Submission to the Parliamentary Joint Committee on Corporations and Financial Services

Inquiry into Corporate Responsibility

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Corporate responsibility and triple bottom line reporting

There is a huge debate in the business and sustainability reporting literature on reputation management, corporate social responsibility, corporate citizenship, socially responsible investing, triple bottom line reporting and sustainability reporting. Distinguishing between the terms is important because many responsibility and reporting initiatives are driven internally by concerns about marketing, public affairs or public relations. Corporations are not apolitical in this regard. They seek legitimacy and power in markets and societies through various discourses about their contributions to the broader social good. It is possible, however, for a company to have a good reputation and yet provide socially sub-optimum outcomes for society.

Tobacco companies are a case in point. A given company may have a "good" reputation in the industry; nevertheless, its product is a carcinogen with known and detrimental consequences for public health. Forestry companies provide another example. A given company may have a "good" reputation in the overall industry even though it is clear felling old-growth forests. Given the legal status of tobacco smoking and logging old-growth forests, this suggests that reputation has more to do with the trust that a specific set of stakeholders place on the company than broader corporate responsibility considerations. When the range of stakeholders considered is broadened beyond the group having confidence in the company's reputation it becomes essential to consider the social and environmental contexts in which the business is operating. In this regard there is a critical distinction to make between managing reputation and managing performance: they are not the same thing. Many companies put forward the view that reputation is their most important asset and hence they will behave in a socially responsible way to protect it. This view has to be seen in the context of the narrow set of stakeholders who trust the company and not with respect to a wider set of stakeholders who may have a different set of values.

Turning to the issue of voluntary reporting, financial reporting has to be the contemporary point of reference. Financial reporting is a highly regulated activity: if it was voluntary, the outcomes would be poor for a range of stakeholders including, of course, shareholders. The reason that reporting on financial performance is not voluntary is that companies would have no incentive to report accurately, and indeed, some incentive to do otherwise. By analogy, the same case can be made for the limits of voluntary reporting on social and environmental performance. Voluntary reporting particularly suits companies managing their reputations with respect to a given "commercial constituency". It is "good news" reporting because it allows companies to accentuate the positive and to ignore or perfunctorily address social and environmental performance.

Given broader social needs for sustainable production and consumption, there are compelling arguments to insist that companies report according to a benchmark standard such as the Global Reporting Initiative's *Sustainability Reporting Guidelines*. The weight of evidence in the literature on corporate performance is not ambiguous. Legislative compliance fosters behavioural change far more than voluntary initiatives. This justifies Government's role in providing the legislative framework and non-compliance penalties required for companies to report on corporate environmental and social performance according to an agreed standard.

With respect to government operations, it is constructive to consider the Department of Environment and Heritage's own information on Ecologically Sustainable Development Reporting Guidelines[2] for agencies of government. Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) is a useful point of reference in this regard. This section requires Commonwealth organisations to report on environmental performance of the organisation and the organisation's contribution to Ecologically Sustainable Development (ESD) in their Annual Reports.

The Department of Environment and Heritage provides details on what has to be reported according to the following six steps (italics in the original):[3]

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[1] The views provided are those of the author only

[2] Department of Environment and Heritage (2003) *ESD Reporting Guidelines* available at: http://www.deh.gov.au/epbc/publications/esd-guidelines/

[3] Detail on Section 516A reporting requirements can be found at: http://www.deh.gov.au/epbc/publications/esd-guidelines/preparing.html

Step 1: Report on how the *activities* of the organization, and the administration of legislation by the organization, accorded with the principles of ecologically sustainable development
Step 2: Identify how the *outcomes* specified for the organization in an Appropriations Act contribute to ESD
Step 3: Document the effect of the organization's *activities* on the *environment*
Step 4: Identify any measures (if any) taken by the organization to minimise the impact of its activities
Step 5: Identify mechanisms (if any) for reviewing and increasing the effectiveness of those measures
Step 6: Prepare ESD and environmental performance report'

Although there is little evidence that Commonwealth agencies are doing a stellar job of reporting according to these guidelines,[4] a practice has been set out which one could reasonably expect to be enforced over time.

Sustainability reporting is a way to ensure that corporations internalise externalities and avoid socially and environmentally counter productive activities. This not only results in better decisions at the corporate level but in financial benefits to State and Commonwealth Treasuries as well as the benefits in terms of positive social and environmental outcomes. In summary, the public benefits of sustainability reporting according to a benchmark standard (and which allows for third party endorsement), outweigh the private costs.

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[4] See Robert Gale and Warwick Gullett (2004) "Legislated Environmental Reporting Requirements: Compliance Issues at the Great Barrier Reef Marine Park Authority", *The Australasian Journal of Natural Resources Law and Policy*, Vol 9 (1) pp. 22-58.