

Business  
Council of  
Australia



**Business Council of Australia**

**Submission to the Parliamentary Joint Committee  
on Corporations and Financial Services**

**Inquiry into Corporate Responsibility and Triple-  
Bottom-Line Reporting**

October 2005

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## Foreword

The Business Council of Australia (**BCA**) is an association of chief executives of approximately the top 100 companies in Australia employing nearly 1 million people and generating revenues of around \$340 billion. The BCA was established in 1983 to provide a forum for Australian business leaders to contribute directly to public policy debates to build a better and more prosperous Australian society.

The key role of the BCA is to formulate and promote the views of Australian business. The BCA is committed to achieving the changes required to improve Australia's competitiveness and to establish a strong and growing economy as the basis for a prosperous and fair society that meets the aspirations of the whole Australian community.

The BCA has a particular responsibility to apply Australia's business experience and understanding to resolving successfully the challenges now facing Australia. In a global environment, Australia's future depends on achieving world class performance and competitiveness. On the basis of sound research and analysis, the BCA seeks to play a key role with Government, interest groups and the broader community to achieve world class performance and competitiveness.

With this in mind, the BCA makes the following submission.

This submission includes case studies of CSR activities being undertaken by a sample of Members. Given the broad Membership base and the large amount of CSR activity being conducted by the BCA Members, the case studies can not cover the field in terms of the CSR activities being conducted by the BCA Members and are merely illustrative of some of the activities being undertaken.

## Executive Summary

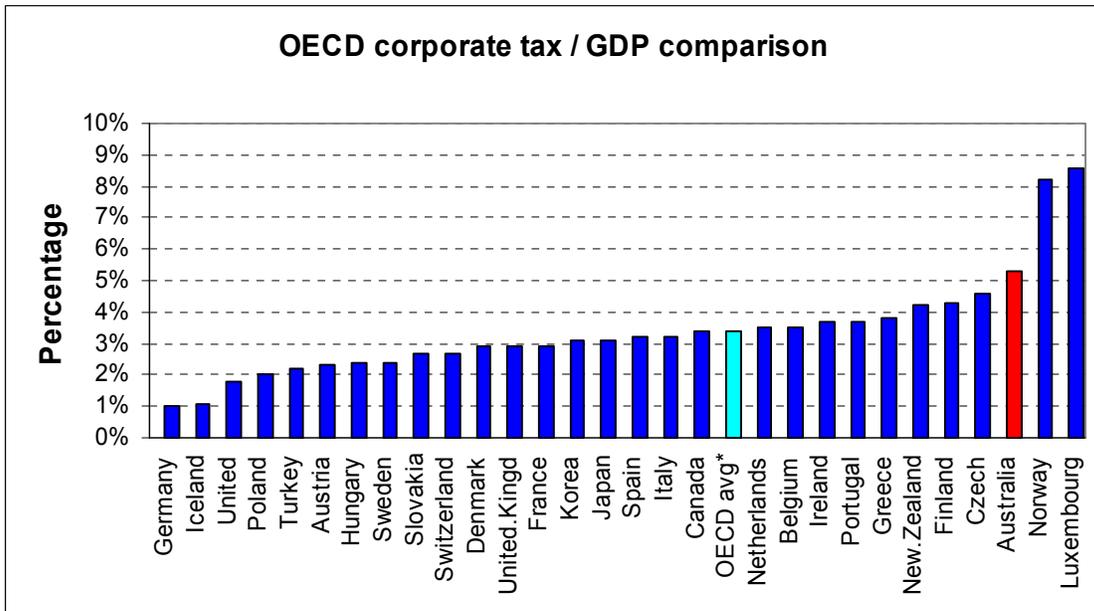
The Business Council of Australia (**BCA**) welcomes the opportunity to contribute to the inquiry by the Parliamentary Joint Committee on Corporations and Financial Services into corporate responsibility and triple-bottom-line reporting. The BCA sees the inquiry as an opportunity to get greater clarity around the meaning of terms such as 'corporate social responsibility' and to demonstrate the strong commitment of Australia's large corporations to working responsibly within the Australian community.

As a starting point, the BCA submission examines some of the definitional problems around terms such as 'corporate responsibility' 'triple bottom line' or 'corporate social responsibility'. This lack of clarity can lead to considerable misunderstanding and controversy about what is meant by these terms. For the BCA, the essence of this issue can be captured as follows:

*Corporations operate within the community. For corporations to be sustainable and successful in the long term, they need to engage with the community and take account of community attitudes. Successful companies therefore factor into their forward strategies activities that manage the challenges and risks to the community and capture the opportunities that community engagement can bring. To be valid, these activities must deliver benefits both to the community and the shareholders of the corporation.*

It is important to note that while this submission concentrates on many of the non-financial aspects of corporate social responsibility, the greatest social contribution made by corporations is through the goods and services they provide, the wealth they create and the employment they generate. For example, the taxes paid by companies contribute directly to the wealth of the economy and economic prosperity, and in Australia the corporate tax contribution as a share of GDP is higher than every relevant comparison country, including current and future competitors.

### OECD corporate tax burdens



Source: OECD Revenue Statistics 1965-2003

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All BCA Member companies are currently engaged in some form of activity that falls within the above description of corporate social responsibility. Most (around 80%) are also reporting publicly on their activities, through standalone reports, annual reports or websites. The fact that Australia's large corporations are already extensively involved in corporate social responsibility indicates that there are strong drivers already in place, without the need for Government intervention. **The BCA therefore opposes any proposals to create positive duties on Directors or officers, to mandate corporate social responsibility through legislation or to introduce reporting requirements beyond those already in place in the general law.**

The BCA has identified the existing drivers towards greater corporate social responsibility as:

- employee recruitment, motivation and retention;
- learning and innovation;
- reputation management;
- risk profile and risk management;
- competitiveness and market positioning;
- operational efficiency;
- investor relations and access to capital; and
- licence to operate.

These are discussed in detail in the submission and examples from BCA Member companies are provided to illustrate how these drivers affect corporate activity.

There are therefore very strong reasons for corporations to have regard for the interests of stakeholders other than shareholders, and the broader community. The reality of these drivers is proven by the extent, scope and innovation in the activities engaged in by BCA Member companies.

It is important to remember, however, that a company's paramount obligation is to its shareholders. The two are not mutually exclusive. It is in the interests of shareholders to have their company flourish and grow. This is only possible in a sustainable way when the corporation takes into account the interests of other stakeholders, and the broader community, to the extent that these interests are relevant to the corporation.

While the BCA recognises the realities of the drivers towards greater corporate responsibility, and supports corporations having regard to the interests of stakeholders other than shareholders, there are limits to the extent that corporations can and should have regard to interests other than those of shareholders. The litmus test for any activity or responsibility is whether the performance of that activity or responsibility can reasonably be seen to be contributing to the growth of shareholder value. While some may argue this is too restrictive, the BCA believes it is a paramount principle entrenched in the basic nature of the corporation and its arrangement with the owners of its capital, the shareholders. The BCA also firmly believes that this paramount principle does not limit the ability of corporations to take into account the interests of other stakeholders to the extent that these interests are relevant to the corporation. Nor does it restrict the diversity and innovation in the approaches that corporations can take to responding to the interests of other stakeholders, as witnessed by the wide range of activities BCA Member companies are currently engaged in.

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## Part 1

### 1. Introduction

Part 1 of this Submission will examine what is meant by ‘corporate social responsibility’ (**CSR**) and similar terms, the various drivers for corporations to act responsibly and the wide range of activities that Business Council of Australia (**BCA**) Member companies are already engaged in that fall within the scope of CSR. Part 2 of this Submission will then address each of the elements of the Terms of Reference for the Inquiry into Corporate Responsibility by the Parliamentary Joint Committee on Corporations and Financial Services.

CSR is more than merely corporate philanthropy and remains difficult to define precisely. CSR includes the recognition by companies of their impact on all stakeholders (including social, environmental and employee related impacts) and the creation by companies of mechanisms to respond to those impacts effectively. The BCA’s definition of CSR and a further discussion about what is meant by CSR is outlined below in section 2. For simplicity the BCA uses the term CSR within this submission, however, this is not an endorsement of the term nor an acceptance that CSR can easily be defined.

The BCA’s membership covers approximately the top 100 companies. The BCA has conducted a survey of its Member companies to assess whether they are engaged in CSR activities. What is very clear is that BCA Member companies are aware of the importance of CSR and that all of the BCA Member companies are actively pursuing CSR initiatives as a part of their operations.

The case studies attached to this submission (see [Attachment A](#)), as well as the examples of CSR activities being undertaken by BCA Members (outlined in section 4), demonstrate that BCA Member companies are actively engaged in CSR activities because there is a business case for them to do so<sup>1</sup>.

This submission identifies eight key economic drivers of the business case for CSR and examples of how BCA Member companies are responding to those economic drivers (see section 4). This demonstrates that the importance of CSR is being recognised and responded to by BCA Member companies, providing benefits to shareholders, employees, the community and the environment.

**Given the difficulty defining CSR, as well as the fact that CSR activities are already broadly being pursued in Australia by large corporations, mandating CSR through legislative intervention runs the risk of stifling the innovative and creative approaches to CSR that are being adopted by Australian companies.** Instead, there are options other than regulatory alternatives which are likely to foster meaningful dialogue on CSR issues and create forums for companies to educate and learn from each other about CSR approaches and initiatives.

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<sup>1</sup> This submission includes case studies of CSR activities being undertaken by a sample of Members. Given the broad Membership base and the large amount of CSR activity being conducted by the BCA Members, the case studies can not cover the field in terms of the CSR activities being conducted by the BCA Members and are merely illustrative of some of the activities being undertaken.

## 2. Problems with defining CSR

It is not possible to define CSR precisely as the concept covers a wide range of ideals and interactions. Attempts to provide a precise definition can be confusing and ambiguous because the concept means so many different things to different people. In addition, a wide range of terms are used to define similar, though not necessarily equal, concepts. Such terms include 'corporate citizenship', 'triple bottom line performance', 'corporate sustainability', 'licence to operate', 'corporate responsibility', 'community spirit', 'corporate community involvement' and 'sustainability'. While arguably each of these terms refer to different things, they are often used interchangeably and without precision. As a result, there is considerable misunderstanding and controversy about what is meant by these terms. The BCA's own description, given below, could best be described as 'corporate sustainability', capturing the notion of sustaining both the corporation and the society and environment within which it operates.

The fact of the matter is, that the three main challenges facing companies today are:

- Staying alive
- Producing value for shareholders, and
- Building an enterprise that will not only survive, but also succeed over the longer term

Source: John McFarlane, CEO ANZ Banking Group<sup>2</sup>

For simplicity, the BCA uses the term CSR within this submission, however, this is not an endorsement of the term over others nor an acceptance that CSR can easily be defined. This submission uses the term CSR broadly, to include all of a company's impacts on stakeholders and the company's need to deal responsibly with those impacts. The BCA suggests that CSR broadly involves the following:

*Corporations operate within the community. For corporations to be sustainable and successful in the long term, they need to engage with the community and take account of community attitudes. Successful companies therefore factor into their forward strategies activities that manage the challenges and risks to the community and capture the opportunities that community engagement can bring. To be valid, these activities must deliver benefits both to the community and the shareholders of the corporation.*

Whilst this general statement of the meaning of CSR can act as a guide, there are multiple problems associated with trying to define CSR precisely. These difficulties are of relevance to the Parliamentary Committee's deliberations as the Committee needs to

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<sup>2</sup> John McFarlane, 'Challenging the Role of Corporations in Society', Speech at University of Melbourne's 2005 Town and Gown, 31 August 2005.

ensure that any initiatives it may recommend to encourage greater corporate responsibility do not inadvertently restrict or inhibit the wide range of innovative approaches to CSR that Australian corporations are already developing and implementing.

It is also important to note that while this submission concentrates on many of the non-financial aspects of CSR, the greatest social contribution made by corporations is through the goods and services they provide, the wealth they create and the employment they generate.

## **2.1 Diversity of objectives and activities**

CSR is difficult to define because the activities which are included within its scope are so diverse and have so many different objectives. Often CSR is perceived to be corporate philanthropy (being support of charitable or other cultural activities) however CSR is much wider than just philanthropy. The BCA also believes that philanthropy that is not designed to return some longer term benefit to shareholders falls outside of scope of legitimate CSR.

Australian companies are undertaking broader CSR activities that include, for example, environmental partnerships with Government agencies and communities to develop sustainable operating processes, assistance to small businesses to sustain communities and development of educational programs in schools and universities. The innovative and creative CSR activities being undertaken by Australian companies reflect each company's unique operational experience and expertise. The CSR activities vary depending on the nature of the corporation's activities, their impacts and the communities within which they operate. Accordingly, what is meant by CSR will depend on a wide range of factors. What is an appropriate CSR activity for the banking sector, for example, will be very different from the activities pursued in the manufacturing sector.

Similarly, a CSR definition usually requires an identification of "stakeholders" that companies should consider in discharging their CSR role. While some stakeholders, such as employees, will be common to all corporations, many others vary significantly. A mining company for example is likely to place a higher priority on environmental issues than an accounting firm.

Attempting to distill CSR into a simple definition, particularly if legislated, ultimately becomes meaningless, because each company views CSR according to its own unique set of circumstances. This has led the chairman of Morgan Stanley Australia, Mr Harrison Young, while endorsing the need for corporations to act responsibly, to comment that:

*'In the end, people would invent a bit of jargon—for example, "societally appropriate value maximization"—as a way of asserting that they were doing whatever Canberra thought it was causing them to do. And life would return to normal—but with a drag on the economy and virtue made to look ridiculous.'*<sup>3</sup>

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<sup>3</sup> Remarks delivered 18 August 2005 at a seminar sponsored by The University of Melbourne's Centre for Corporate Law and Securities Regulation and the Commonwealth Government's Corporations and Markets Advisory Committee.

## **2.2 Corporations are already engaged in CSR activities**

The lack of a precise definition has not prevented companies from engaging in a wide range of innovative activities that reflect the separate and distinct issues arising from the company's business activities and the communities within which they operate.

The BCA's Members represent approximately the top 100 companies in Australia, employing nearly a million people and generating total revenues of around \$340 billion. A survey of all of those BCA companies has found that all of them participate in CSR activities. These activities are not necessarily being pursued as a separate and distinct business objective, but generally are part of the overall strategic operations of those companies.

### ***Business Council of Australia Member Companies***

- Employ nearly 1 million people
- Generate revenue of around \$340 billion
- All undertake CSR activities, covering a diverse range of activities.
- In 2001-02, BCA companies contributed at least \$195 million and 219,000 staff hours to social and community programs and \$292 million and 425,000 staff hours to environmental projects.

The BCA undertook a survey of Members on their community involvement in a report entitled the 'Community of Business'<sup>4</sup>. The survey highlighted that BCA Member companies invest substantially in the communities in which they operate and their total commitment to social and community programs was at least \$195 million in 2001-02. One in five respondents funded annual programs in excess of \$4 million with six investing \$10 million or more.

Many companies encourage their employees to participate in volunteer work, including by making time available to staff for their volunteering. Over the course of 2001-02, employees of BCA companies contributed 219,000 staff hours to volunteer and community groups. BCA Member companies also recognise the importance of environmental programs, with total spending in 2001-02 reaching \$292 million<sup>5</sup>.

The figures from the survey in 2001-02 are conservative and fall short of the actual contributions being made by BCA Member companies. Not only is it likely that the amount of contribution being made has increased over time, but the outlook for employment, and expenditure on investment, R&D and environmental and

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<sup>4</sup> Business Council of Australia, *The Community of Business- The Role of Big Business in Australia* released 2004.

<sup>5</sup> This number is a conservative representation of the actual commitment to environmental programs and outcomes, as a number of BCA companies have now integrated these programs into their core business and therefore do not split the programs out from day to day operations.

social/community programs reflects the responses of only around 65 per cent of all BCA companies.

The participation by BCA Member companies in CSR activities is further highlighted in section 4 below.

### ***2.3 Participation is voluntary and ongoing***

Defining CSR, and particularly the use of the word “responsibility”, suggests that companies will not engage in CSR unless they are forced to. The evidence, however, demonstrates that Australian companies are engaging in CSR activities on a broad scale, without being compelled by Governments to do so. The risk in trying to develop a precise definition to CSR, particularly a narrow definition of CSR or what is meant by “responsibility”, is that the definition may inhibit companies from continuing to pursue innovative and creative activities that suit their own unique circumstances. The risk with a broad legislative definition that encompasses all of the desirable activities that companies are currently engaged in is that it is likely to be meaningless in terms of giving clear direction to companies on how to comply with the legislation and to regulators on how to enforce the legislation.

#### ***Definitional Difficulties***

Defining ‘corporate responsibility’ or CSR in legislation is problematic. Too narrow a definition excludes many activities that are legitimately part of CSR. It also fixes our understanding of CSR at a particular point in time. Too narrow a definition therefore stifles innovation and evolution in CSR and encourages companies to adopt a strict compliance approach to CSR.

A broad definition, designed to recognise the rapid development of CSR thinking and practice, and the wide range of corporate and community engagements, will be too loose to provide meaningful guidance to companies, regulators and courts on what is needed to comply with the law.

The BCA is aware that some overseas jurisdictions have attempted to define corporate responsibilities or CSR in legislation. However, our view is that these definitions illustrate the very problems the BCA has raised above.

## **3. Taking stakeholders into account**

The traditional view of the directors’ responsibilities is that directors must only act in the best interests of the corporation by acting in the interests of shareholders through maximising shareholder wealth (through dividends and share value).

The traditional view is that directors should not take into account matters other than those that relate to maximising shareholders wealth in discharging such duties. Accordingly, under the traditional approach, it may be possible for directors to breach their duties if they exercise corporate philanthropy in a manner which reduces profits for

shareholders. However, this approach assumes that companies must only take into account short-term profit motive rather than a long-term strategic perspective.

In a recent speech at the University of Melbourne's 2005 Town and Gown, the CEO of ANZ, Mr John McFarlane, stated:

*"We cannot produce growth and return unless we invest in the capacity to produce that return. It is inevitable therefore that we must dilute current profits if we desire future prosperity...."*

*To renew ourselves and offset the erosion of advantage, we need to invest in those things that extend our competitive advantage and the sustainability of returns. Competitive advantage is about longer-term uniqueness- about being different and more capable than our competitors...*

*Accordingly, a focus on maximizing short-term returns cannot be a solid philosophy for managing our companies. Doing so would inevitably subdue investment and would accelerate the long-term demise of the company."*

Source: John McFarlane, 'Challenging the Role of Corporations in Society', speech at the University of Melbourne's 2005 Town and Gown, 31 August 2005

Recently, the Chairman of Morgan Stanley Australia, Mr Harrison Young, drew a distinction between the "enterprise" view of corporations and the "corporations-as-contracts" view. One view suggests that the social responsibility of a corporation is primarily to engage in a particular enterprise. However, corporations evolve over time and in relation to modern corporations, Mr Harrison Young has commented that:

*"Corporations-as-contracts now tend to be perpetual. This means that managers and directors of corporations have to keep finding new enterprises to undertake. In the process some grow very large.... This turns corporations into institutions...."*

*It is a question of time frame. It may be possible to squeeze a customer or supplier today, or this year, but shareholders will suffer soon enough if important relationships are damaged."<sup>6</sup>*

The traditional view doesn't appear to accord with the evolution of corporations or indeed with how modern corporations are actually acting. There is increasing awareness that corporate success and maximising shareholder value are not based solely on a narrow set of considerations. Broader considerations, such as the community and environment, are essential to contribute to and protect value in the long-term and accordingly the potential shareholder wealth that can be achieved over time.

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<sup>6</sup> Remarks delivered 18 August 2005 at a seminar sponsored by The University of Melbourne's Centre for Corporate Law and Securities Regulation and the Commonwealth Government's Corporations and Markets Advisory Committee.

CSR activities, including corporate philanthropy, can in certain circumstances be regarded as strategic, because the goal of such activity may be for the company to maximise its operating potential into the future. A more strategic view may therefore be able to be taken, even within the boundaries of traditional legal views such as that articulated by Mahoney JA in *Woolworths v Kelly*<sup>7</sup>:

*“A company may decide to be generous with those with whom it deals. But.....it may be generous to do more than it need do if, essentially, it be for the benefit of or for the purposes of the company that it do such. It may be felt appropriate that the company require a reputation of being such.”*

Maximising shareholder wealth and undertaking CSR activities are not mutually exclusive activities. Indeed, increasingly a strong commitment to CSR may be vital to maintaining and growing shareholder wealth in the longer term. Modern corporations are increasingly being moved to undertake CSR activities (in a manner and using methods that suit their own unique circumstances) where there is a clear business case to do so. Whilst Australian companies are undertaking CSR activities, Senior Director and Company Chairman Mr David Gonski warns that it would be a mistake to change corporations law to change the primary obligations of directors and companies<sup>8</sup>:

*‘We are accountable to the shareholders and personally I feel they would be wrong to change that definition...’*

*It does not need to be changed and I am quite scared that fiddling with it could produce completely different results.....’*

*I also strongly believe that we as directors are entitled and indeed compelled to spend some time in our community and some of the funds that come in.’*

In fact, Australian companies are increasingly pursuing CSR initiatives as part of their business, and this has led Mr Harrison Young to comment:

*“you may feel that corporations have no business doing some of these things, or you may believe they don’t do enough of them, but the majority of large companies do attend to the claims of society at large.”*

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<sup>7</sup> Bill Beerworth, ‘Do directors have duty to be corporately responsible?’, Corporate Public Affairs, Vol 15, No 2, 2005, page 16

<sup>8</sup> Leon Gettler, ‘ANZ makes responsibility a key plank’, The Age, 22 September 2005, page 5

**Who are 'stakeholders'?**

*The stakeholders relevant to a corporation will vary depending on the nature and circumstances of the corporate, but may include:*

- *shareholders;*
- *employees;*
- *senior and line managers across all aspects of the corporation's operations;*
- *contractors;*
- *communities directly impacted upon by the corporation's activities and operations;*
- *community, conservation and social organisations;*
- *industry and professional associations;*
- *Government, including local, regional and national;*
- *principal customers and suppliers; and*
- *business associates, including major investors and financiers of the corporation;*
- *international institutions.*

*Source: Business Council of Australia, Towards Sustainable Development – How leading Australian and global corporations are contributing to sustainable development, May 2001*

## 4. The business case for CSR

Why have the BCA Member companies been so proactive in their CSR initiatives?

For long term success, companies need to take into account their impact on the community and environment rather than merely their financial or economic impact, particularly as there are far reaching business consequences if companies do not have effective mechanisms for CSR. It is simply good business for companies to recognise the impacts they have, the opportunities and risks these present and then to respond effectively.

For instance, at a workshop commissioned by the Forum for the Future (UK) in May 2003, the key finding was that businesses with strong CSR engagement will often be more successful in generating Economic Value Added, for reasons rooted in business strategy<sup>9</sup>.

### 4.1 The Eight Drivers of Corporate Responsibility

The World Economic Forum<sup>10</sup> and Business in the Community (UK)<sup>11</sup> have identified several economic drivers which underpin a business case for CSR, including:

- employee recruitment, motivation and retention;
- learning and innovation;
- reputation management;
- risk profile and risk management;
- competitiveness and market positioning;
- operational efficiency;
- investor relations and access to capital; and
- licence to operate.

Many BCA Member companies are explicitly recognising the business case for CSR in their activities, reporting and policies. Their recognition of the business case for CSR is clearly shown in the sample of case studies attached to this submission, prepared for the BCA by PriceWaterhouseCoopers (see [Attachment A](#)). The attached case studies illustrate all of the eight corporate responsibility drivers in action. Within the many sustainability reports now available there is increasing recognition of the need to articulate the reasons 'why' CSR and related initiatives are undertaken. The ten case studies are a collection of some of the types of statements that BCA Member companies

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<sup>9</sup> 'Sustainability and business competitiveness. Measuring the benefit for business competitive advantage from social responsibility and sustainability', in association with Forum for the Future, [www.forumforthefuture.org.uk](http://www.forumforthefuture.org.uk)

<sup>10</sup> Sarah Roberts, Justin Keeble and David Brown, 'The Business Case for Corporate Citizenship', World Economic Forum, <http://www.weforum.org/site/homepublic.nsf/Content/Global+Corporate+Citizenship+Initiative/The+Business+Case+for+Corporate+Citizenship>

<sup>11</sup> Arthur D Little, 'The Business Case for Corporate Responsibility', Business in the Community (UK), [www.bitc.org.uk](http://www.bitc.org.uk)

have made about their determination to integrate CSR issues into mainstream business thinking<sup>12</sup>.

Just one example is IAG which provides in its statement of “Commitment to Sustainability”<sup>13</sup>:

*“We acknowledge that the sustainability of our business is directly tied to the sustainability of the communities in which we operate. We believe that returns to our shareholders, and the company’s own stability and growth potential, will be enhanced by conducting our business in a way that creates value for society on numerous fronts, across environmental, social and economic dimensions. We believe this because running a successful business, including having access to the capital and community support that we need to grow, is the best way for us to meet our commitments to our shareholders, our customers and our people”.*

Mr David Morgan, CEO of Westpac acknowledges the benefits of CSR activities for business and writes<sup>14</sup>:

*“Corporate social responsibility is central to sustainable profit creation. Leaders who successfully manage social, ethical, environmental and other non-financial drivers help ensure a stable, resilient company that is better placed to deliver sustainable shareholder value.*

*Put simply, a company needs employees who want to work for it; customers who want to buy its products or services; suppliers who want to supply to it; and, of course, investors who want to invest in it. Long term.”*

Further, Visy's corporate communications manager Mr Tony Gray says<sup>15</sup>:

*“We started doing the things that have come to be known as corporate social responsibility because we felt they made good business sense. Doing more with less, reducing waste and putting back into the community in which we operate made good sense.”*

The eight key drivers provide some guidance of why BCA Member companies are undertaking a wide variety of innovative CSR activities. Each of the drivers is considered in more detail below, with some specific examples of CSR activities being undertaken by BCA Member companies in those areas. Clearly each of these drivers does not operate in isolation and different companies may have different drivers. Building a company’s reputation, for example, will also help it recruit, motivate and retain employees. Different drivers will also be stronger in different sectors and for different companies. Minerals companies, for example, will often concentrate on their ‘licence to

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<sup>12</sup> The examples given in the case studies are indicative of the business case and are not meant to “cover the field”. Each of the sample companies may be pursuing other business objectives through CSR initiatives which have not been identified in the case studies.

<sup>13</sup> [www.iag.com.au](http://www.iag.com.au)

<sup>14</sup> David Morgan, ‘Valuing values at the heart of the enterprise is how you create sustainable profit’, The Age Business, 18 August 2005, page 2

<sup>15</sup> Brad Howarth, ‘How to do the right thing to thrive in business’, The Age My Career, 23 July 2005, page

operate' as adverse community reactions to their operations can ultimately prevent companies access the minerals resources they need to survive. The drivers are therefore one method of demonstrating that there is a business case for CSR, but they are not meant to cover the field in terms of reasons companies are undertaking CSR activities. For most companies, the move towards CSR may result from a combination of drivers.

#### **4.1.1 Driver 1: Employee recruitment, motivation and retention**

The reputation of a company affects its desirability as a potential workplace. It is in the company's strategic interests to attract and retain the most highly skilled and expert employees, and this can be encouraged by maintaining an ethical and attractive reputation. A tarnished reputation can have damaging effects on the potential to recruit:

*'when a major oil company suffered damage to its reputation on environmental and social grounds, the CEO said repeatedly that the most negative impact—and the one that made him fear for the future of the company—was the fact that bright young graduates were no longer attracted to the company.'*<sup>16</sup>

This driver is only going to intensify as competition among companies for talented and experienced workers intensifies.

The methods that Australian companies are using to create a workplace that is attractive to potential employees are varied. They may include internal company policies regarding work-life balance or may involve initiatives to give employees better access to time or resources to partake in volunteer work. Westpac, for example, has recognised that CSR activities directed at employees are crucial for the success of the company:

*"Westpac's head of corporate responsibility and sustainability Graham Peterson says their CSR programs play a role in addressing internal issues such as staff retention."*<sup>17</sup>

Further, Mr John McFarlane recently commented<sup>18</sup>:

*"Turning staff into stakeholders ....How people feel about working at an organization and how passionate and engaged they are in its agenda, is what makes the difference between good and great companies."*

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<sup>16</sup> Sarah Roberts, Justin Keeble and David Brown, *'The Business Case for Corporate Citizenship'*, World Economic Forum, <http://www.weforum.org/site/homepublic.nsf/Content/Global+Corporate+Citizenship+Initiative/The+Business+Case+for+Corporate+Citizenship>

<sup>17</sup> Julie Clements, *'Seek synergy for success'*, Fundraising & Philanthropy Australasia, Published by Bombora Publishing Pty Ltd, Issue 4: August-October 2005, page 10

<sup>18</sup> John McFarlane, *'Challenging the Role of Corporations in Society'*, speech at the University of Melbourne's 2005 Town and Gown, 31 August 2005

**Westpac: Employee initiatives in 2004 included:**

**Matching Donations**

Westpac Matching Gifts was its largest giving program and one of the most comprehensive corporate-giving programs in Australia. The bank matched the donations of employees, dollar for dollar, to any tax-deductible charity in Australia.

Through donations from employees and Westpac Matching Gifts, around 810 charities have received \$9.3 million since the program began in 1999.

**Volunteering**

Westpac provides community leave and flexible working conditions for employees to do volunteer work with any not-for-profit organisation.

Individuals and teams take up this opportunity in many different and innovative ways, from brightening up temporary accommodation for homeless people to restoring natural habitats in local parks. To help raise awareness of volunteering opportunities, a network of around 300 Community Champions across Australia provides information and support to employees in their local areas. The Community Champions are also supported through regular communication forums and newsletters.

In the twelve months to June 2005, 2,985 community leave days were logged by Westpac employees. Countless other days were spent by employees using their professional skills on pro-bono projects for community groups and through mentoring programs.

**Environmental projects**

The Westpac Operation Backyard program is administered by Westpac's environmental partner, Landcare Australia, and provides funding for the cost of environmental materials for projects involving Westpac volunteers. Since Westpac Operation Backyard began in 2001, \$963,000 has been invested in 228 environmental projects.

**Recognition**

Westpac recognises and rewards outstanding contributions by employees to the community through the annual CEO's Community Volunteering Awards. Individuals and teams receive special awards and the community organisations they work with receive financial support. Through the awards alone, more than \$600,000 has been distributed to the community organisations supported by volunteers over the past 12 years.

Source: Westpac Community Involvement Report 2005

### **IBM: Volunteer Initiative**

In June 2004, IBM announced the next step in its On Demand Community volunteer initiative by enabling its approximately 160,000 retirees to leverage new technology tools to increase the impact and value of volunteer efforts in schools and local agencies across the globe.

IBM launched On Demand Community for its employees in late 2003. Managed by a company intranet Web site available to employees worldwide, the initiative includes a full range of technology solutions designed specifically for volunteer work in schools and nonprofit organizations.

Since then, over 15,000 employees have registered at the web site and are tracking their hours to be eligible for grants of technology or cash awards to the organizations where they volunteer. The company expects to have more than 25,000 active On Demand Community volunteers among its retiree and employee populations by 2005.

Source: <http://www.ibm.com/ibm/ibmgives/news/volunteer.shtml>

### **Computershare: The Smith Family**

Computershare staff contribute donations to the Smith Family through an ongoing payroll-giving scheme. Funds are donated to the personal support component of the 'Learning for Life' program throughout Australia.

Source: Computershare in the Community

### **Rio Tinto: Sustainable Employment Practices**

Rio Tinto has recognised the importance of effective relationships with employees and communities, for example, through Health and Safety programmes which fully involve employees and have a goal of zero injuries or personal harm. Progress towards this goal is illustrated by the Lost time injury frequency rate (LTIFR) for Rio Tinto employees which achieved a 46% reduction – to 0.65 – in the five years to 2004.

Rio Tinto has also recognised its commitment to effective long term partnerships with communities (such as those adjacent to or affected by its operations) based on mutual trust. Established communities policies and standards are in place with the focus on sustainable solutions. As an example, the Argyle Diamond Project is setting new benchmarks in terms of employment and development of indigenous people from local communities whilst also having a significant impact on the regional economy of the East Kimberley.

Source: Rio Tinto 2004 Sustainable Development Review

### **BP: Green Collect**

Launched in 2001, Green Collect is the brainchild of BP employees who sought to help Melbourne's long-term disadvantaged by providing new work and training opportunities to people facing barriers to employment.

Green Collect aims to assist long-term unemployed people through the co-ordination of regular cork collections from licensed premises and businesses in and around Melbourne's CBD. In addition, it is involved in environmental assessment services including waste, energy, water, purchasing and policy development.

Source: BP in the community brochure publication

### **ANZ: Employee Engagement Programs**

ANZ was labeled the most engaged workforce of all major companies in Australia (Hewitt Best Employer Research 2005). Some of the employee programs that have been established by ANZ include:

**Breakout Cultural Transformation:** More than 20,000 ANZ staff had been through Breakout, ANZ's cultural development program since it began in 2000. Breakout focuses on individual behaviour, and the values, thinking and needs that drive that behaviour.

**Life Balance and diversity:** Employees have the opportunity to arrange their hours in non-traditional ways to better suit their professional and personal needs, for example:

- *Lifestyle leave* –people can tailor their salary over the year to provide an additional four weeks leave for any purpose.
- *Flexible long service leave* – the option to take double long service leave at half pay.
- *Career breaks* – extended unpaid leave to pursue personal development or family commitments.

Source: [anz.com/corporate-responsibility](http://anz.com/corporate-responsibility)

### **Mallesons: Volunteering**

Volunteering is a key component of the Mallesons in the Community program. Hundreds of people volunteer with Mallesons' community partners including the Australian Red Cross, The Smith Family, National Children's & Youth Law Centre and Urban Seed. For example:

- Australian Red Cross Good Start Breakfast Club program - providing breakfast and mentoring to disadvantaged school children
- The Smith Family Student2Student program - telephone advice sessions, giving support to student mentors who, in turn, help younger, disadvantaged students to improve their reading skills
- sorting toys, packing hampers and delivering toys and hampers to clients of The Smith Family at Christmas

Staff volunteers are offered paid volunteer leave during working hours (subject to approval). Our support alleviates pressure on the resources of our community partners and other not for profit organisations. Feedback indicates that people derive satisfaction from seeing the difference their volunteering can make. Volunteering enables them to develop new skills, enhances self esteem and team building.

Source: <http://www.mallesons.com/community/5502390W.htm>

### **Boral: Outward Bound Family Re-Discovery Scholarships**

In late 2003, Boral worked with Outward Bound Australia to develop the "Family Re-Discovery" program to provide their employees with an opportunity to focus on their balance between work and home life. Boral employees have the opportunity to spend nine days with their son or daughter (aged 12-18) in the Australian outback facing personal challenges and strengthening their family bonds. These family scholarships have become an ongoing feature of the Boral's social and employee program together with a range of other initiatives (eg paid parental leave and a health and wellness program for employees and their families).

Source: Boral 2005 Sustainability Report.

## **4.1.2 Driver 2: Learning and innovation**

Learning and innovation involves companies responding to changes within society to achieve and take advantage of business opportunities, to develop new business practices and to maintain or enhance competitiveness.

An on-going dialogue with the community ensures that businesses are engaged with, and learning from, the community in which they operate. Some studies have shown that CSR activities have stimulated creativity and learning, and therefore contributed to the success of the business. For example the Business in the Community (UK) have

highlighted that, 80% of European business leaders believed that responsible business practice allowed companies to invigorate creativity and learn about the marketplace<sup>19</sup>.

There are a variety of forms of CSR activity that companies have adopted to take advantage of innovation and learning. For example, they have formed partnerships with Government or other entities to take part in co-operative research which may identify new business opportunities at the same time as solving a social, community or environmental issue.

#### **Telstra: Human Factors Research Group**

Telstra is aware of the role it can play in influencing future technology and is on the lookout for early signs of valuable ideas and committed to responsible product development. Telstra Research Laboratories' Human Factors Research group ensures that Telstra's latest technology developments are helpful, easy to use and accessible to all Australians.

Human Factors is a field of study that bridges psychology and engineering and, in the telecommunications domain, whilst striving to build a bridge between technology engineers and technology users.

Testing prototypes for people with special communication needs - such as hearing and sight impaired people - is another function for the Human Factors group. In 2001, a Centre for Accessibility was formed to concentrate on making Telstra's Internet services accessible for people with disabilities, by including them in usability testing and design standards. The Centre also intends to examine the usability of new and emerging technologies, such as mobile devices and voice applications.

<http://www.telstra.com.au/abouttelstra/csr/operating.cfm>

#### **Accor: Participatory Innovation**

Accor has developed a method of assessing the opinions and commitment of its employees around the world. Launched in 2001, [innov@ccor](mailto:innov@ccor) is an electronic suggestion box designed to encourage employees to innovate constantly. The goal is to share ideas that work so they can be applied as broadly as possible. Approximately one suggestion out of three is accepted, rewarded and deployed. In 2004, more than 7,500 suggestions were submitted, of which over 2,400 were implemented.

Source: Accor Annual Report 2004 (Sustainability report), [www.accor.com](http://www.accor.com)

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<sup>19</sup> Arthur D Little, '*The Business Case for Corporate Responsibility*', Business in the Community (UK), [www.bitc.org.uk](http://www.bitc.org.uk) citing BITC (2003), Responsibility: Driving Innovation, Inspiring Employees. FastForward Research 2003, Business in the Community.

### **CSR Limited: Insulation Recycling**

To reduce waste rockwool insulation, CSR Insulation Systems (with the help of CSIRO) is investing in a major scrap product recycling project. By compressing the light but bulky waste into dense briquettes which are readily used in the furnace, up to 85% of previously waste product will be recycled back into the production process. When completed, the project should benefit CSR's Clayton, Victoria, plant and three rockwool insulation plants in Asia.

Source: CSR Annual Report 2005

### **Microsoft: Academic Research Programs**

Microsoft is a supporter and contributor to academic research in recognition of the significant role it plays in technological innovation.

- Microsoft's University Relations program promotes collaboration between the academic community and Microsoft Research Asia (MSRA). Over the past five years the company has invested more than \$21 million in various research grants to Australian universities and to establish the Microsoft Chair of Innovation at Macquarie University.
- The company supports 66 university departments and 80,000 students through the MSDN Academic Alliance, a program that provides the latest technology and tools to specific curriculum areas and their respective students and department laboratories.

Source: Microsoft in Australia brochure

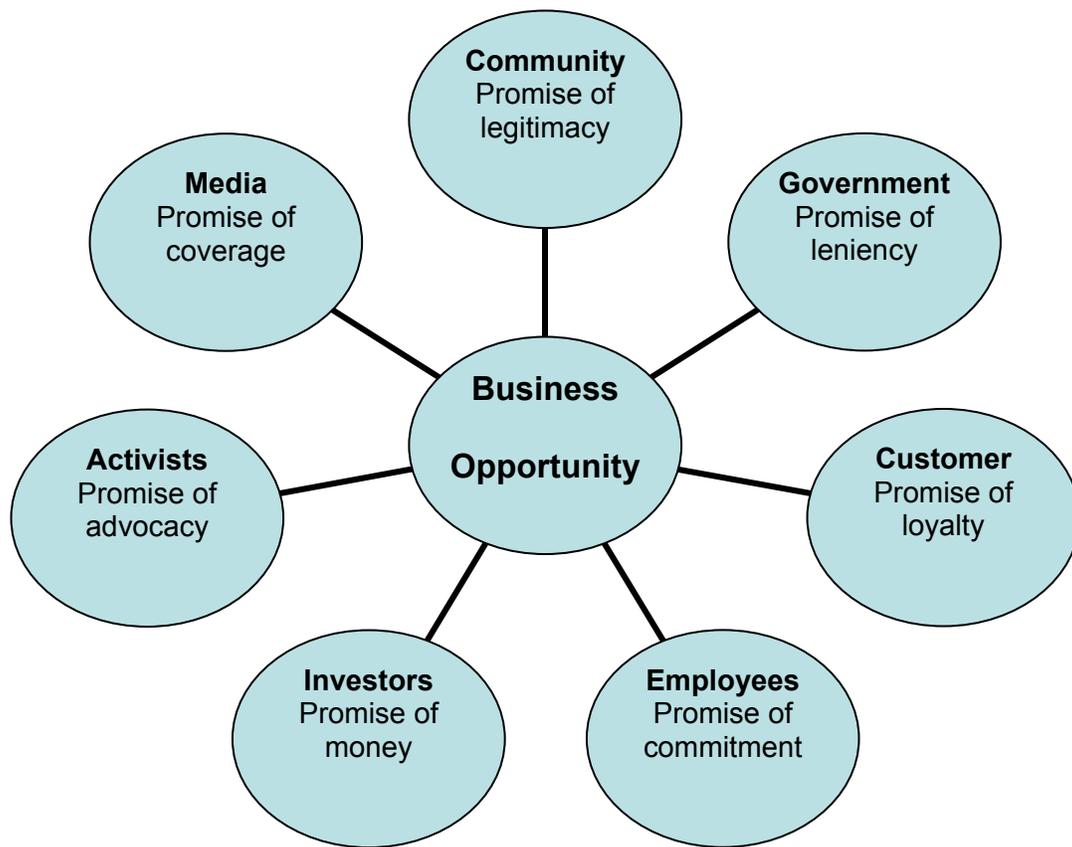
## **4.1.3 Driver 3: Reputation management**

Business success is highly dependent on reputation within the community. The breadth of stakeholders which can influence business today means reputation is increasingly important. Reputation can effect, amongst other things, whether customers purchase products, whether investors will give up funds and whether employees are willing to commit to the corporation.

Understanding the expectations and pressures from stakeholders and responding effectively is crucial to the success of a business's reputation and the control of possible risks.

The breadth of interested stakeholders can be represented diagrammatically, as below.

## Managing the benefits of corporate reputation



Source: Arthur D Little, 'The Business Case for Corporate Responsibility', Business in the Community (UK), [www.bitc.org.uk](http://www.bitc.org.uk) citing Adapted from Fombrum et al (2003)<sup>3</sup>

Customers often take into account the reputation of a company when making consumer decisions. For example:

*'86% of consumers have a more positive image of a company that is seen to be doing something to make the world a better place and a company's responsibilities to society, environmental and labour practices are all seen by the public across 20 countries as more important than its economic contribution.'*<sup>20</sup>

In an environment where investors have greater access to technology and media and are taking a wider range of issues into account regarding their investments, there is greater pressure on companies to build and maintain a reputation and effectively

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<sup>20</sup> Arthur D Little, 'The Business Case for Corporate Responsibility', Business in the Community (UK), [www.bitc.org.uk](http://www.bitc.org.uk) citing Business in the Community, the Ultimate Win Win Win (1999) supported by Research International and Global CSR Monitor (20 countries), Environics, 2001

respond to the risks, challenges and opportunities regarding the community, environment, employees and economy.

Companies whose reputations suffer serious harm are unlikely to be sustainable for a long period. Arthur Anderson, for example, was a high profile global company which had a strong brand and was able to charge extremely large fees based on that brand, until the collapse of Enron destroyed its reputation and the firm.

Reputation is one of the most valuable assets of companies, and has been found by the World Economic Forum to top the intangible asset list of most CEOs<sup>21</sup>. For instance, Business in the Community (UK) highlight that it is estimated that intangible, reputation, knowledge and brand elements contribute to 96% of Coca-Cola's value, 97% of Kellogg's value and 84% of American Expresses value<sup>22</sup>.

There have been a number of high profile instances of companies who have suffered reputational damage from failure to recognise a specific CSR risk in their operations. As a result the pressure from stakeholders has forced those companies to consider their activities and implement CSR activities to manage such risks. Global fast food chains are now developing healthy eating alternatives to their menus based on customer and media pressure. A number of very large clothing brands have been forced to address the issue of workplace conditions in developing nations where their subcontractor factories are based:

*"When the CEO of one of the world's best-known brands realised that his company name had become synonymous with slave wages, overtime and arbitrary abuse, he took concerted action to improve conditions in the supplier factories and now has 70 staff members working on corporate social responsibility issues."<sup>23</sup>*

### **Macquarie Bank: Community Support**

During the July school holidays, Macquarie Bank Sports hosted its first Rugby League Camp. Over 550 children aged between 7 and 13 from all over Sydney attended the camp and were coached by Australian Rugby League Development Officers. The boys and girls were rotated around stations which showcased attacking, passing, kicking and tackling activities.

Current and former players Brad Fittler, Nathan Hindmarsh, Gordon Tallis and members of the Roosters first grade squad were all on hand to pass on advice and sign autographs.

Source: Macquarie in the Community, Issue Three 2005

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<sup>21</sup> Roberts, Keeble and Brown, *'The business case for corporate citizenship'*, World Economic Forum, [www.weforum.org](http://www.weforum.org)

<sup>22</sup> Arthur D Little, *'The Business Case for Corporate Responsibility'*, Business in the Community (UK), [www.bitc.org.uk](http://www.bitc.org.uk) citing Interbrand (2000) cited in [www.csreurope.org](http://www.csreurope.org)

<sup>23</sup> Roberts, Keeble and Brown, *'The business case for corporate citizenship'*, World Economic Forum, [www.weforum.org](http://www.weforum.org), citing Murphy and Mathews 2001. Nike and global labour practices. A case study prepared for the New Academy of Business, Business Innovation Network for Socially Responsible Business. New Academy of Business, Bristol, UK

### **Wesfarmers: Community Support**

Wesfarmers contributes to community-benefiting activities, particularly in the areas of medical research, education and the arts. The company provides support by way of donations and sponsorships through both Corporate Office and the businesses it owns.

The Board of Wesfarmers Limited makes donations up to an annual ceiling of 0.25 per cent of before-tax profits. In 2004/2005 this amounted to almost \$2.3 million. Significant current community partnerships include those with the Institute for Child Health Research, the Western Australian Community Foundation and the Clontarf Football Academy.

Corporate level sponsorship is through the Wesfarmers Arts programme which supports the visual and performing arts in Western Australia, in partnership with key arts organisations including West Australian Ballet, West Australian Opera, West Australian Symphony Orchestra, Black Swan Theatre Company, UWA Perth International Arts Festival and the Awesome Children's Festival. In 2004/2005 this exceeded \$550,000.

In addition to support from the parent company, the operating businesses make a significant community contribution. Donations and sponsorships from these businesses amounted to \$2.7 million in 2004/2005. And another almost \$1 million was raised by the Bunnings hardware business through the use of its stores and the involvement of its team members.

Source: <http://www.wesfarmers.com.au/default.aspx?MenuID=27>

### **Shell in Australia: Supporting the Community**

In 1985 Shell, Questacon - The National Science and Technology Centre and The Australian National University joined together to establish the Shell Questacon Science Circus - an outreach program that has become a benchmark for many leading science centres around the world. In nearly 20 years, the Science Circus has:

- been seen by more than 1.6 million Australians
- reached over 100,000 students, teachers and their communities annually
- covered hundreds of thousands of kilometres throughout regional, rural and remote Australia
- held teacher development workshops for 3000 teachers and specialised programs for remote Indigenous communities

Source: Who We Are and What We Do: Shell in Australia 2004.

## **Accor: Recognising CSR across the Economy**

### **Shareholders**

Accor's growth is financed by institutional investors and its CSR and corporate governance reputation is important. In 2004, Accor was included in the following independent ethical ratings and sustainability indices: Advanced Sustainable Performance Indices, FTSE4Good, DJSI World & DJSI Stoxx and the Ethibel Sustainability Index.

### **Local Communities**

Accor has 3,973 hotels around the world, and a corresponding number of local communities with whom ties are being developed. In 2004, more than 5,000 employees in seven countries received training in ways to combat the sexual exploitation of children. Accor supports child sponsorship, with Plan, and local aid to populations in need, with the Red Cross.

### **Suppliers**

Purchases from 2,274 certified suppliers in 15 countries totaled more than €1 billion. In 2004, the Sustainable Development Purchasing charter was tested with 433 suppliers in France. 1,500 additional hotels now support fair trade initiatives.

### **Employees**

Listening to employees and recognizing their accomplishments are important ways of maintaining a constructive social dialogue. In Australia, 140 Aboriginals were hired in 2003-04 and a new agreement with the Government concerning the hiring of 135 others was signed for 2005-06. During the year, the Diversity Charter was signed in France. Initiatives to diversify hiring, upgrade skills and promote job mobility were pursued.

### **Environment**

Measures undertaken in 2004 will be pursued in 2005 with rollout of the environmental management system, the ongoing deployment of the ISO 14001 certification process and an overhaul of the Hotel Environment Charter.

The recovery of organic waste, which represents a large percentage of hotel waste, is not widespread because of a lack of local recovery infrastructure. An environmental information sheet encourages hotels to compost organic waste if possible. In Australia, for example, worms are used in composting, while in the United States, lawnmowers crush green plant waste so that it can be left to decompose into soil nutrients.

Source: Accor Annual Report 2004 (Sustainability report), [www.accor.com](http://www.accor.com)

#### 4.1.4 Driver 4: Risk profile and risk management

Companies can use CSR initiatives to improve their comprehension and management of potential risks to their business. For example, dialogue with the wider community increases understanding of community expectations as well as social and environmental issues. The World Economic Forum has highlighted that 86% of institutional investors across Europe believe that social and environmental risk management will have a significantly positive impact on a company's long-term market value<sup>24</sup>.

By identifying possible risks, through the use of CSR initiatives, the company may be able to reduce or eliminate avoidable risks and losses (such as damage to reputation or operations, or changing community attitudes). For example, ensuring that suppliers act ethically and in an environmentally friendly way, the business avoids later having its reputation damaged through association with unethical practices or environmental damage. For example, the World Economic Forum has highlighted that well-known wood-product retailers that have instigated systems to ensure their timber comes from sustainable forests, have gained significant reputational kudos, compared to those who have not been able to identify where their timber comes from<sup>25</sup>. The BCA Member companies have recognised that such risk management is important, leading the Chairman of Coles Myer, Mr Rick Allert, to comment<sup>26</sup>:

*'While we are obviously conscious of the need to help developing countries to improve their economies, and also to provide Australian consumers with the lowest-cost products, we take the view that we don't wish to do anything that would be seen as encouraging exploitation or contrary to a moral and ethical community standard. In this, we believe we reflect the Australian community's expectation of responsible corporate behaviour and therefore only deal with those companies in developing countries that can demonstrate fair conditions for their employees.'*

Poor corporate behaviour also increases the risk of regulatory intervention by Governments. In most cases, it will be less costly for corporations to resolve issues themselves, rather than have regulation imposed. Even where regulation is being imposed, the standing of corporations in the community will determine their ability to influence the regulatory outcome. Poor corporate behaviour therefore increases regulatory risk.

Accordingly, to avoid and manage risks to their reputation and operations, businesses are increasingly taking the initiative, for example, by introducing processes to assess the environmental and social impact of their supply chains.

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<sup>24</sup> Arthur D Little, *'The Business Case for Corporate Responsibility'*, Business in the Community (UK), [www.bitc.org.uk](http://www.bitc.org.uk) citing Taylor Nelson (2001) The European Survey on SRI and the Financial Community

<sup>25</sup> Roberts, Keeble and Brown, *'The business case for corporate citizenship'*, World Economic Forum, [www.weforum.org](http://www.weforum.org)

<sup>26</sup> Rick Allert, *'Hygenically yours, a touchy, feely Coles takes on its responsibility'*, The Age Business, 7 July 2005, page 3

### **Telstra: Green Purchasing Policy**

Telstra has launched a Green Purchasing Policy that applies to all purchasing across Telstra, from initial sourcing activities through to ongoing management of vendor contracts.

The Policy outlines Telstra's objectives and responsibilities that aim to ensure purchasing processes minimise negative environmental impacts and maximise environmental benefits. Telstra's objectives include:

- considering environmental issues in the purchasing of all products and services;
- purchasing environmentally preferable products and services;
- contracting with vendors that demonstrate responsible environmental performance;
- establishing a purchasing framework that encourages vendors to improve their environmental performance and/or the environmental performance of their product or service; and
- supporting Telstra's commitments under voluntary initiatives and agreements.

Achievement of Telstra's environment policies will require collaboration between Telstra and its vendors to minimise the environmental impacts associated with the products and services they supply.

Source: [http://www.telstra.com.au/supplying\\_to\\_telstra/environment.htm](http://www.telstra.com.au/supplying_to_telstra/environment.htm)

### **CSR Limited: Environmental Management**

CSR Limited as a manufacturer in areas such a building products, sugar and aluminum, has a policy to act responsibly and to improve the environmental performance of its sites. External environmental risk and compliance audits were carried out last year at eight sites as part of a rolling three year program. Similar programs exist in most other large corporations.

Source: CSR Annual Report 2005

### **Microsoft: Internet Safety and Security**

Working in partnership with Governments is important in securing the nations infrastructure. Microsoft's Government Security Program (GSP) is designed to provide Government agencies with information and resources to design and deploy secure computing infrastructures, as well as provide access to cryptographic code and development tools.

Source: Microsoft in Australia brochure

### **ABN AMRO: Vesting a sustainability mandate in risk management**

Risk management is an important business driver of ABN AMRO. A dedicated Group Sustainable Development department in the Group Risk Management organisation, plays a central role in the bank's engagement assessment and decision-making processes. Group Sustainable Development has created a dedicated department, Sustainable Business Advisory (SBA), with overall responsibility for global sustainable risk management policy development and implementation, and for business engagement assessment and advisory. SBA is supported by teams in Brazil, North America and Australia. As part of Group Risk Management, Group Sustainable Development and SBA operate independently of the bank's commercial activities.

Other risk management initiatives include, amongst other things,:

- In 2004, the company updated its Mining Policy to incorporate the Equator Principles.
- The company also developed new frameworks for addressing human rights and ethical and social risk at a country level, which the company believes will allow for more balanced and consistent decision making that takes into account the bank's exposure to a range of country-specific risks.
- The company obtained NGOs' feedback on the draft policies via roundtable meetings with NGOs such as Novib/Oxfam, Amnesty International, Milieudefensie/Friends of the Earth and World Wildlife Fund and then built on this feedback by engaging in intensive dialogues with several clients to ensure that the Mining Policy would reflect industry best practices and provide a pragmatic framework for responsible engagement with clients.
- On the Human Rights Position Statement the company engaged with the Danish Institute for Human Rights Amnesty International and Novib/Oxfam.

Source: ABN AMRO Sustainability Report 2004

### **4.1.5 Driver 5: Competitiveness and market positioning**

Companies are increasingly aware that pursuing CSR activities may benefit long-term financial performance and the bottom line. The long-run viability of a business may depend on its strategies including developing the economy and community in which it operates, working with Government to facilitate better regulatory regimes or integrating environmental breakthroughs into assets to reduce lifecycle costs and improve efficiency.

Being competitive and establishing market positioning also involves effective communication with customers. Customers are increasingly deciding whether to consume goods based on the CSR activities of companies.

*"The most comprehensive survey of consumer attitudes toward corporate citizenship, involving 25,000 individuals in 26 countries, found that more consumers form their impression of a company on the basis of its corporate citizenship practices than do so on brand reputation or financial factors."<sup>27</sup>*

<sup>27</sup> Roberts, Keeble and Brown, 'The business case for corporate citizenship', World Economic Forum, [www.weforum.org](http://www.weforum.org)

Studies have shown that shareholders may receive greater value by investing in socially responsible companies. One study has shown that *"it can pay to take the 'sustainability factor' into account when selecting stocks"*.<sup>28</sup>

#### **Wesfarmers: Community interaction**

A positive and interactive involvement in the communities within which the Wesfarmers group operates is a central element of the group's operational approach. Examples of such involvement include the extensive community relations and consultation programmes conducted by Wesfarmers Energy's Curragh Coal and Premier Coal operations and the active role that CSBP takes in the Kwinana Community and Industries Forum.

Source: <http://www.wesfarmers.com.au/default.aspx?MenuID=28>

#### **Commonwealth Bank: Increasing Financial Literacy**

The Commonwealth Bank has instituted various programs to increase the financial literacy within the community, such as student banking, school visits, DollarsandSense website, investor education, retirement focus day and retirement planning seminars, banking made easier for older persons and an array of self-help guides.

Source: Commonwealth Bank Foundation, Australians and financial literacy brochure

#### **Microsoft: Positioning Partnerships**

The company's success depends in large part on its relationship with the thousands of independent Australian technology businesses – software developers, system integrators, reseller and consultants – that help deliver Microsoft technology to customers.

- Since 2000, Microsoft has invested more than A\$20 million to support 14,000 Australian businesses as partners, suppliers and investors in leading-edge technology.
- In partnership with State Governments, Microsoft has invested over A\$10 million in high technology centres in various locations to foster innovation and deliver value across a range of education, defence, justice, healthcare and e-Government projects.
- Partnerships with the Queensland, Victorian and Northern Territory Governments have resourced more than 250 start-up software development organizations and delivered projects worth A\$300 million to those State and Territory economies.

Source: Microsoft in Australia brochure

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<sup>28</sup> Garz, Volk and Gilles, *'More Pain than Gain SRI: Sustainability pays off'*, WestLB Panmure, November 2002 found at <http://indexes.dowjones.com>

### **Rio Tinto: Sustaining the Minerals Industry**

The Rio Tinto Foundation for a Sustainable Minerals Industry has been established to foster environmentally and socially sustainable development in the mining, metals and energy industries. The Foundation, which is governed by an Advisory Board of six members, including representatives from Government, academia, industry and Rio Tinto, coordinates part of Rio Tinto's involvement in research, technology and other initiatives for sustainable development. Initiatives cover energy efficiency, greenhouse gas reductions, water management, environmental management, regional sustainability and stewardship. Funding is reserved for qualifying projects with the best potential for producing positive impacts and allocated funds for Foundation Projects have reached \$48 million.

Source: The Rio Tinto Foundation for A Sustainable Minerals Industry Annual Report 2004

### **Coal & Allied (Rio Tinto): Sustaining Communities**

#### **Community Trust**

Established in 1999, the Trust's objective is to assist local communities to meet their economic, social, educational and environmental challenges.

#### **Reengineering Australia**

The School Innovation Design Challenge helps address a skills shortage in the engineering and manufacturing industries. The programme aims to increase the numbers of students choosing learning pathways aligned to manufacturing and engineering. Singleton and Cessnock Councils are also contributing to the programme, which is being coordinated by the Hunter branch of the Local Government Association of Engineers.

#### **Lower Hunter Business Enterprise Centre**

The Lower Hunter Business Enterprise Centre (BEC) offers professional, free and confidential advice to small and medium sized businesses across the region. Manager of the Lower Hunter BEC, Rod Doherty, says the BEC could assist business people who are considering starting up a new business, looking to grow their business or facing difficulties.....Since funding was committed in late 2004, over 100 new jobs have been created in businesses that have accessed Lower Hunter BEC services.

Source: Coal & Allied Community Trust Report 2002-2005

#### 4.1.6 Driver 6: Operational efficiency

The operational efficiency or the capacity of a company depends on many factors, such as the ability to source skilled workers, the efficient use of company resources or the maintenance of a healthy local community to support the company's operations. For example, initiatives taken to reduce the environmental impacts of a company, such as the amount of waste it produces, typically increases the efficiency of the company's plant and reduces its input costs.

##### **Microsoft: Interoperability**

Interoperability is the ability of ICT components, systems and services to communicate and exchange information. Microsoft considers interoperability, the openness of technology and the wide-spread licensing of intellectual property, to be responsible business practices:

- A 2004 Jupiter Research study that surveyed 800 ICT professionals ranked Microsoft ahead of other vendors with 72 percent of respondents rating Microsoft the leading interoperability practitioner.
- Last year Microsoft entered into landmark interoperability agreements with several key competitors and partners, including Sun Microsystems, Oracle, Siebel, Yahoo!, AOL, palmOne and Vodaphone.

Source: Microsoft in Australia brochure

##### **BP: Community Strengthening**

Whereas once BP regarded crime as a security issue, BP now recognises that anti-social behaviours sometimes experienced at BP service stations are symptomatic of a struggling community.

In response, BP is working in a number of regions with communities, local businesses and Governments to develop practical ways of achieving long-term social change and opportunities, particularly amongst young people.

BP has established community-building projects at three BP sites – Langwarrin, Victoria; Townsville QLD; and Redfern, NSW. The catalyst for these projects arose from increasing concern from local business, BP itself, and local residents regarding the increasing number of young people who gathered in groups at night, sometimes under the influence of alcohol, around BP service stations. All too frequently, this situation lead to vandalism, loss of good staff, customer fear, theft, damage to property and other criminal behaviour.

Source: BP in the community brochure publication

### **Alcoa: Environmental sustainability**

Alcoa takes a long-term view of its relationships with local communities and its impact on the environment. It works with Greening Australia to plant trees, aims to restore the biodiversity of former mines and heavy industrial sites, cut greenhouse emissions, use more recycled water in industrial operations and use more recycled aluminium to make its products.

Source: Carolyn Rance, *'Working for the greater good'*, The Age My Career, 2 July 2005, page 12

### **Boral: Recycling, Reuse and Eco-Efficiency**

Reuse and recycling of materials is part of eco-efficiency. Reuse is the incorporation of waste material back into the same product and recycling is waste material being used in a different product. Both conserve primary resources, reduce the environmental impact and cost of disposal and, depending on the circumstances, can lower the amount of energy required to produce the product.

Two types of Boral's stand-alone businesses are based on the utilisation of other people's waste. Boral Recycling in Australia processes construction and demolition waste in combination with concrete washout, recycled asphalt profiling (RAP) and natural rock and markets a variety of products including road bases, pipe-bedding, backfill and aggregates. Total sales volumes for the year were just over 1 million tonnes.

BMTI in the USA and Blue Circle Ash in Australia process coal-fired power station waste to provide fly ash as a supplementary cementitious material in cement and in concrete, and bottom ash as drainage, filter and fill materials ("Envir-O-Agg"). Our own returned or reject waste materials reused in new (same) product include concrete washout slurry, RAP, plasterboard, brick bats and green and cured masonry product. Other people's waste products (or "secondary resources") utilised include supplemental materials such as granulated blast furnace slag in cement, crushed demolition concrete in new concrete ("Green Concrete") and granulated used tyres in LoNoise Asphalt (4-6dBa noise reduction).

Source: Boral Sustainability Report 2005

## **4.1.7 Driver 7: Investor relations and access to capital**

Companies are increasingly aware that in order to attract investment capital, they must build a reputation and foundation based on ethical and responsible decision making. Investment capital is important for a company's ongoing activities and ability to expand or enter into new ventures.

Advancements in technology have ensured that investors have greater access to information about a company's operations, including its social and environmental performance. There is evidence that investors are increasingly taking into account a company's social and environmental performance when making investment decisions. In the UK for example, over half of analysts and two thirds of investors now believe a

company that emphasises its performance in this area is attractive to investors<sup>29</sup>. Investors are using indices such as the Dow Jones Group Sustainability Index (DJGSI) to assess companies' CSR performances in making investment decisions. There is also a growing appreciation of the increased risk involved in investing in companies that do not manage the non-financial aspects of their operations.

The BCA Member companies are aware of the impact that CSR activities can have on their reputation and accordingly investor perception. As a result, companies are increasingly publishing information regarding their CSR activities including community involvement, environmental and social performance. Around 80% of BCA Member companies publish information about their CSR activities in stand alone reports, Annual Reports and/or on their websites. About a third produce stand alone reports on environmental, social or other ethical activities, with the number increasing each year<sup>30</sup>. It is clear that companies are becoming aware of the importance of publishing their CSR activities to investors and the reputational effects such publicity can have. A number of companies are also implementing independent auditing of their non-financial performance and reporting.

#### **4.1.8 Driver 8: Licence to operate**

Companies are realising that their long-term viability depends on the continued support of the wider community and stakeholders, including customers, employees, shareholders and the local community. The perceived CSR performance of individual companies, or industries, can effect the perception that stakeholders have over the long-term. Therefore, companies are attempting to overcome community raised concerns of past performance as well as improve future performance, in order to ensure their continued licence to operate in the broader community over the long-term.

Poor corporate behaviour can threaten a company's licence to operate through the community demanding greater regulatory restrictions being placed on the company, increasing its cost base and limiting its future prospects. Ultimately, this can lead to prohibitions on the company selling certain products or accessing valuable resources. The converse is that companies with strong CSR reputations will gain quicker access to resources and be subject to less regulation than their competitors.

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<sup>29</sup> Arthur D Little, *'The Business Case for Corporate Responsibility'*, Business in the Community (UK), [www.bitc.org.uk](http://www.bitc.org.uk) citing Business in the Community (2001) Investing in the Future, City Attitudes to environmental and social issues, Business in the Environment

<sup>30</sup> Stand-alone reports include "group" reports or reports that deal with only one aspect of CSR.

### **Wesfarmers: Support for Environmental Initiatives**

Wesfarmers supports community and industry based initiatives to improve the environment, such as CSBP's sponsorship of the Chair of Cleaner Production at the John Curtin International Institute.

Premier Coal and CSBP are participants in the Commonwealth Government's Greenhouse Challenge Plus programme, part of the national policy to address climate change issues.

In May 2004 Premier Coal won a Banksia Award for Sustainable Development Leadership in the Minerals Industry. The Banksia Awards are Australia's leading industry environmental awards and Premier Coal was recognised for its innovative community-based programmes to redevelop old mine sites for motor sports, driver training, aquaculture research and the establishment of a recreational lake.

This work has subsequently been recognised by Premier winning both the State Environmental Award and a 2005 Golden Gecko Award for Environmental Excellence.

Source: <http://www.wesfarmers.com.au/default.aspx?MenuID=28>

### **Computershare: Environmental Innovation**

Computershare's eTree project has operated for the benefit of the environment. In excess of one million trees have been planted as a direct result of the eTree project since its inception in March 2004.

The project received a significant accolade when the United Nations Association of Australia awarded Computershare, "Best Specific Environmental Initiative" at the United Nations' World Environment Day Awards".

eTree shows potential world-wide. The project is being promoted in the UK (in partnership with the Woodland Trust) and also in the US and Canada.

Source: Computershare in the Community

## **Shell: Safeguarding the Licence**

### **Responding to claims of our social and environmental performance**

Sakhalin Energy (55% Shell) asked the World Conservation Union (IUCN) to set up a panel of independent experts to assess the impact of the Sakhalin II oil and gas project on the critically endangered western gray whales, and responded to the panel's findings.

Operations in Brazil, Nigeria, the Philippines, South Africa and the USA stepped up efforts to improve strained relations with local communities and respond to criticism of past environmental performance.

### **Tomorrow's energy today**

Shell increased its global wind power capacity by about 10%, to 740 megawatts, enough to supply over 220,000 homes. Shell Solar opened the world's largest solar power station in Leizig, Germany. It also provided solar power to another 33,000 homes without reliable access to electricity from the power grid, and expects to reach a total of more than 100,000 in 2005.

Source: The Shell Report 2004

## **BP: Beyond an Oil Company**

### **Solving the solar equation**

Beginning in 2003, the BP solar team refocused its activities to become a profit centre – better understanding customers, operating at the right scale and reaching better markets. BP is now running a profitable solar operation – still small by BP standards, but one that grew its megawatt capacity sales of photovoltaic equipment by more than 30% in 2004.

Source: BP Annual Reports and Accounts 2004

## **ColesMyer: Environmentally Friendly**

ColesMyer have adopted a strategic approach to the environment and how they use energy, water and waste in their business every day. For example, Coles and Bi-Lo Go Green bags have become a popular alternative to single-use plastic bags, with more than 5 million sold in the past two years. Their target is a 50 per cent reduction in plastic bag usage (or 600 million bags) by the end of calendar 2005.

Source: Rick Allert, *'Hygenically yours, a touchy, feely Coles takes on its responsibility'*, The Age Business, 7 July 2005, page 3

## **Westpac: Better Financial Management**

### **Give community organisations access to specialised training and tools**

Optimising the business and financial skills of the not-for-profit sector is the aim of Westpac's capacity-building program- providing community organisations with access to specialised training and tools, and sharing knowledge and expertise in key business areas.

### **Strategic development workshops**

An international expert leads onsite workshops for community groups to help them analyse their operations and identify opportunities for process improvements. These workshops have prompted many organisations to implement changes that have resulted in immediate and long term productivity improvements.

### **Leadership forums**

Executives of not-for-profit groups are brought together at a financial management workshop held by the Macquarie Graduate School of Management. The workshop aims to maximise the performance of community organisations through effective business management. It also provides a forum for discussing the business challenges of the not-for-profit sector.

Westpac's Beyond Survival course helps small businesses be more successful, and is available for community groups at a discounted rate. Westpac also provides a number of free places to selected organisations throughout the year. The two-day workshop helps participants to better understand balance sheets and financial statements so they can make more informed business decisions and improve their bottom line.

### **Banking solutions for community organisations**

Westpac has developed a range of discounts on financial products and services commonly used by non-profit organisations, to help them maximise their resources.

Westpac has also developed a Guide for Community Treasurers to improve the financial knowledge of people looking after a group's finances. The free publication has been developed in conjunction with Our Community, a company that provides products and services to the community sector.

Source: Westpac Community Involvement Report 2005

### **Sensis: Recycling Program**

Through the Sensis Recycling Program, directories can be recycled in most areas of Australia through established council kerbside and commercial paper recycling collections. Since 2000, more than 50 million directories have been recycled through the Sensis Directory Recycling Program. In 2003, over 67% of old directories were recycled. Old directories are collected with other recyclables, sorted, and recycled by Visy Recycling into recycled cardboard packaging products.

Source: [http://www.about.sensis.com.au/community/recycling\\_program.php](http://www.about.sensis.com.au/community/recycling_program.php)

### **Boral: Working with the Community**

As part of its Stakeholder Engagement strategy, Boral Quarries launched a Stakeholder Engagement Manual in March 2005, to assist managers improve consultation with people and organisations that have an interest in, or are affected by Boral's operations. The Manual, which will be made available to other Boral businesses, provides practical guidance on how to plan and prepare for consultation; conduct engagement techniques such as briefings, community information sessions, newsletters and open days; and review performance. A number of Boral's Quarries have implemented the engagement techniques contained in the manual including Dundowran and Ormeau Quarries (Qld), Linwood Quarry (SA), Dunmore Quarry (NSW), Montrose Quarry (Vic) and Orange Grove Quarry (WA). Risk assessments are being undertaken throughout Boral's quarry operations to determine the extent of consultation that should be undertaken as well as timing and resource requirements.

Source: Boral Sustainability Report 2005

### **ANZ : Financial Literacy and Inclusion**

ANZ is using its resources and expertise to build the financial knowledge, skills and confidence of Australian people. ANZ's interest in this area reflects its response to those issues which directly relate to the relationship between financial services organisations and the community.

ANZ has made a commitment to help address these issues with a particular focus is on assisting "at risk" sections of the community through programs such as, amongst other things:

#### **Saver Plus**

Saver Plus is a financial literacy and matched savings program helping families on low incomes to improve their financial knowledge, build a long-term savings habit and save for their children's education. In 2004, 257 families saved a total of \$240,500, which ANZ then matched with a further \$481,000. In 2005 the program aims to reach another 500 families.

#### **MoneyMinded**

MoneyMinded is an adult financial education program developed to assist people, in particular those on low incomes, to build their financial knowledge and make informed decisions about their money. The program provides unbiased consumer education and is delivered by community educators and financial counsellors in their every-day work with people who have the most to gain from improved financial literacy. ANZ's goal is for MoneyMinded to be delivered 100,000 people over the next five years.

#### **MoneyBusiness**

MoneyBusiness is a program designed to build the money management skills and confidence of Indigenous people and their families, whilst at the same time establishing a stronger savings culture in Indigenous communities. ANZ is working in partnership with the Australian Government Department of Family and Community Services (FaCS) to deliver the MoneyBusiness initiative which is designed to help address the financial exclusion of Indigenous Australians.

Source: [anz.com/corporate-responsibility/financial-literacy](http://anz.com/corporate-responsibility/financial-literacy)

### **National Australia Bank: External Stakeholder Forum**

To better meet the community's needs, National Australia Bank recognises the need to formally talk with external parties. Since 1998, the National has had an External Stakeholder Forum. Tim Costello, CEO World Vision Australia, chairs the External Stakeholder Forum, with Ahmed Fahour, CEO Australia as the company representative. Over time, the Forum has evolved from specifically looking at the needs of those financially disadvantaged, to more broadly examining important social and environmental matters. Initiatives in which the External Stakeholder Forum has been involved include:

- commissioning independent research to better understand the needs and problems of those financially disadvantaged in the community;
- the development of the National's Concessional Bank Account. This account attracts no account keeping fees with up to \$40 of free National transactions per month; and
- supporting the No Interest Loans Scheme (NILS) , Australia's largest micro-credit scheme, through organising an annual conference and supporting the delivery of reporting and training tools. Additionally, the National has partnered with Good Shepherd Youth and Family Service, the developers of NILS, to develop Step Up Low Interest Loans, a credit product with a reduced interest rate to help support individuals excluded from mainstream banking.

Source: <http://www.national.com.au/Community/0,,48233,00.html>

## **4.2 The BCA's CSR Activities**

CSR activities are not limited to just corporations themselves. The BCA also engages in a range of activities that fall within the scope of CSR, because Australian business flourishes when the wider Australian community and economy flourish.

Some recent examples of the BCA's broader contribution include:

- Towards Sustainable Development – How leading Australian and global corporations are contributing to sustainable development
- Indigenous Communities & Australian Business – from little things, big things grow
- Corporate Community Involvement – Establishing the Business Case
- Age Can Work – A Business Guide for Supporting Older Workers
- The Cost of Dropping Out –The economic impact of early school leaving
- Balancing Work and Family Survey

## 5. Evolving CSR activities

In the past, Australian companies have lagged behind overseas companies in their CSR activities. The BCA's survey of its Member companies shows that all of those companies are now engaged in CSR activities. Accordingly, the performance of Australian companies in their CSR activities has been, and will continue to, improve over time.

*Corporate Responsibility should be seen as a journey rather than a destination.*

Source: Arthur D Little, 'The Business Case for Corporate Responsibility', Business in the Community (UK), [www.bitc.org.uk](http://www.bitc.org.uk)

There should not be a "standard" approach to CSR. The ability for companies to recognise the key business drivers that are of relevance to them and to effectively respond through CSR activities, will depend on their stage of growth, their operations and other economic, social and environmental conditions. For example, a large mining company would probably be required to undertake significantly different environmental CSR activities than a large bank. Companies do however mature in their CSR activities and this is driven by influences in the community and global influences. Accordingly, whilst Australian companies may have been lagging in their CSR activities in the past, they are continually improving, and many are now doing very well. Indeed, some Australian companies, such as Westpac and BHP–Billiton, are now frontrunners globally in terms of their CSR activities. Both of those companies recently received a perfect 10 on the business scorecards compiled by ratings agency Governance Metrics International. The agency rates companies on aspects of the business such as, amongst other things, financial disclosure, corporate governance, executive compensation, corporate behaviour and corporate social responsibility. It is in a company's interest to score well on such ratings as *"Companies that score poorly on the GMI have a higher risk of restated earnings, or becoming subject to accounting investigations by regulatory authorities"*<sup>31</sup>.

Australian front-runners are also rating highly on corporate social responsibility indices:

*"Australian corporations, which for decades lagged behind in the charitable giving stakes, are now comparable to those in the UK, Europe and USA – all of which have a strong philanthropic culture.*

*Westpac's employee driven CSR program recently topped the Corporate Social Responsibility Index with a score of 99.53 (ahead of 134 British companies).*<sup>32</sup>

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<sup>31</sup> Leon Gettler, 'Aussie born and bred and perfect 10s, says ratings agency', The Age, 22 September 2005, page 5

<sup>32</sup> Julie Clements, 'Seek synergy for success', Fundraising & Philanthropy Australasia, Published by Bombora Publishing Pty Ltd, Issue 4: August-October 2005, page 10

As Australian companies become better at understanding and responding to the key economic drivers, then they will also improve in their mechanisms for reporting and demonstrating their activities and the positive impact they are having on society. Smaller or growth enterprises will learn about which elements of their businesses are impacting on the environment, community and economy. As they grow and learn, they will develop appropriate responses to these drivers.

## 6. Alternative responses

Effective and appropriate CSR responses should not be mandated or dictated by external parties. The best CSR outcomes are achieved when companies and the community engage together and develop mutually acceptable responses to issues.

It has been argued that there are only three types of control which can be imposed on companies to make sure that they do the right thing<sup>33</sup>. These are social, regulatory and economic control. In relation to the effectiveness of such controls, Dr Charles Fombrun argues<sup>34</sup>:

*“In my view, both regulatory and social control are deficient. Regulatory control imposes heavy compliance costs on companies and, as with taxation, encourages clever bureaucrats to find loopholes to exploit. Social controls suffer the opposite fate: few penalties are even enacted, and so minimal observation is encouraged. You do as little as you have to, in order to ‘appear’ to be in compliance. Indeed, history tells us that it really isn’t possible to legislate plain old honesty and high ethical standards.”*

Instead economic control has created incentives for companies to undertake CSR initiatives. Economic, rather than regulatory controls, can be utilised to encourage companies to act in an ethical manner. Dr Fombrun suggests that two such initiatives have already contributed to the growing incidence of CSR activity by companies<sup>35</sup>:

- *The growing incidence of formal ratings of companies’ CSR activities. Companies can benefit by high ratings (such as the CGI Index) by better reputations and therefore possibly higher investment capital;*
- *Growing interest in valuing and measuring corporate reputations. Reputations are a powerful economic influence because they affect the likelihood that investors, customers and potential employees will participate with your company and therefore flow on to the bottom line.*

As this submission demonstrates, there are already strong economic drivers in the market place, which has led to stronger and increasing CSR activity by Australian companies.

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<sup>33</sup> Dr Charles Fombrun, *‘Taking Care of Business’*, Corporate Public Affairs, Volume 15, No 2, 2005

<sup>34</sup> Dr Charles Fombrun, *‘Taking Care of Business’*, Corporate Public Affairs, Volume 15, No 2, 2005, page 6-7

<sup>35</sup> Dr Charles Fombrun, *‘Taking Care of Business’*, Corporate Public Affairs, Volume 15, No 2, 2005, page

This was recently demonstrated by ANZ which has restructured a board committee called nominations, governance and corporate responsibility committee to focus directors on CSR issues. It is proposed that the committee will review the company's CSR objectives at least once a year, and monitor the way they are implemented. Mr David Gonski is the chair of the committee. He has recognised that governance and CSR issues can evolve over time, and made the following comments<sup>36</sup>:

*“Many boards deal with corporate social responsibility, this is not new. If we are the first, I think we will not be the last.*

*Years ago, no one had risk committees and indeed 15 years ago, I can tell you we didn't have audit committees.”*

Any examination of how to encourage CSR among a wider range of companies should focus on initiatives to foster the market based drivers of CSR.

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<sup>36</sup> Leon Gettler, *'ANZ makes responsibility a key plank'*, The Age, 22 September 2005, page 5

## Part 2

### 7. Inquiry Terms of Reference

The first part of this submission examined what is meant by 'corporate social responsibility', the various drivers for corporations to act responsibly and the wide range of activities that BCA Member companies are already engaged in that fall within the scope of corporate social responsibility.

Part 2 of this submission specifically addresses the terms of reference of the Committee's inquiry.

The terms of reference of the inquiry state:

*The Committee will inquire into Corporate Responsibility and Triple-Bottom-Line reporting, for incorporated entities in Australia, with particular reference to:*

- a. The extent to which organisational decision-makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community.*
- b. The extent to which organisational decision-makers should have regard for the interests of stakeholders other than shareholders, and the broader community.*
- 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.*
- 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 obligations that exist in laws other than the Corporations Act.*
- e. Any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and/or their directors.*
- f. The appropriateness of reporting requirements associated with these issues.*
- g. Whether regulatory, legislative or other policy approaches in other countries could be adopted or adapted for Australia.*

## **7.1 Are Corporations Taking Broader Interests into Account?**

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

As Part 1 of this submission demonstrates, all Member Companies of the BCA are currently engaged in activities that fall within the scope of 'corporate social responsibility'. Many of these activities involve stakeholders other than shareholders. For example, many corporations engage in community based activities that involve members of local communities. Similarly, many corporations have programs that engage their employees in activities outside of the normal work arrangements of the corporation (such as supporting employee involvement in community and charity work).

More importantly, corporations need to have regard to broader stakeholder interests in their day to day decision making. For example, a corporation's reputation with its customers, suppliers, employees and the broader community, is determined by the sum of the multiple interactions those stakeholders have with the corporation. The corporation's reputation then affects its ability to attract and retain customers, suppliers and employees, and hence its ability to grow its shareholders' wealth.

## **7.2 Should Corporations Take Broader Interests into Account?**

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

As well as examining the extent to which corporations do have regard for the interests of stakeholders other than shareholders, the Committee is examining the extent to which corporations *should* have such regard. The BCA's view is that corporations should, in their own interests, have regard for the interests of others, and as demonstrated in this submission, they do in fact have such regard.

In the view of the BCA, any company that has no "*regard for the interests of stakeholders other than shareholders, and the broader community*" will not flourish, or indeed survive, in modern society. The reality is that corporations operate within the context of society and require good relations overall with that society if they wish to sustain themselves and grow.

In Part 1, we identified eight broad reasons why corporations engage in social responsible behaviour, namely:

- employee recruitment, motivation and retention
- learning and innovation
- reputation management
- risk profile and risk management
- competitiveness and market positioning
- operational efficiency
- investor relations and access to capital
- licence to operate

Companies that do not have regard for broader stakeholder and community interests and concerns will find they experience the reverse of the benefits identified against these eight criteria. For example:

- they will find it increasingly difficult to attract and retain employees, particularly as demand for skilled labour increases;
- they are less likely to be innovative and adaptive to changing market and societal circumstances, resulting in the blunting of their competitive edge;
- they risk suffering reputational harm, with flow on consequences for their attractiveness to investors, suppliers, employees and customers;
- their risk profile will increase, potentially resulting in higher costs (for example, higher insurance premiums) and stricter regulation (which itself then adds to costs and stifles business innovation and opportunity);
- their competitiveness and market position will be eroded, for example, through loss of consumer support or through missed opportunities to develop better goods, services and processes;
- they will miss opportunities to improve their operational efficiency;
- they will find it increasingly difficult to attract investors and capital, particular where their activities harm their reputation, their risk profile and their competitiveness;
- they risk having their 'licence to operate' curtailed or even withdrawn. For example, a minerals company with a poor community engagement or environmental record will find it increasingly difficult to gain approval to explore and develop new resources.

There are therefore very strong reasons for corporations to have regard for the interests of stakeholders other than shareholders, and the broader community. The reality of these drivers is proven by the extent, scope and innovation in the activities engaged in by BCA Member companies.

It is important to remember, however, that a company's paramount obligation is to its shareholders. The two are not mutually exclusive. It is in the interests of shareholders to have their company flourish and grow. This is only possible in a sustainable way when the corporation takes into account the interests of other stakeholders, and the broader community, to the extent that these interests are relevant to the corporation.

While the BCA recognises the realities of the drivers towards greater corporate responsibility, and supports corporations having regard to the interests of stakeholders other than shareholders, there are limits to the extent that corporations can and should have regard to interests other than those of shareholders. The litmus test for any activity or responsibility is whether the performance of that activity or responsibility can reasonably be seen to be contributing to the growth of shareholder value. While some may argue this is too restrictive, the BCA believes it is a paramount principle entrenched in the basic nature of the corporation and its arrangement with the owners of its capital,

the shareholders. The BCA also firmly believes that this paramount principle does not limit the ability of corporations to take into account the interests of other stakeholders to the extent that these interests are relevant to the corporation. Nor does it restrict the diversity and innovation in the approaches that corporations can take to responding to the interests of other stakeholders, as witnessed by the wide range of activities BCA Member Companies are currently engaged in.

### **7.3 Impact of Current Duties**

- 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.*

The BCA does not support the view that the current legal framework governing directors' duties provides a disincentive or barrier to Directors (or company officers) having regard to the interests of stakeholders other than shareholders, and the broader community.

The BCA is aware that questions have previously been raised by representatives of James Hardie about whether the duty owed by Directors precluded them from providing additional funding to the foundation established in response to compensation claims from asbestos-related disease sufferers<sup>37</sup>. These claims have been extrapolated to suggest that some Directors may believe that their duties preclude them from taking into account interests other than those of shareholders.

The BCA does not believe, and has found no other evidence for the view, that Directors or officers in general believe they are precluded from taking into account the interests of other stakeholders and the broader community, to the extent that these interests are relevant to the company.

*'Strategic' CSR is unlikely to offend the legal duties of directors because it is really a self-interested attempt to improve the company's reputation in accordance with the policy of profit maximization.*

Minter Ellison, July 2005 Keeping Good Company

The essential element of the corporate social responsibility activities so widely engaged in by corporations is that these activities add value to both the broader community and to shareholders. The fact that these activities are taking place demonstrates that the vast majority of corporate Directors and officers do not feel that their duties restrain their ability to take into account broader interests.

Taking into account the interests of stakeholders other than shareholders can be a vital part of the strategic thinking and planning of a corporation. For example, taking into account the views of the local community when proposing a new business development

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<sup>37</sup> See, for example, Elizabeth Sexton, *Directors: to whom do they owe care?*, Sydney Morning Herald, 4 July 2005, p 36.

allows a company to foresee and respond to potential impediments to its proposal, allowing the company to achieve its development plans more quickly and at lower cost. The case studies in Part 1 and Attachment A provide examples of how companies see engaging with the broader community as part of the strategic development of their corporations.

## **7.4 Need for Government Intervention**

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

The BCA believes that law changes to “enable” corporations, Directors and company officers to have regard for the interests of stakeholders other than shareholders are unnecessary. As set out above, the BCA does not believe there is evidence that company Directors and officers feel that their duties prevent them from taking into account the interests of stakeholders other than shareholders, to the extent that those interests are relevant to the company and its shareholders (see Part 1, Section 3). Only if there is clear evidence that Directors and officers do feel so prevented, and that their views have some legal foundation, should consideration be given to an enabling provision in the Corporations Act that makes it clear that the duties of Directors and officers do not preclude them from having regard for the interests of stakeholders other than shareholders, to the extent that those interest are relevant to the corporation.

The BCA is strongly opposed to suggestions that the law needs to be changed to “encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders”. The BCA believes strongly that such legislative intervention is not only unnecessary, but would also be counter-productive.

### *Intervention Unnecessary*

Business is often told that Government intervention through regulation is necessary because of market failures or the lack of initiative by business itself to deal with an issue. In other words, business is told that, had it responded itself to an issue, Government intervention would have been unnecessary.

The Australian business community’s response to CSR is a compelling example of where, without Government intervention, business has developed sophisticated responses to community issues. Without the need for prescriptive legislation, Australian corporations are already engaged in a wide range of corporate social responsibility activities, developed to suit the particular needs of the corporations and the communities they relate to. Increasingly, corporations are voluntarily reporting their performances in these areas and subjecting themselves to independent auditing and rating.

Some Australian corporations are world leaders in this field. Even where other corporations are not as well advanced in their approaches, there is clear evidence that Australian corporations are progressively increasing the range and sophistication of their corporate social responsibility activities. For example, while reporting on these activities

was unusual in the late 1990s, some 80% of BCA Member companies now report on their corporate social responsibility activities through stand alone reports, annual reports and/or through their websites.

### *Intervention Counter-Productive*

Not only is legislative intervention unnecessary to get Australian corporations to take their broader responsibilities seriously, it would be counter-productive. At present, Australian corporations are engaging in corporate social responsibility activities in response to the drivers set out earlier in this submission. This has led to a situation in Australia where corporations are being competitive and innovative and are actively engaging with communities to develop and implement new programs that deliver benefits to both the communities and the corporation. If, however, a legislative requirement is put in place, the vast majority of these corporations will switch from this competitive and innovative approach to a compliance approach. In other words, they will shift their attention from focusing on how best to engage with the community, to how best to comply with the requirements of the law.

There are also real questions about the ability of Government to legislate in this area. There is an enormous diversity of engagements between corporations and stakeholders such as customers, suppliers, employees and members of the broader community. The nature of these engagements will vary depending on a wide range of factors, such as the type of business the corporation is in, the location and nature of its activities and the communities it is interacting with. To cover this wide range of engagements in legislation would either require such high level provisions that they would be largely meaningless in terms of compliance and enforcement, or such detailed and prescriptive legislation that it would add considerably to the complexity of the law governing the operation of corporations.

Finally, creating a positive duty on Directors or officers to take into account the interests of a broad range of stakeholders creates the very real possibility that Directors and officers will find themselves having to balance competing and conflicting legal obligations. For example, the interests of community stakeholders can always be furthered by a corporation donating ever-increasing amounts of money to community projects. Beyond some point, however, this would no longer be in the interests of shareholders. How does a Director or officer prove at law that they have taken the interests of community stakeholders sufficiently into account? There is also an interesting question about how any extended duties of Directors and officers would be policed and enforced. It suggests the Australian Securities and Investments Commission may need to develop expertise in environmental and social issues.

## **7.5 Alternative mechanisms**

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

The BCA is strongly of the view that any Government initiatives to promote CSR must focus on the existing market based drivers that have already convinced all BCA Member companies to engage in their own CSR activities.

In theory, there are a number of potential roles for Government that reinforce the existing drivers, including:

- publicly recognising the achievements of those corporations leading the way in CSR;
- raising awareness for corporations of the drivers and trends in CSR;
- providing guidance to corporations on developing and implementing CSR activities, drawing on the experiences of larger corporations;
- identifying and removing regulatory barriers to corporations implementing CSR activities, such as restrictions that can make it difficult for employees to negotiate more flexible working conditions; and
- facilitating discussions between businesses on approaches and experiences to CSR.

Governments are already involved in many of these areas through, for example, the Prime Minister's Business Community Partnership. It is important to note, however, that many of these roles are increasingly being taken up by the private sector and these activities should not be discouraged through Government intervention. In recent years, for example, Australia has seen the development of a number of ratings bodies around non-financial performance, including the SAM Dow Jones Sustainability Index, the Corporate Responsibility Index and Reputex. The integrity of the methodologies of these ratings processes and the quality of their analysis has improved in recent years and we would expect to see this trend continue as more corporations participate in ratings and more analysts and investors use the results.

## **7.6 Reporting Requirements**

### *f. The appropriateness of reporting requirements associated with these issues.*

In 1996, WMC Limited became the first major Australian corporation to produce a detailed environmental performance report. Less than a decade later, around one third of the BCA's Member companies produce standalone environmental, CSR, community and/or sustainability reports. Most other BCA Member companies report their CSR performance through their annual reports and/or on their websites, meaning that around 80% of BCA Member companies publicly report what they are doing in terms of CSR related activities.

Many of the studies undertaken that measure reporting levels focus on standalone reports. The BCA does not believe that this is an adequate measure of the level of reporting. As noted above, most BCA Member companies report through their annual reports or on their websites. Standalone reports may be appropriate where a corporation has significant and complex community or environmental issues to report on. For this reason, environmental and community report was pioneered by the minerals sector. Other companies may wish to produce standalone reports where they use CSR

as a major part of their strategy or branding. For many companies, however, their CSR activities form part of the mainstream operations of the business and it is appropriate that these activities are reported to shareholders and others as part of the company's annual report.

Mandating reporting through legislation presents problems. At one level, legislation can require that companies produce a report on CSR or similar performance. Compliance with such a provision requires a company to simply produce a report but the legislation says nothing about the contents of that report. In other words, it is open to companies to produce superficial reports. This is likely to lead those companies not currently reporting to see the reporting process as a pointless legislative impost, obscuring the benefit that companies can derive from developing and issuing their reports. It also contributes little to the community's understanding of non-financial performance by corporations.

To go beyond such a simple provision requires legislators to make judgments about the required content of reports. This is no simple matter, as appropriate reporting in one sector will not be the same as appropriate reporting in another. It also raises the risk of companies shifting to a compliance approach to reporting, stifling the innovation and competition that currently exists between many reporting companies. The size of the task is also illustrated through the experience of the Global Reporting Initiative, involving experts from around the world in a process taking many years.

For the reasons set out above, the BCA does not support the idea of increasing reporting requirements on companies.

## **7.7 International Experience**

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

The BCA has not been in a position to examine in detail international approaches to corporate responsibility, but cautions that, as a general principle, legislative responses from other countries should not be transplanted to Australia without a full appreciation of the context within which that legislation existing in other countries. The BCA's experience during the recent debate about corporate governance legislation, for example, was that international approaches were suggested by proponents of greater regulation without an appreciation of either existing Australian requirements in other areas or the context of the legislation in other countries.

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