificing social responsibility", as "…behaviour that involves voluntarily sacrificing profits, either by incurring additional costs in the course of the company's production processes, or by making transfers to non-shareholder groups out of the surplus thereby generated, in the belief that such behaviour will have consequences superior to those flowing from a policy of pure profit maximisation."[1] Likewise Lantos contends that "…firms practising altruistic CSR help to alleviate various social ills within a community or society, such as lack of sufficient funding for educational institutions, inadequate monies for the arts, chronic unemployment, urban blight, drug and alcohol problems, and illiteracy, among others."[2]

In practice, the adoption of CSR has a much wider application and may be more appropriately defined as a form of management to minimise conventional notions of non-financial risk in areas such as governance, environmental and social impact and workplace practices. Sound management in such areas controls risk, increases productivity and provides enhanced business opportunities. Companies which engage with the community and adopt a sincere CSR management approach gain an advantage from an enhanced capacity to be aware of and control risk associated with new or altered demands from government regulators, employees, community stakeholders, shareholder activists and consumers.

Minimising non-financial risk ultimately places a company in a stronger, more sustainable market position than an unengaged competitor who is likely to be exposed to a greater number of external variables. As Black argues, the adoption of such practices positions a corporation to effectively manage potential risk. He notes, "social risk management procedures impose clear disciplines upon an organisation and its stakeholders which should result in improved relationships with stakeholders and a better understanding of the environment in which it operates. Such management procedures should better equip an organisation to anticipate the inclinations of those who prescribe regulations and performance expectations upon it, and will sharpen its response to third party pressures."[3] By contrast, companies adopting a non-integrated or insincere approach to CSR are more likely to be subject to constant stress resulting from the diverse range of

[1] Parkinson, J, Corporate Power and Responsibility: Issues in the Theory of Company Law, Clarendon Press, Oxford, 1994, AT 261

[2] Lantos, G, *The ethicality of altruistic corporate social responsibility*, JOURNAL C.M*,* Vol. 19 No. 3, 2002, 206

[3] Black, P, *Social responsibility ratings and their relevance to mainstream investment analysis*, RepuTex Backgrounder, Vol. 1, 2005, at 1.

issues relevant to external parties. Companies such as Gap and Nike, for example, failed to address social risks associated with poor management of supply chain issues in the late 90s. For these companies, poor risk management ultimately led to increased financial volatility; both are now leading proponents of sincere CSR.

RepuTex identifies the elements of sincere CSR engagement. High performing companies in the CSR field should demonstrate, '…a commitment to exemplary conduct and the highest standards of ethical practice in the diverse areas of environmental sustainability, workplace practices and community wellbeing. Transparent and accountable governance structures should incorporate the highest standards of ethics that result in a genuine capacity to self govern and be trusted by the community. Value should be added to the organisation's understanding of social responsibility through a process of active and responsive engagement with a broad range of stakeholder groups."[4] As a result philanthropic contributions constitutes only one component of a strategy designed to minimise exposure to social risk.

[4] RepuTex website: http://www.reputex.com.au

PART TWO: DIRECTORS DUTIES

2.1 CURRENT SCOPE OF DIRECTORS DUTIES – SAFE HARBOUR

The current directors duties framework appears to provide safe harbour for officers who engage in CSR activity, yet does little to adequately promote sustainable business principles.

Reform of directors duties has been proposed by business leaders such as Meredith Hellicar, Chairman of James Hardie, who supports an expansion of duties in order to provide safe harbour for directors who are generous with company funds. She noted, "what one needs is a safe harbour for directors to be able to integrate corporate social responsibility into their decision making without fear that they are going to be sued both personally and as a company by their shareholders."[5] Whilst Hellicar's comments appear to be self-serving in light of the recent James Hardie asbestos scandal, the perceived illegality of altruistic CSR demonstrates a lack of understanding of CSR concepts and the broad nature of the current framework.

While strict interpretation of the law suggests that Australian directors must give exclusive consideration to advancing the financial, not social or moral interests of shareholders, in practice directors' duties already provide safe harbour for corporate officers. Given the tangible and intangible benefits associated with CSR activity, any perceived illegality of CSR, or need for safe harbour, is mistaken.

Difficulty defining the phrase "best interests of the corporation" and the courts' reluctance to set parameters as to what constitutes a benefit appears to have resulted in an expansion of directors duties, indirectly granting officers power to engage in CSR activity. Intangible benefits, for example goodwill, may now be considered to have a direct impact on a company's bottom line; as a result activity which increases goodwill such as pure social welfare may be *intra vires*.

In the modern era, corporations have shown a strong desire to capitalise on the goodwill associated with charity by trading on the notion of the "halo effect". Harvey and McCrohan define the "halo effect" as follows:

> "Increasingly corporate giving is seen not solely as philanthropic but rather as an established part of doing business, being present in the community and acting in the corporation's own self-interest. An additional benefit of corporate giving, regardless of the efficiency level of the philanthropy supported, is that perceptions of corporate social responsibility are higher for firms with greater levels of giving, even for those that had earlier violated the antitrust statues. This finding supports the notion that corporate giving provides a halo effect that can overcome prior transgressions."[6]

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[5] Bartholomeuz, S, *New Director plans could backfire* in THE AGE ONLINE, 6/4/05, Available at: www.theage.com.au

[6] Harvey, J.W & McCrohan, K.F, *Changing Conditions for Fund Raising and Philanthropy* in CRITICAL ISSUES IN AMERICAN PHILANTHROPY, at 59

For example, theorists contend that the halo effect created by McDonalds via its alliance with Ronald McDonald House, minimised the impact of negative publicity associated with the 'McLibel' trial in the UK. Compton notes, McDonald's track record and association with charities reduced the impact of the scandal. He states, "McDonalds is widely accepted as a responsible corporate citizen, so much so that when it got into trouble with environmentalists, the community instantly forgave it. The company had built up a bank of goodwill, which it can draw upon when necessary."[7] As a result, corporations are able to use charity, and the associated goodwill, and a mechanism to control external risk exposures.

Recent examples of corporate philanthropy in response to the Asian tsunami disaster also demonstrate the importance of charity as a risk management tool. The Australian Shareholders Association (ASA) argued that legally, only companies likely to obtain a direct benefit from charitable dealings, such as Bluescope Steel, should donate resources to affected areas. Despite this, many Australian companies, ostensibly with little to gain, engaged in philanthropic acts as a mechanism to enhance goodwill and ultimately avoid domestic consumer backlash.

This notion demonstrates the contemporary application of corporate philanthropy in line with CSR risk management principles. In the modern era, acts of pure social welfare, outside the scope of business operations and interests, are likely to benefit a corporation by enhancing goodwill and employee morale. Furthermore it appears that the public may now expect corporate philanthropy. Many stakeholders appear to be increasingly aware that charitable giving is good for business. As a result, restricting unselfish activity may operate to the detriment of a company in terms of damage to goodwill, brand reputation and risk exposure.

One letter to the *Sydney Morning Herald* stated, "As a shareholder I am proud that companies are reflecting the community feeling and making a significant difference. It is a chance for leaders in all sectors to inspire. The picture of greed and self interest painted by the response of the ASA fills me with disgust."[8] As a result, corporations may be morally obliged to donate in order to fulfil stakeholder expectations and reduce potential exposure to community backlash.

Given this, claims by Hellicar that charitable dealings may be *ultra vires* are erroneous and outdated. In the modern era it appears that all forms of philanthropy may indirectly benefit a company's bottom line under the guise of goodwill and external risk management. Such dealings are therefore likely to be 'in the best interests of a corporation.'

Reform of the *Corporations Act* merely to provide safe harbour to company officers who engage in CSR and philanthropic activity is therefore unwarranted. The existing duties of directors to act in the best interests of

[7] Compton, E, *Community Partnerships*, in IPA REVIEW Vol. 48/4 (1996) at 45
[8] Editorial, *Even shareholders can give without expecting a return*, SYDNEY MORNING HERALD, January 8, 2005

the company already appear to provide safe harbour due to the benefits associated with philanthropic and CSR activity.

2.2 DIRECTORS DUTIES AS A MECHANISM TO PROMOTE CSR

While safe harbour for philanthropic activity appears to be granted by the broad interpretation of directors duties, expansive duties have been touted as a mechanism to promote CSR and sustainability principles. Expansion of directors duties to recognise the interests of stakeholders has been proposed in the United Kingdom, however it is unclear how the duties will be applied in practice, and how potential ambiguities are to be addressed.

In March 2005, the UK Government tabled the *Company Law Reform Bill* (The CLR), which advocated amendments to simplify company law and expand directors duties. The statement on directors duties seeks to introduce the requirement that directors have an obligation to act in the best interests of shareholders, but may pay regard to the long or short term maximisation of profits, taking into account the interests of employees, suppliers, consumers and the environment. The Bill also proposes reform on the rules governing directors' conflicts of interests however this will not be discussed.

Part B3(3) of the CLR states:

> (3) In fulfilling the duty imposed by this section you must take account (where relevant and so far as reasonably practicable) of –
>
> (a) The likely consequences of any decision in both the long and short term;
>
> (b) Any need of the company –
>
> i) to have regard to the interests of its employees;
>
> ii) to foster its business relationships with its suppliers, customers, and others;
>
> iii) to consider the impact of its operations on the community and the environment; and
>
> iv) to maintain a reputation for high standards of business conduct; and
>
> (c) The need to act fairly as between members of the company who have different interests.

The Government's Company Law Reform White Paper notes:

> The statement of duties will be drafted in a way which reflects modern business needs and wider expectations of responsible business behaviour. The CLR proposes that the basic goal for directors should be the success of the company for the benefit of its members as a whole; but that, to reach this goal, directors would need to take a properly balanced view of the implications of decisions over time and foster effective relationships with employees, customers and suppliers, and in the community more widely. The Government strongly agrees that this approach, which the CLR called "enlightened shareholder value", is most likely to drive long-term company performance and

> maximise overall competitiveness and wealth and welfare for all. It will therefore be reflected in the statement of directors' duties, and in new reporting arrangements for quoted companies under the Operating and Financial Review Regulations.[9]

The tabling of the CLR Bill follows the failed attempt by Andy King in 2004 to pass a private members bill in the UK, the *Corporate Responsibility Bill*, later renamed the *Performance of Companies and Government Departments (Reporting) Bill*. The initial proposal supported the introduction of more prescriptive duties for directors, including the obligation for mandatory reporting.

The potential ambiguity created by expansive directors duties is difficult to asses. In the United Kingdom, the CLR would provide statutory support for Common Law directors duties. In Australia, this has already taken place via the introduction of sections 180, 181, 182 and 183 of the *Corporations Act 2001 (Cth)*, which entrench fiduciary duties, but do not impose obligations to stakeholders.

While the basic goal for directors remains the same under the CLR – to ensure the success of the company for the benefit of its members as a whole – expanding directors responsibilities may create ambiguity with respect to the interaction between obligations and the limitations to be placed on the rights of each stakeholder group.

Section (3)(b)(i) of the CLR notes that directors must take into account the rights of employees, yet it is unclear how this is to interact with an officer's obligation to maximise profits. For example, a company which seeks to restructure and retrench employees may be exposed to liability under the Act by ignoring the interests of that class of stakeholder. Conversely, shareholders would likely stand to profit from the streamlining of any inefficiency and may therefore face having their primary right to wealth maximisation interfered with. It is also unclear what impact the expansive duties would have on the ability of the company to engage in collective bargaining which equitably respects the rights of employees to seek increased entitlements, yet also respects the interests of shareholders by ensuring minimal cost outlay.

Interaction with the interests of the community and the environment is also unclear. Large scale job loss may infringe s.(3)(b)(iii) which compels directors to consider community impacts. To what degree, and in what situations will reduced employment have an impact on the community as a whole, and take priority over shareholder interests. Additionally where is the line drawn with regard to "impact on the community". Recent conflict in Maleny, QLD, regarding the construction of a Woolworths supermarket demonstrates that community impacts may be varied. In that example, rural development which was likely to have a negative impact on local shopkeepers resulted in large scale demonstrations and anti-corporate sentiment. Maleny residents claimed that the development would result in lower employment and disturb the local environment. Conversely Woolworths claimed that jobs would be created, with lower costs and accessibility gained by the

[9] Company Law Reform White Paper, p 20 (UK)

community. In such instances it is unclear what common law tests and limitations would be introduced in order to protect the right of company officials to make decisions for the firm, yet at the same time protect the interests of stakeholders. At what point is a reasonable balance between stakeholders and the sovereignty of management achieved, and to what extent is shareholder wealth the primary concern of directors?

As a result, detailed explanatory memorandum would be required to provide guidance regarding the degree to which interests are to be considered, and the order of merit in the event of competing interests between parties. If a fair and reasonable balance can be achieved via statute or common law, such reform is likely to be effective due to its low cost and capacity to protect community interests in the face of potential negative impacts. If such a balance can be achieved, the potential for improved CSR performance is considerable due to improved decision making directly at the source.

PART THREE: VOLUNTARY CODES v PRESCRIPTIVE OBLIGATIONS

Commentators have tended to make a distinction between 'voluntary' and 'obligatory' measures to promote CSR.[10] 'Voluntary' measures – as the name would suggest – rely primarily on individual agency. Corporations and boards can make informed decisions on social and environmental matters, but require some guidance on disclosure and expected behaviours. These tend to be deliberately broad and avoid overly prescriptive language, instead relying on the use of norms, codes and principles to promote standards that move beyond regulatory and legal compliance.[11] Conversely obligatory measures tend to rely on traditional "command and control" structures such as regulation and governmental directives.[12] Zappalá has argued that these instruments are favoured by civil society groups and the NGO community[13], but as Gonzalez and Martinez note are often seen as unnecessarily restrictive and as potential inhibitors to the operation of free and efficient markets.[14]

The regulatory approach has not been favoured in the Australian context and at present there are few requirements which directly oblige organisational decision makers to recognise the interests of stakeholders, beyond their fiduciary commitment to shareholders. Other jurisdictions have been more willing to prescribe reporting standards on companies. As a result, Australia compares unfavourably with other jurisdictions with respect to CSR reporting. Corporate Register.com claims that in 2001, 66% of Environmental, Social, and Sustainability Reprting was produced in Europe, 13% in Asia and only 11% in Ausraliasia.[15]

A KPMG International Survey of Corporate Responsibility Reporting[16], undertaken in 2005, demonstrates that jurisdictions with strong policy support ultimately disclose at a higher level. The survey acknowledges stand alone CSR reports, and those adopted in the Annual Report. Japan has mandated compulsory environmental reporting, as has South Africa as part of its Annual Report disclosure. Although France has adopted mandatory CSR reporting for listed companies, the figure below is representative of listed and private companies.

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[10] Gonzalez, M & Martinez, C, Fostering Corporate Social Responsibility Through Public Initiative: From the EU to the Spanish Case, The Journal of Business Ethics, Vol. 55, p.276

[11] Utting, P, *Business Responsibility and Sustainable Development*, United Nations Research Institute for Social Development, Occasional Paper, No. 2, January 2000, p.5

[12] *Ibid.*

[13] Zappalá, G, Corporate Citizenship and the Role of Government: The Public Policy Case, Research Paper No.4, 2003-04, p.14

[14] Gonzalez, M & Martinez, *Op. Cit* p.276

[15] Association of Chartered Certified Accountants (ACCA) and Next Step Consulting Ltd (2001) Environmental, Social and Sustainability Reporting on the World Wide Web: A Guide to Best Practice, Corporate Register. http://www.corporateregister.com/

[16] http://www.kpmg.com/Rut2000_prod/Documents/9/Survey2005.pdf

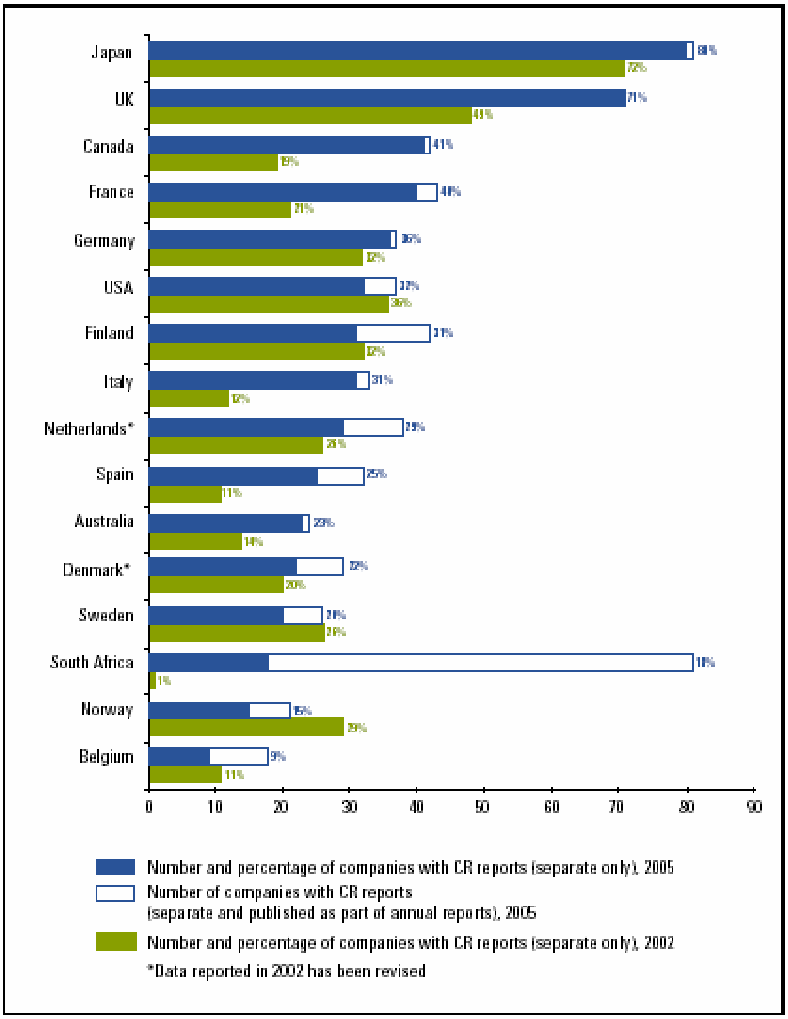

Figure 3: Corporate responsibility (CR) reporting trend by country, Top 100 in 16 countries (2002, 2005)

Source: KPMG

In Australia, the current legal requirements for disclosure are:

- s299(1)(f) of the *Corporations Act 2001* requires companies to include details of breaches of environmental laws and licences in their annual reports; and
- ss1013(A) to (F) of the *Corporations Act 2001*, requires providers of financial products with an investment component to disclose the extent to which labour standards or environmental, social or ethical considerations are taken into account in investment decision-making.

3.1 EXAMPLE OF MANDATORY REGULATIONS: TBL REPORTING IN FRANCE

France's Assemblée Nationale mandated social disclosure as part of its Nouvelles Régulations Économiques (NRE) in 2001. The framework provides an example of a legislative instrument which has successfully promoted increased transparency and higher CSR performance.

The NRE seeks to foster corporate transparency and establish a baseline for future information sharing with stakeholders by mandating disclosure of sustainable activities. The Decree requires French listed companies to disclose data with respect to corporate governance, social and community impacts, environmental management and workplace practices.[17] It is the first statutory instrument in the world to mandate disclosure of a triple bottom line (TBL) report.

Proponents have praised the implementation of reporting standards as a mechanism to promote transparency which had previously been lacking in French corporate culture. Furthermore the initiative has successfully placed CSR on the agenda of public companies, institutionalising sustainability concepts and giving companies a competitive advantage over European and international counterparts.

Conversely, critics note that the Decree has not established specific indicators and methodologies to be utilised in disclosure. Specifically, environmental disclosure requirements have been criticised as inadequate due to their failure to address the long term environmental impact of corporate behaviour – notably the varying impacts of industrial sectors. The Decree has also been criticised for failing to clearly define its applicability to domestic and international subsidiaries of French corporations.

While there is growing recognition of the insufficiency of voluntary initiatives alone in promoting CSR concepts, the effectiveness of a mandatory approach to social disclosure remains subject to debate.

Mandatory social disclosure may be ineffective in promoting CSR in a broader corporate context. Companies lacking a culture of social responsibility which is accepted and enforced by management may be encouraged produce inadequate or misleading reports in order to merely comply with legal requirements. For example, in 2000 the Enron Annual Report led investors and employees to believe that the company was pursuing a range of activities which protected their interests, in the spirit of "respect, integrity, communication and excellence".[18] As Coates states however, the insincerity of the Board's implementation of such systems, and their quest to maximise profits ultimately deceived investors. He notes, "in truth none of the executives adhered to these high minded principles, whereas rank and file employees took them seriously and practised them."[19] Such deficiencies are likely to occur regardless of the credentials presented to the public through

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[17] See Appendix 1 for an outline of the reporting criteria.
[18] *Enron Annual report* (2000), Available at: http://www.enron.com/corp/investors/annuals/
[19] Coates, B, *Rogue Corporations, Corporate Rogues & Ethics Compliance: The Sarbanes-Oxley Act, 2002*, PUBLIC A.M.I.J, Vol. 8, No.3, 2003, at 184

codes of conduct, statements of principles and ethical guideline - It is only by demonstrating to companies that CSR is financially rewarding that such companies will adopt, implement, and enforce it in a willing fashion.

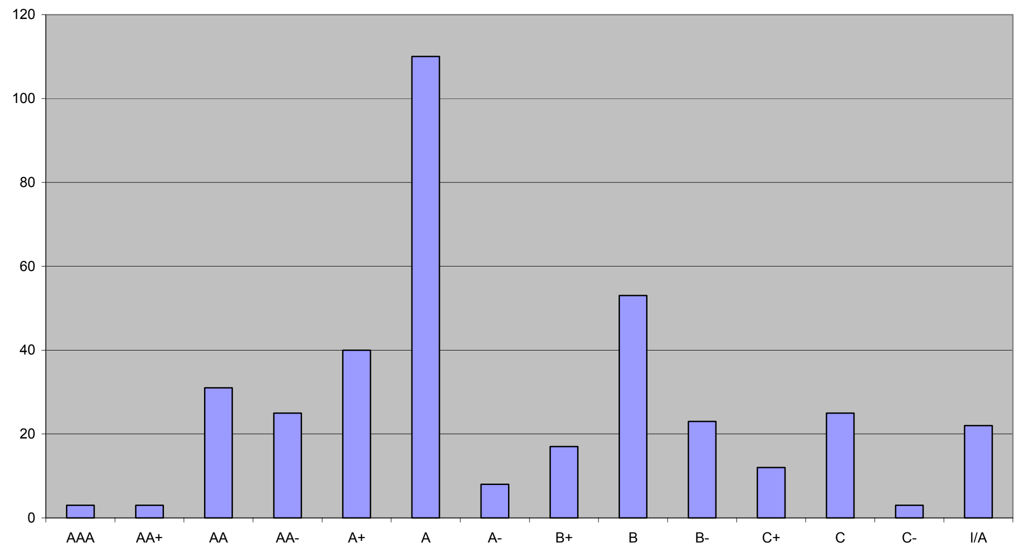
The link between social engagement and financial performance therefore ultimately suggests that companies may be motivated to self regulate and implement socially responsible strategies regardless of legislative reform. As Wenzel states, self regulation may prove to be more effective than legislation. He notes, "Allowing time for a corporate culture to develop within companies, in which consideration of stakeholder interests is respected as a legitimate and central component of the decision making process…is preferable to the imposition of black letter law."[20]

Despite this, evidence suggests that in the Australian setting, where self-regulation and voluntary approaches dominate, corporations have failed to fully embrace sustainability issues and are therefore at a competitive disadvantage on a global scale. While some company officers raise concern over the costs of increased reporting, such factors are negated when a company's performance is measured by non-economic factors such as employee satisfaction and corporate reputation. As Horrigan notes, "compliance with anti-pollution and workplace safety laws to prevent harm to employees and the environment unquestionably increases the costs of business but nobody seriously frames this in terms of unjustified distraction from the financial bottom line or something which compromises the primary directive to satisfy shareholder interests."[21] As a result, mandatory reporting may be an effective mechanism to promote improved CSR performance by Australian companies. In comparison, French companies have experienced a notable take up of CSR engagement as a result of the NRE, and outperform other jurisdictions in both CSR performance and participation in multi-stakeholder initiatives. This suggests that jurisdictions which take a more active role in facilitating CSR experience a higher level of CSR performance.

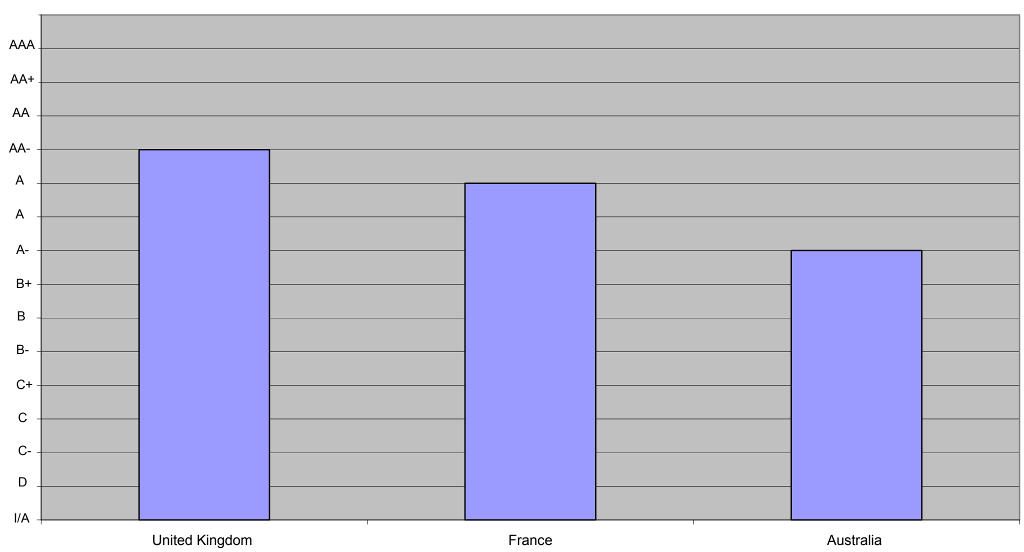
[20] Wenzel, M, *The social side of sanctions: Personal and Social Norms as moderators of deterrence*, 28 LAW AND HUMAN BEHAVIOUR 547, 2004 at 549

[21] Horrigan, B, *Fault Lines in the Intersection Between Corporate Governance and Social Responsibility*, UNIVERSITY N.S.W.L REV. Vol. 25(2) 515, at 539.

RepuTex Global Distribution



RepuTex Global Average



Four key factors support the strengthening of regulatory frameworks in Australia:

1. *Increased transparency*: Extension of disclosure from marketing based, to information sharing. Given the growing interest in ethical and socially responsible investment (SRI), mandatory disclosure provides shareholders, current and prospective, with access to information on a corporation's financial and non-financial risk exposures, and entrenches transparency and sustainability as core business principles. Increased transparency is also likely to reduce the likelihood of rogue activity.

2. *Fulfilment of stakeholder expectations*: Corporate behaviour and accountability are of concern to community and employee groups. Mandatory disclosure is likely to foster enhanced stakeholder dialogue via information gathering processes;

3. *The changing global environment*: Legislative developments in countries such as France and the UK demonstrate the changing global business environment and the developing importance of CSR. In the current setting high performing companies in the CSR area are supported by strong domestic policy.

4. *The need to position Australian companies at the forefront of innovation and development in Asia*: As Australian companies expand into China and across Asia, it is vital that they meet and outperform international disclosure standards. A leadership position on CSR is likely to give Australian companies a distinctive edge in the eyes of government officials, current and potential clients and community groups.

3.3 VOLUNTARY MECHANISMS

As is widely documented, the emphasis in Australia has largely been on the provision of voluntary instruments. In recent years we have seen a proliferation in the number of such instruments, which reflects the emphasis on market mechanisms and self-regulation as a tool for promoting corporate responsibility. Notably many of these codes have not emanated purely from governmental sources, but have been put forward by non-governmental organisations, quasi-governmental organisations and industry bodies, and executed through multi-stakeholder codes and strategic partnerships. Take up of these voluntary mechanisms has thus far been limited.

ASX Corporate Governance Council's Best Practice Recommendations

In 2003 the ASX released the *ASX Principles on Corporate Governance and Best Practice Recommendations.*[22] The principles require listed companies to respond to a series of widely accepted norms on corporate governance practice and were enacted in response to the high-profile corporate collapses which occurred in Australian and overseas markets throughout 2001 and 2002.

Companies that do not apply the principles to their operations must explain why they have deviated from the principles and offer alternative measures which demonstrate support for good corporate governance practice. While the sentiments expressed throughout the recommendations offers a valuable contribution to the

[22] *ASX Principles on Corporate Governance and Best Practice Recommendations*: http://www.asx.com.au/about/pdf/ASXRecommendations.pdf

promotion of CSR – given the centrality of open and transparent corporate governance to overall company CSR success – 'Principles 3 and 10' are particularly pertinent to the terms of reference of this inquiry.

'Principle 3' is designed to "[p]romote ethical and responsible decision-making" within incorporated entities and suggests that companies "should clarify the standards of ethical behaviour required by company directors and key executives"[23]. This is typically interpreted to mean codifying standards in a code of conduct or ethics for senior executives and financial officers, such as that proposed by the 'Group of 100'.[24] This approach follows a mentoring or leadership model whereby executives in senior managerial positions or directors in an oversight role should set high standards of integrity and honesty, which should ultimately, cascade down the organisation.

'Principle 10' states that "[o]rganisations should establish a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders".[25] This is clearly the most explicit statement in the principles regarding stakeholder interests and has been cited by commentators such as McConvill[26] as providing sufficient guidance for directors and other organisational decision-makers. Supporting actions include the provision of an organisation-wide code of conduct which recognises the interests of a range of stakeholders – shareholders, customers, employees and the community – and promotes the values and expectations encapsulated in the directors' code.

It is difficult to ascertain how effective the ASX Principles have been in enhancing consideration of stakeholder interests. Research by RepuTex suggests that a majority of publicly listed companies have adopted a code of conduct. As of November 2004 some 57 of the 66 listed companies in the RepuTex Top 120 Research Project had established a code of conduct, code of ethics or corporate governance charter. Almost all were available in full in the public domain.

A small but growing number of these codes contained either an implicit or explicit reference to the interests of stakeholders. Within this grouping this recognition had sometimes been formalised through legally binding contracts, while others had set-up recourse for aggrieved stakeholders through dispute settlement mechanisms such as a whistleblowers hotline. Across best practice companies – defined as those that had effectively demonstrated that they had actively promoted and communicated ethical standards across the entire organisation and all extended operations, including joint ventures and the chain of supply – higher performance was recorded in other areas such as environmental impact, social impact and workplace practices.

[23] ASX, *op. cit.* 2003, p. 25
[24] *Ibid,* p. 26
[25] *Ibid,* p. 59
[26] McConville, J, Inquiry into Corporate Responsibility, www.corporate-research.net

Nonetheless given the generalised and voluntary nature of the ASX Principles some organisations opted to treat 'stakeholders' as employees, shareholders and customers and had made no formal mention of the broader community in internal codes and policies. Companies that made this inference also tended to treat Principles 3 and 10 as identical and saw their role as engines of economic growth, rather than active corporate citizens. This would suggest that while the voluntary principles can affect corporate governance practice, particularly as companies face the prospect of discipline under ASX Listing Rule 4.10.3, the girth of interpretation does not necessarily mean that directors have, or will, take on a broader definition of stakeholders. Furthermore compliance may be deemed adequate even if it amounts to merely a brief sentence or paragraph. This is not the desired outcome of the Principles, which are deliberately flexible to reflect the diverse nature of Australian companies.

In addition where commitment was expressed it was generally marginal and often did not extend beyond broad mission statements and organisational objectives. This can partially be explained by the preference of some companies to demonstrate their commitment through other voluntary mechanisms such as multi-stakeholder initiatives.

OECD Guidelines for Multinational Enterprises

The OECD guidelines, to which Australia is a signatory, came into existence as part of the 1976 OECD declaration on International Investment and Multinational Enterprises. The Guidelines provide standards of good practice with applicable laws, and address sustainability issues such as human rights, workplace, environment and consumer issues.

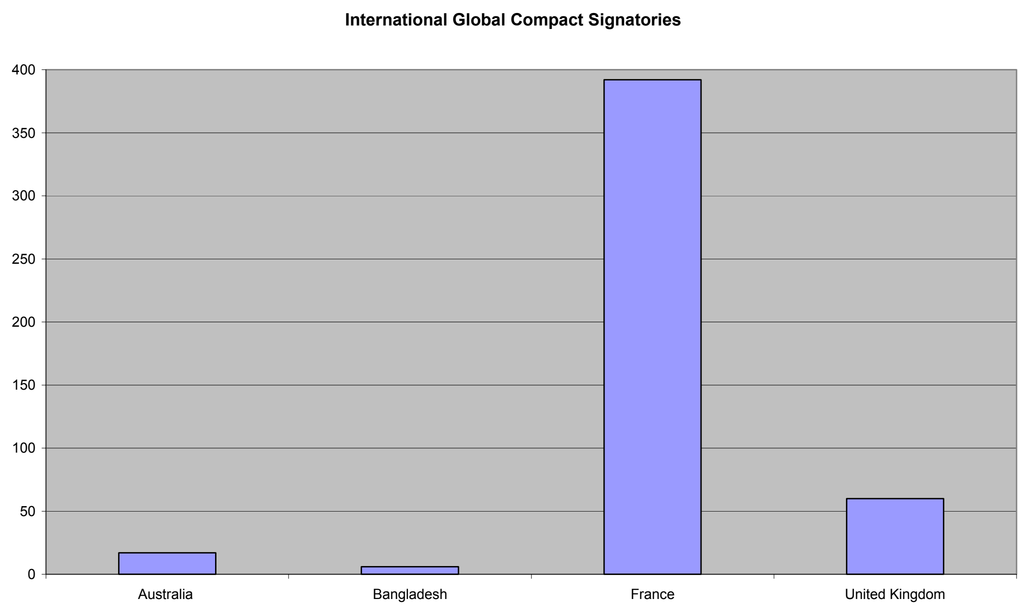
The guidelines are voluntary and non-binding. RepuTex notes that in Australia, only high performing CSR companies, such as Westpac (AAA RepuTex Rating)and National Australia Bank (AA), chose to comply with the guidelines.

Multi-stakeholder initiatives have become key vehicles through which organisations – be they government, business or not-for-profit – have attempted to address some of the concerns that have been raised by the community regarding business activity.

The Global Compact

The Global Compact was established by the United Nations and derived from the Universal Declaration of Human Rights, the International Labour Organisation's Fundamental Principles of Rights at Work, and the Rio Principles on Environment and Development.

The Compact prescribes ten principles, which are not legally enforceable. Companies which chose to be bound are publicly accountable to standards of conduct. In Australia, like other voluntary codes, only high performing companies appear to have subscribed to the Compact. Out of 2,250 organisations worldwide bound to the Compact, 17 in Australia are signatories, of which only three, BHP Billiton (AA- RepuTex Rating), Rio Tinto (A+) and Westpac (AAA), are represented in the BRW top 100.



The above chart demonstrates the effectiveness of the French NRE legislation to promote the take up of sustainability principles via voluntary codes. Mandatory disclosure has successfully lifted corporate engagement with CSR concepts. Conversely in jurisdictions with less prescriptive frameworks and reduced policy support, engagement and take up is lower.

The Global Reporting Initiative's Sustainability Guidelines

The GRI Guidelines set out globally applicable reporting standards for voluntary reporting on the economic, environmental, and social impacts of a company's products and services. Reporting is structured around a CEO statement, key environmental, social and economic indicators, a profile of the reporting entity, descriptions of relevant policies and management systems, stakeholder relationships, management performance, operational performance and a sustainability overview.

The GRI requires social and environmental indicators to be selected or influenced by community stakeholders, therefore encouraging constructive dialogue.

Like other voluntary codes, only high performing CSR companies appear to have adopted the GRI framework in Australia. The GRI website discloses that 38 domestic organisations have adopted the guidelines, only 13 of which are top 120 performers.[27] This demonstrates the slow take up of voluntary measures in Australia.

The Prime Minister's Community Business Partnerships

Since 1999 the government has prompted corporate citizenship via the Prime Ministers Community Business Partnerships (PMCBPs). The PMCBPs operates under the auspices of the Department of Family and Community Services (FACS) and has acted primarily as an information forum on CSR and related issues such as triple bottom line reporting. The website is the primary point of reference for companies and the community regarding government initiatives, which are informed by three guiding strategies "advocacy, facilitation and recognition".[28]

The provision of incentives such as tax-breaks for philanthropic donations and 'recognition' through awards has been the primary platform through which the government has attempted to deliver enhanced "corporate and individual responsibility".[29] In keeping with new models of governance, which aim to unite actors across diverse sectors, the PMCBP's have also 'facilitated' strategic partnerships between the private, government and third sectors. This has involved the active promotion of partnerships through a 'National Brokerage Service', a joint initiative of the Municipal Association of Victoria and Our Community and FACS. Successful examples have been promoted and published on the website with an annual awards process to highlight best practice partnerships. This follows the 'learning network model' utilised in CSR forums such as the Global Compact.[30]

Despite this, issues such as workplace practices and the environment have been marginalised. While reference is made to these issues on the PMCBP website and in policy documents they remain peripheral to the government's discussion of CSR. As is widely recognised CSR goes beyond philanthropy. It extends across a range of areas and requires actions which spill-over layers of government.

This is indicative of the 'silo' approach to CSR in the Australian context. Sustainability is clearly driven by other government departments such as the Department of Environment and Heritage (DEH), but advancing CSR requires a whole-of-government approach as is in place in the United Kingdom.

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[27] Ranked yearly by BRW according to revenue
[28] Prime Minister's Community Business Partnerships, "Our Initiatives", http://www.partnerships.gov.au/about/about_our_initiatives.shtml
[29] *Ibid*
[30] Ruggie, J, Taking Embedded Liberalism Global: Corporate Connection, Taming Globalisation, Frontiers of Governance, Held, D (Ed. Et al)

PART 4: JOINED-UP-GOVERNMENT

4.1 LEARNING FROM THE UK EXPERIENCE

The Federal Government has played an important role in establishing partnerships between the private and community sectors through the PMCBPs. These programmes have facilitated relationships that aim to achieve shared goals and promote social cohesion through initiatives such as workplace giving and philanthropic activities. However, while the partnership program has been successful in advancing the concept of philanthropy, which as stated previously has been somewhat marginal to Australian corporate culture, the experience of successive UK Governments under both the Thatcher and Blair governments has been different. Moon has identified these Governments as key drivers of CSR in the UK, in tandem with other more traditional exponents including business, NGOs and research agencies which play an important role in advocacy. [31]

When the Blair Government came to power the emphasis on CSR as an instrument of social policy began to take a more central position. This has led to the creation of a Minister for CSR along with a host of other 'enabling policies' that aim to unite business, government and not-for-profits around issues of concern to the broader community. The government has used incentives and other voluntary policy instruments to push CSR onto the agenda of British business.[32] It has also supported a range of CSR organisations (e.g. Business in the Community) and NGOs working with socially responsible business" to bring the issue of CSR to fore.

The government actively reports on its own performance and promotes departmental actions around CSR issues. Importantly the UK's approach has utilised resources from multiple departments and has informed policies in diverse portfolios and agencies. So for example, we can see the Department of International Development and Department Trade and Industry taken actions around poverty alleviation programs and efforts to promote sustainable development.

The creation of www.societyandbusiness.gov.uk, an initiative of the Department of Trade and Industry which has responsibility for oversight of CSR public policies, in many respects mirrors the PMCBP website. It also provides practical case studies and examples, but retains a higher profile than the PMCBP site and is a hub for government policies on CSR, not just philanthropic and partnership activities. This is supported by a significant number of research papers and actions designed to position the government as a leader. This can be seen in the active support for and leadership on multi-stakeholder initiatives.

We can see this reflected in the CSR performance of British companies. Of those UK companies rated by RepuTex the majority have performed well with many global leaders residing in the United Kingdom. While

[31] Moon, J, Government as Driver of Corporate Social Responsibility, No. 20, 2004, ICCSR Research Paper Series, p.1
[32] *Ibid*, p.11

this can largely be attributed to the preference of UK business for enhanced competitiveness it is in no small part the product of an enabling and supportive government

RECOMMENDATIONS

Research undertaken by RepuTex in overseas markets illustrates that setting the right policy environment can facilitate enhanced performance and a more active business community which recognises the importance of stakeholder concerns. This can generally occur within the confines of existing legislative and regulatory requirements, but requires sustained leadership by governments and their functioning.

Enhanced government leadership and mandatory disclosure is likely to encourage the development of a sustainable corporate culture in Australia which has thus far not developed of its own accord. The transparency resulting from the aggregation and disclosure of information in response to reporting obligations can only serve to entrench CSR in Australian corporate entities.

RepuTex advises that the following measures may enhance consideration of stakeholder interests by incorporated entities and/or directors:

- Greater co-ordination between government departments and agencies in order to expand the government's current approach to CSR which is limited to community partnerships and philanthropy;
- Development of a CSR specific ministerial portfolio to oversee effective implementation and encourage greater uptake of existing voluntary mechanisms;
- Government to take a leadership role with respect to promoting multi-stakeholder initiatives, e.g. Global Compact;
- Strengthening of regulatory frameworks to adopt mandatory triple bottom line reporting;
- Expansion of directors duties to include responsibilities to stakeholders, provided deficiencies with respect to ambiguity are addressed.

APPENDICES

Table 2. Elements of Reporting Required under NRE 116[38]

Topic	Suggested Quantitative Reporting	Suggested Qualitative Reporting
Human Resources		
Employment	Total employees	--
	Hires during the year	Details on recruiting process
	Short-term employees	Analysis and rationale
	Lay-offs	Analysis and rationale
	Contract employees	Analysis and rationale
	--	Outsourcing/subcontracting
	Efforts to mitigate effects of corporate restructuring	--
Work Organization	Amount of overtime	Analysis and rationale
	Work schedules	--
	Absenteeism	Analysis and rationale
Compensation	History of pay rates	--
	Payroll taxes	--
Social benefits	--	Details
Equal opportunities	Integration of women into different posts	Details/analysis
	--	Integration of physically challenged into workforce
Health & Safety	--	Health and safety conditions
	--	Details of incidents and accidents
Training		Details
Community Involvement		
Local Impacts	--	Integration into the local community
Local Partnerships	--	Contacts with environmental NGOs, consumer groups, educational institutions and impacted populations
Work conventions	--	Extent to which ILO core labor conventions[39] are followed by the firm's subsidiaries
	--	Extent to which the firm encourages its subcontractors to comply with ILO core

		conventions
Local development in foreign countries	--	--
Environment		
Resource Consumption	Water	--
	Energy	Use of renewable energy
	--	Initiatives for energy efficiency
	Raw materials/natural resources	--
	Land use	--
Emissions	Air, water, land, odor, noise, waste	--
Impact on biodiversity	--	Programs to reduce impacts
	--	Programs to promote fauna and flora
Environmental Management	--	Audit and certification policy
	--	Compliance with environmental laws and regulations
	Expenditures	--
	--	Environmental management structures and organization
	--	Employee awareness and training programs
	--	Environmental risk management
	Provisions for environmental risks	--
	Penalties	--
	--	Integration of foreign subsidiaries within environmental management system

Source: "France's *Nouvelles Regulations Economiques*: Using government mandates for corporate Reporting to promote environmentally Sustainable economic development"
http://www.bendickegan.com/pdf/EganMauleonWolffBendick.pdf

Overall Observations – RepuTex 2004

RepuTex criteria and assessment systems in 2004 differ from previous years. The results presented in this report are the initial assessments made under the now fully developed RepuTex methodology. All ratings have been prepared by specialist research analysts appointed by RepuTex within each of the four category areas: Corporate Governance, Environmental Impact, Social Impact and Workplace Practices. The revised system has ensured a more rigorous analysis system to underpin the assignment of ratings; this has resulted in a slightly higher incidence of B and C ratings. In addition, for the first time in 2004, New Zealand's Top 20 organisations were added to the Australian Top 100 to form a regional rating project.

Over the past twelve months RepuTex has observed an increased awareness of corporate social responsibility (CSR) practice and an increased engagement in the area across the region. This overall increase in engagement has not translated into higher overall performance but it does indicate a growing awareness across the Australia Pacific business community of the need to address social risk and incorporate it into formal management systems. It is not unreasonable to expect that over the next period overall performance will improve.

Over the course of 2004 many organisations have expanded their reporting systems to include CSR factors. Expanded reporting is mainly evident through enhanced governance disclosures and social and environmental commentary. Reporting on workplace management has been less evident. Given the fact that many companies strive to position themselves as employers of choice, it is likely that in the ensuing period, companies will recognise the benefits of increased transparency in relation to workforce planning and performance as they find themselves increasingly competing for the best employees from a shrinking cohort.

As in 2003, Westpac was again in 2004 the only organisation to demonstrate social responsibility performance at an outstanding AAA level. This is particularly significant given the increased overall activity in the area and the fact that the cohort of companies grew from 100 to 120 resulting from the introduction of New Zealand companies.

SECTION 1: REPUTEX OVERALL SECTOR PERFORMANCE

High sector performance generally requires strong achievement across each of the categories: Corporate Governance, Environmental Impact, Social Impact and Workplace Practices. The Telecommunications and Information Technology sector outperformed other sectors, achieving an average A+ rating. Of the seven organisations in this sector six demonstrated performance at a AA or A level and two, Hewlett-Packard and Telecom New Zealand (previously rated through the Australian entity AAPT) showed marked improvement from 2003, largely due to the introduction of significantly enhanced reporting systems. The improvement of these two organisations has contributed to a raised overall sector performance.

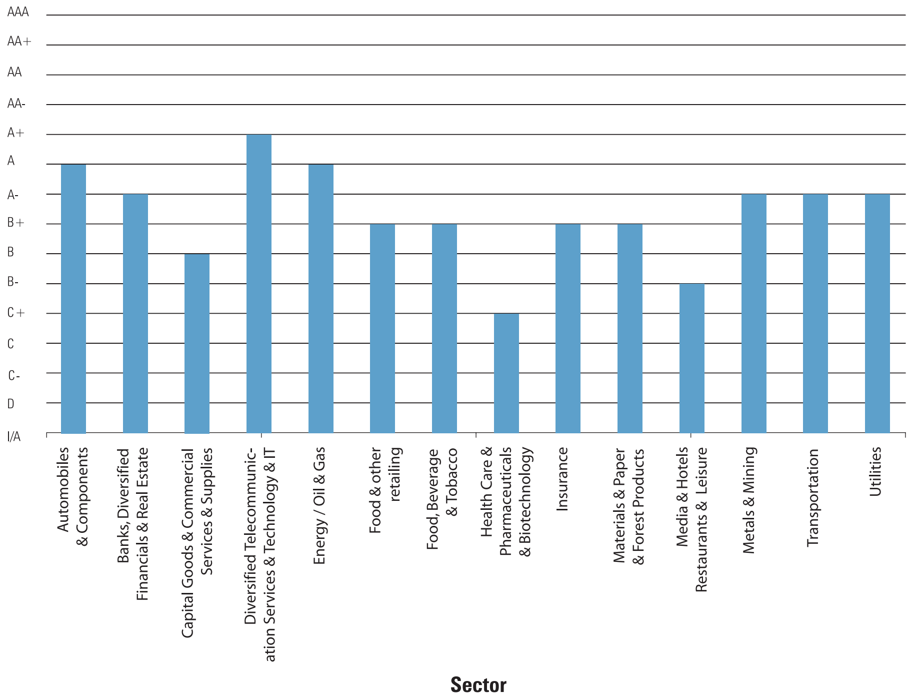
Organisations in the Automobiles and Components sector and Energy sector, demonstrated satisfactory levels of performance, both sectors achieving an average A rating. Results in the Banks, Diversified Financials and Real Estate sector ranged from outstanding to low. In this sector four organisations rated at satisfactory levels, the remaining seven demonstrated low levels of social responsibility performance. Overall the Banking sector achieved an A- rating; this higher than expected average is the result of Westpac's AAA and National Australia Bank's upgrade to AA. Performance across the big four banks, Westpac, ANZ, Commonwealth Bank and the National Australia Bank indicated a wider range of scores than previously.

The Metals and Mining and the Transportation and Utilities sectors each demonstrated satisfactory performance, companies in all three sectors achieving an average A- rating. Organisations in the Capital Goods sector and Media and Leisure sector indicated low social responsibility performance, these sectors being rated at B and B- respectively. Consistent with their performance in 2003, organisations in the Health and Pharmaceuticals sector demonstrated the lowest level of information provision relating to social responsibility performance. These sectors were rated at C+ indicating a very low level of performance. Notably no sector or organisation was assigned a "D" inadequate rating.

Eight organisations did not provide sufficient information to enable a public assessment of their social responsibility performance in 2004. However four organisations moved from I/A in 2003 to obtain formal assessments this year; one notable organisation, Australian Meat Holdings moved from I/A to an A.

RepuTex results in 2004 continue to show that heavy manufacturing and extractive industries, which have historically borne the brunt of public hostility and distrust, have rated relatively well due largely to their advanced management and reporting systems for CSR. The trend of responsiveness to community concern is clearly evident in the degree to which companies in these sectors report. Indications continue to demonstrate that while their level of impact may remain relatively high given the nature of their operations, the willingness of these companies to report with a greater degree of transparency, engage with community based stakeholders on a range of important issues and implement programs to mitigate negative impacts, demonstrates a degree of responsibility. Nevertheless, RepuTex notes that the high impact profiles of companies in these sectors ultimately contribute to their increased business risk.

Overall Mean Score Comparison by Sector



SECTION 2: REPUTEX CATEGORY PERFORMANCE

CORPORATE GOVERNANCE

To demonstrate excellence in corporate governance a company must demonstrate a strong ability to self-govern and self regulate on an ethical, reliable, sustainable and socially acceptable basis. It should demonstrate excellent standards of auditing, reporting and risk management, together with a commitment to stakeholder return and long term sustainability. Only one company, Westpac, has achieved an outstanding governance rating. It has performed consistently well against all criteria.

Companies that have performed at a high level have taken a top down approach to the development of an organisational culture which has sustainability as an embedded component of core operating and management culture. Of the 22 other companies that have achieved above average assessments, all have actively promoted ethical business practice throughout their companies and established governance systems that ensure that stakeholders are provided with publicly accessible, accurate information about the company's operations.

Westpac has achieved this with the establishment of a Board level Social Responsibility Committee, which takes account of both local and international developments in the CSR area and develops and regularly reviews policies accordingly. These are approved at Board level and incorporated into the overall governance framework of the company with systematic promotion into its everyday operations.

The organisational structure of Westpac has been set up specifically to ensure that the company's policies are communicated to all employees, and that they are put in to practice at an operational level. Performance is audited and reported. For example, Westpac's ethical standards are promoted through a comprehensive range of training programs for all employees. The company also extends its policies to its partners, suppliers and contractors. Westpac regularly conducts audits to monitor both performance, and employee awareness of its standards and has provided an independent facility for anonymous reporting of unethical behaviour.

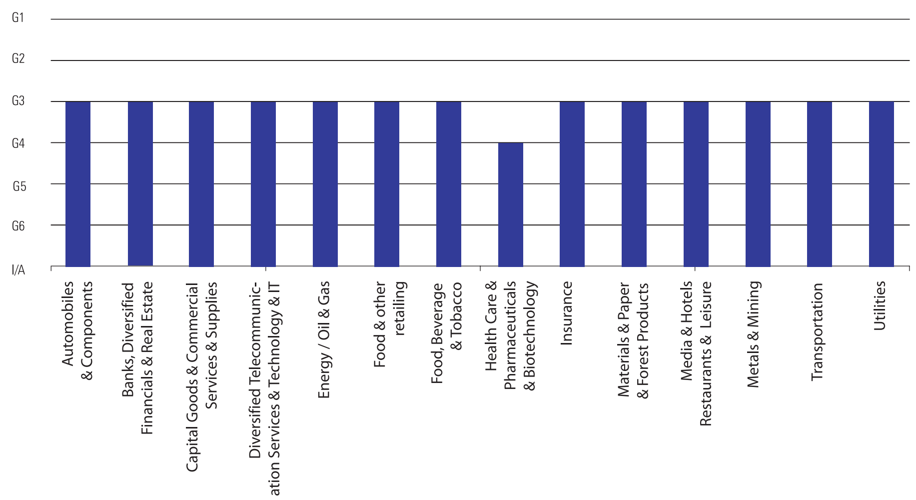
Companies that performed at a high level were Ford, Holden, and Toyota in the Automobiles and Components sector; Hewlett-Packard, IBM, Telecom Corporation of New Zealand and Vodafone in the Diversified Telecommunications Services and Technology Equipment sector; The Warehouse Group and Coles Myer in the Food and Other Retailing sector; Coca-Cola in the Food Beverage and Tobacco sector; the insurance companies, Insurance Australia Group and ACC NZ; BHP Billiton, Rio Tinto, Alcoa, in the Metals and Mining sector, and Origin Energy and BP in the Energy Oil and Gas sector. Australia Post and Queensland Rail in the Transportation sector also performed at a high level.

All of these companies demonstrate that they incorporate social responsibility into decision making and that they actively promote their business standards across all operations. They all provide detailed accessible information for their stakeholders in their reports. Those organisations that are government owned also have a greater degree of independence built into accountability systems as they are audited by government appointed auditors.

All but two industry sectors performed at a satisfactory level. The Health Care and Pharmaceuticals and Biotechnology sector, and the Media Leisure and Entertainment sector both performed at low levels. Only one company in the Health Care and Pharmaceuticals and Biotechnology sector, Sigma received a satisfactory assessment. All companies in the Media and Hotels Restaurants and Leisure sector received low assessments. The assessments for both of these sectors were adversely affected by lack of publicly available information for stakeholders.

Perhaps surprising in view of the extensive public discussion concerning the need to observe corporate governance standards and transparency; RepuTex was unable to obtain sufficient public information to make an assessment of the corporate governance standards and practice of certain companies. They include: Amatek Industries, Murray Goulburn Co-operative, Tattersalls, and Queensland Sugar. None of these companies are publicly listed companies but unlike Visy, also a private company, they do not appear to recognise the need to present their governance credentials within the public domain. Such information might reasonably assure supply chain partners, alliance organisations, employees and the wider community.

Corporate Governance Comparison by Sector



ENVIRONMENTAL IMPACT

Organisations demonstrating outstanding environmental stewardship and a commitment to environmental sustainability do so through maintaining the highest standards of accountability, responsibility, risk assessment and management, and a commitment to continuous improvement. They actively contribute towards improved environmental outcomes with minimal impact on the environment being demonstrated by the organisation and across its supply chain. They undertake effective business and investment policies, environmental management strategies and stakeholder consultation; they independently verify reporting systems and have effective working relationships with sector peers. Public disclosure is comprehensive.

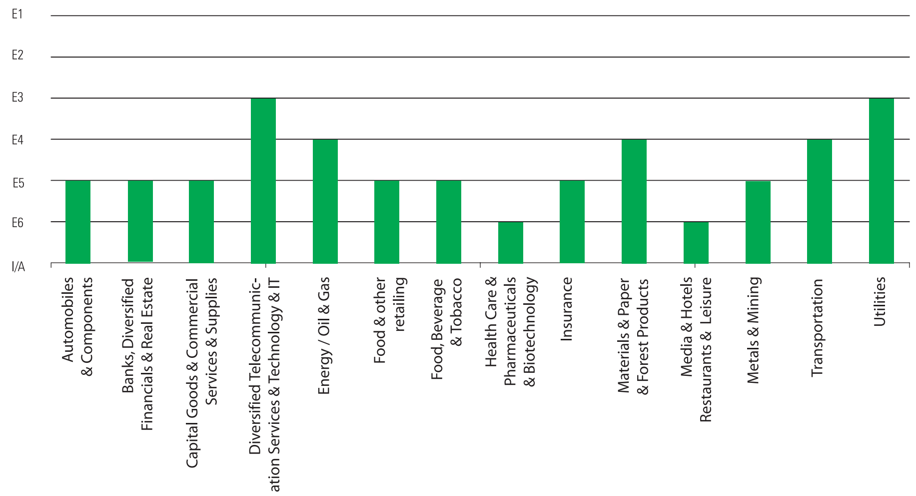
This year Visy once again attained the only outstanding rating. While the core nature of the company's business has a lower environmental impact than other companies in its sector, Visy has excellent internal environmental systems and also seeks to influence the environmental behavior of others. Visy works with many different industries to encourage recycling of materials that were previously not recycled. An example of this proactive approach is Visy's initiative with the recycling of oil containers. The company has comprehensive information available in the public domain regarding its environmental policies and management systems. It demonstrates that it is committed to ecologically sustainable development and is signatory to a number of relevant voluntary codes and covenants.

Two sectors, Utilities and Telecommunication and Information Technology demonstrated satisfactory performance in relation to environmental sustainability. Two companies in the technology sector, Hewlett Packard and IBM were high performers and are amongst the leaders on environmental stewardship. IBM is one of only a few companies in the top 120 that integrates the environment into its accounting systems. Hewlett Packard has shown leadership in its efforts to share information across the industry on alternatives to chemicals needed for development and manufacturing processes in the information technology industry.

Results across the Utilities sector indicate a sector striving to cope with its high environmental impact, tightening regulatory system and increasingly competitive market. Energex was the only company in the sector to demonstrate high performance. Energex manages its own environmental impact using a comprehensive risk matrix that covers issues such as spills, vegetation/biodiversity disturbance, waste and air quality. Extensive management plans are constructed for vegetation management and on-site biodiversity conservation. Energex also advises high use customers on how to reduce their energy consumption and in some instances assists with project funding. The company also provides resources for renewable energy development and marketing.

On average 11 of the 14 industry sectors demonstrated low or very low levels of performance and transperancy on environmental impact. The Health and Pharmaceuticals sector and Media and Leisure sector demonstrated inadequate performance and provided limited information. With the exception of pharmaceutical companies, these sectors have a low environmental impact. However, companies in the Media and Leisure sector have substantial opportunities to reduce environmental impact through increasing efficiencies in energy use, water consumption and waste output, and through greater use of recycled inputs, and recycling. There is also scope within the Hotels Restaurants and Leisure industries to provide opportunities for customers using their services to adopt environmentally aware practices. No company in this sector is as yet taking a comprehensive approach to environmental management or is considering its environmental impact throughout the entire production/service chain.

Environmental Impact Comparison by Sector



SOCIAL IMPACT

To achieve a high Social Impact score an organisation should demonstrate an awareness of its community relationships and commit to very high levels of socially responsible conduct. This commitment should be embedded within its operating culture through policies and strategies and the wider contribution of products and/or services to the community. A proactive approach should be taken to local and global human rights, customers, disadvantaged people, cultural and sporting activities, education partnerships and community welfare. Social contribution should be actively measured, independently evaluated and reported against verifiable benchmarks set in consultation with a comprehensive range of stakeholders, fostering strong community engagement. Public disclosure and reporting should go beyond sponsorship and community partnerships to take into account the organisation's overall impact and contribution to a socially sustainable future.

Overall, the findings for this category indicate that companies are beginning to move beyond sponsorship and philanthropy to recognise the importance of other considerations such as human rights, supply chain impacts, transparent social reporting and engagement with community stakeholders. In particular, RepuTex noted a significant increase in the number of companies publishing stand alone social reports. Westpac and The Warehouse Group are particularly worthy of mention; Westpac's Social Impact Report measures performance against various stakeholder expectations and the objectives contained in earlier reports. The Warehouse Group publishes a comprehensive Triple Bottom Line Report which is distributed in tandem with its Annual Report. This year has seen a number of companies, such as Telstra and Amcor, demonstrate a more open commitment to transparent reporting through the production of 'first off' social reports. Moreover, Coles Myer, Santos, National Australia Bank, Insurance Australia Group, Carter Holt Harvey, and AGL all indicate an intention to expand their current reporting for social impact.

The results reveal that only two companies achieved a category score of S1 in the area of social impact, Westpac and Australian Postal Corporation. Both organisations were consistent performers across all areas. Westpac has developed a number of community partnerships which focus on the 'sharing of expertise' in the context of financial literacy. Such partnerships demonstrate a genuine dedication to forming long-term relationships with the community sector rather than the mere provision of arms-length donations to large national charities. Similarly, Australia Post demonstrates a real commitment to supporting programs relevant to its setting, for example, its Charity Mail program which enables registered charities to reduce their postage bill and therefore their cost of fundraising. Both Westpac and Australia Post, also rigorously manage and measure their community involvement by utilising independent frameworks to appraise the benefits of partnerships.

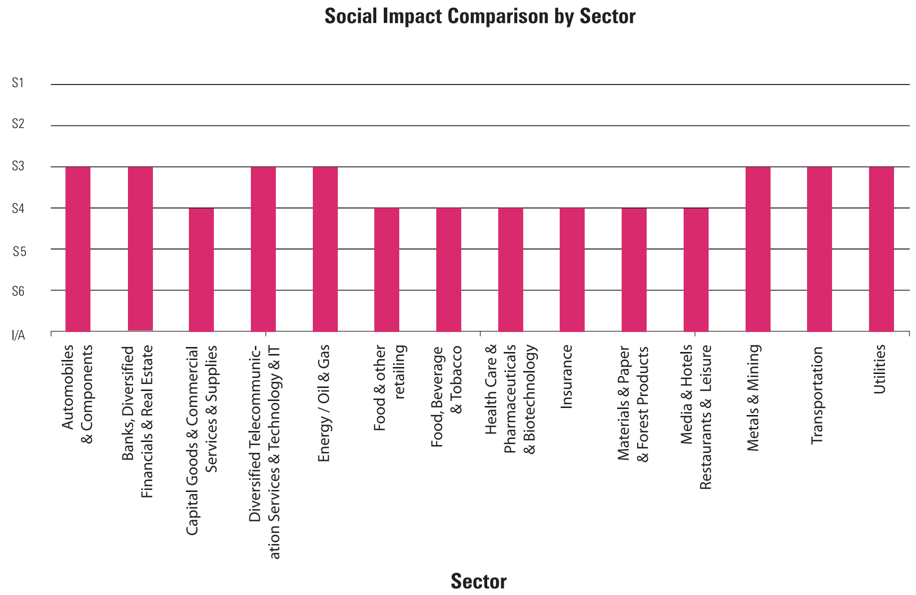
Also worthy of mention are issues concerning consumers. Both Westpac and Australia Post have excelled due largely to their implementation of active strategies to overcome discriminatory barriers for special needs consumer groups. Such strategies indicate a commitment to consumer rights beyond the publication of publicly available consumer charters and complaint resolution systems. For example, Australia Post indicates extensive strategies which include full disability access to retail facilities, cross-cultural awareness training to promote better understanding and communication for employees who have contact with customers from cultural and linguistically diverse backgrounds, the development of 'Bill Manager' to assist people in financial difficulty and the provision of personal banking at Australia Post outlets through the giroPost system, a significant initiative for those restricted by geographic location.

Equally positive are strategies developed at Westpac which aim to assist members of many remote Indigenous communities to open bank accounts necessary for the receipt of financial entitlements. The company also has comprehensive strategies to assist low income groups, cultural and linguistically diverse communities and people with disabilities.

There is not a great deal of variation in the average performance of organisations in the different industry sectors in relation to their social impact. Half of the fourteen sector groups on average achieved satisfactory scores, whilst the remaining seven achieved low scores. The Automobiles and Components sector, Banks, Diversified Financials and Real Estate sector, Telecommunication Services and Information Technology Equipment sector, Energy sector, Metals and Mining sector, Transport sector and Utilities sector demonstrate satisfactory performance and transparency.

In the Banks, Diversified Financials and Real Estate sector a number of companies have well developed philanthropic programs which seek to address socially vulnerable community segments. Such efforts include programs to increase financial literacy and provide business advisory services to community organisations. Amongst the information technology companies there is growing awareness of supply chain labour standards and human rights. Hewlett Packard, in particular, has well established systems to work with suppliers in emerging markets to improve working conditions. Equally, Vodafone has begun to engage with suppliers to establish systems for the responsible sourcing of raw materials. The inherently high impact nature of the Metals and Mining and Energy sectors, and resulting high level of scrutiny by civil society and local communities, is reflected in systems for community consultation and social impact monitoring and reporting that are more advanced than found in other sectors. Finally, a number of utility companies, such as Sydney Water and AGL are leading the way in implementing programs in collaboration with welfare organisations to prevent the utility debt poverty cycle.

Thirteen organisations received I/A in Social Impact in 2004, an increase from 8 in 2003. Two sectors contain the majority of these organisations – Capital Goods, Commercial Services and Supplies (five) and Food, Beverage and Tobacco (four).



WORKPLACE PRACTICES

Organisations demonstrating outstanding workplace practices display a commitment to processes that enhance their employees' capacity to perform their roles effectively. The organisations that best demonstrate these qualities in the 2004 RepuTex ratings are IBM and Exxon-Mobil.

Both companies demonstrate highly effective HR frameworks based on objective recruitment and performance management systems. The companies also demonstrate remuneration structures that align responsibilities and skills with pay levels, monitor internal relativities and benchmark salaries against other industry players. IBM's level of transparency is excellent, and goes well beyond mere statements of policy to reveal the practical steps the company is taking to improve its workplace practices. This provides current and prospective stakeholders with the opportunity to gauge, first-hand, the quality of the company's programs and their commitment to sustainable business practices.

IBM demonstrates excellent work/life balance initiatives, outstanding gender diversity strategies and a high level of transparency in reporting on gender issues. One of IBM's particular strengths is the excellent range of work/life balance flexibilities and initiatives. Work flexibilities include individualised work schedules, flexible work weeks, part time work, job share, telecommuting and the opportunity for an employee who is a primary caregiver to purchase additional leave.

Exxon Mobil has developed a high quality Hazard and Risk Management System and demonstrates a strong commitment to training. Future skill requirements, identified by the company during its planning process, as well as the individual development needs identified through the performance management process, drives the company's training program. The commitment of these companies to improve the fundamental aspects of the working environment, such as fairness in recruitment, promotion and remuneration and appropriate safety management, provide guidance for other companies wishing to improve their workplace practices.

The inclusion of New Zealand companies in the RepuTex ratings this year has disclosed some innovative work practices. For example, NZ Post applies a preferential employment status to women who resign after maternity leave and seek to be re-employed within 5 years. As an alternative to the company's co-contribution to retirement savings, at the rate of 1.5 times the employee contribution, an employee may use a similar contribution matching scheme to pay off student debt.

The level of statistical reporting placed in the public domain by Australia Post, Telstra and Westpac is commendable. This level of reporting demonstrates a genuine accountability for diversity that goes beyond mere statements of policy or publicity, to enable the public to monitor the effectiveness of the company's diversity programs over time.

The Warehouse Group leads the way in the level of accountability for supply chain activities. The terms of trade document, available on the company's website, places contractual obligations on suppliers and agents to observe legal and industry standards and prohibit certain activities, such as child labour. The document also provides for compliance checks.

Notwithstanding that there may be significant variations in the level of performance between companies within each sector, when the companies ratings within each sector were averaged and companies who received ratings of "I/A" were removed, the following 5 sectors rated the highest for workplace practices:

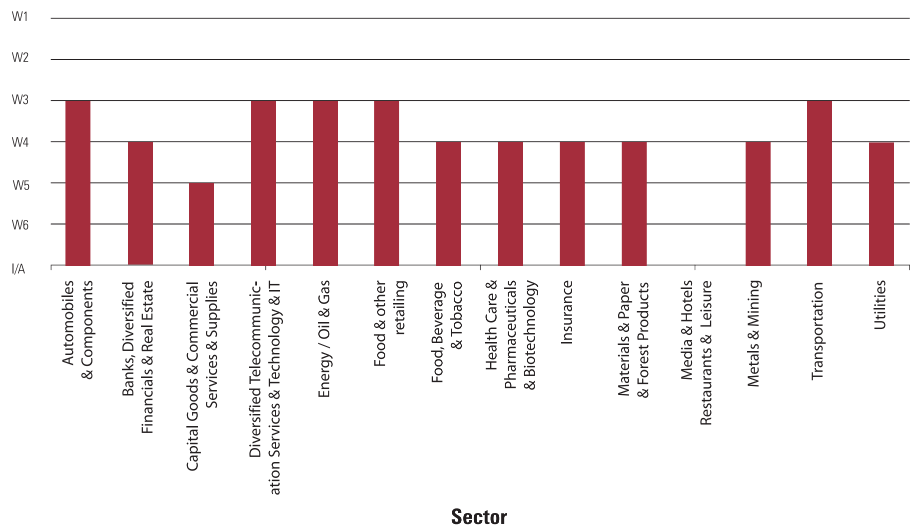
- Telecommunication and Information Technology,
- Energy;
- Food and Retailing;
- Transportation;
- Automobiles and Components (NB, 3 out of the 6 companies in this sector were rated IA).

The following seven sectors averaged a low rating for workplace practices:

- Banks, Diversified Financials & Real Estate;
- Food Beverage & Tobacco;
- Health Care, Pharmaceutical & Biotechnology;
- Insurance;
- Materials & Paper & Forest Products;
- Metals & Mining;
- Utilities.

The Capital Goods & Commercial Services & Supplies Sector received a very low rating, reflecting the large numbers of companies who fail to make information on workplace practices, such as the HR framework, remuneration strategy or safety management systems, available in the public domain. There was insufficient information in the Media & Leisure sector to provide an average rating, with only 1 out of the 5 companies in that sector providing sufficient material in the public domain on which a rating could be conducted.

Workplace Practice Comparison by Sector



SECTION 3: PERFORMANCE BY ORGANISATIONAL TYPE

Companies receiving a RepuTex Rating in the 2004 research project represent a range of organisational types. These include companies listed on the Australian Stock Exchange, wholly owned subsidiaries of overseas listed multinationals, government corporations and privately owned, mutual and co-operative companies (Other). Comparisons between these groups indicate that government enterprises continue to present as the highest overall performers, followed by local subsidiaries of overseas listed multinational companies and ASX listed companies.

As in 2003, the maintenance of strong performance in government organisations reflects the enhanced levels of accountability and transparency required by government authorities and the closer link between these organisations and their community stakeholders. Public sector organisations generally indicate a proactive approach to social responsibility and the pursuit of best practice in the area. In particular, organisations such as Energex and Australia Post are clear leaders in the Australia Pacific region.

Subsidiaries of multinational companies have also performed relatively well due largely to more developed policies and practices required by head offices in other markets where the CSR agenda is more developed. Nevertheless, despite their overall enhanced position compared with ASX listed companies, some multinational organisations operating in Australia do not demonstrate practices to match that of their parent companies in other markets such as the United Kingdom.

ASX listed companies continue to perform at lower levels than government enterprises and overseas listed companies. To some extent, this is the result of low take-up of CSR initiatives in particular sectors. Higher performing ASX listed companies tend to come from high impact sectors. This may indicate that low impact sectors in the Australian market do not at this stage see CSR as a significant business risk.

Performance Comparison by Company Type