CATALYST CSR DASHBOARD
SUSTAINABILITY PERFORMANCE SNAPSHOT
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CATALYST

Many companies don't make the effort to report about their social and environmental performance… "if we don't make an effort in terms of scrutiny who can blame them".[1]

The breadth of research and data analysis that underpins the Catalyst Corporate Social Responsibility (CSR) Dashboard gave the researchers some overall impressions about social and environmental reporting in Australia. Surprisingly, the majority of our leading companies were not up to scratch. Despite being based on well-established global and local standards of good practice, in most cases the criteria used in the CSR Dashboard were too aspirational to be met by the companies in the sample. Only four of the 32 companies provided enough public information to rate their performance in all 20 of the indicators. Ten companies had three or less reporting gaps.[2] At the other end of the spectrum seven of the 32 companies did not achieve a rating in more than half of the 20 indicators. Some topic areas were widely overlooked, such as supply chains. Companies also disclosed selectively around labour standards.

The website provides a visual representation of the full results for all companies and topics, as well as background information about the project.[3]

Companies report well when expectations are clearly defined

Researchers found great variation in how companies reported about their social and environmental activities. Such diversity can be common in corporate social reporting as companies concentrate on areas that materially affect their performance and meet their stakeholders' demands for transparency and disclosure.[4] At the same time, discretionary reporting can lead to companies highlighting sustainability achievements that reflect well on them while overlooking other areas. This was apparent across the sample firms. Many companies reported extensively and highly selectively about their sustainability successes, but few addressed the broader range of issues investigated by the CSR Dashboard.

As noted above, one quarter of companies could not satisfy ten or more of the 20 indicators. One company (Ten Network) did not rate in 18 of the 20 indicators, and another (Computershare Limited) lacked a score for 14 indicators. This is a staggering result as the company sample comprises Australia's best and brightest corporations who are often the leaders in social and environmental practice.

Interestingly, under-performing companies tended to be in the "new" economy sectors of communications, entertainment, healthcare, media, engineering and infrastructure. It was surprising to also find the Westfield Group among this cohort given their global prominence and market share. While it is difficult to generalise about such a diverse group, it is possible these firms have not faced the investor or consumer pressure that has fuelled reporting in more mature sectors of the economy, such as finance, retail and mining. Companies in these latter sectors performed extremely well in supplying public data for review.[5]

Topic area reporting was also very patchy. Gender equality, carbon emissions, energy efficiency and worker health and safety were well-covered topics, compared to others.

It is significant that these areas have strong external reporting guidance. Thus, most companies addressed these topics in public reports - even when disclosures revealed negative performance outcomes.

For example, disclosures around gender have recently benefitted from increased guidance set through a new reporting regime, established through Australian Securities Exchange (ASX) Corporate Governance Principles to include recommendations promoting gender diversity at listed companies.[6] This was the only topic area where all companies achieved a score and most were rated at 'average' or 'above average'. Doubtless these results reflect the clear guidance provided by the ASX Principles along with a more activist approach by the federal government in spearheading the new Workplace Gender Equality Agency.

External policy underpinning select environment topics also helped steer public disclosures. As a result the vast majority of companies supplied information on carbon disclosure and energy efficiency.[7] In addition to 29 companies voluntarily reporting to the Carbon Disclosure Project, corporations that are registered under the Commonwealth Government's *National Greenhouse and Energy Reporting Act 2007* are required to report on their greenhouse gas emissions and energy consumption.[8]

Similarly, worker health and safety reporting is stimulated by clear external regulation, along with a continued focus on safety by trade unions and a legal duty of care by employers.

The improved level of disclosures in each of the above areas shows that companies will embrace common standards for social and environmental reporting when it is mandatory to do so, or where expectations concerning disclosure are well-defined and understood. It confirms that clear guidance contributes to greater transparency around social and environmental performance. Over time, the CSR Dashboard should motivate companies to improve public reporting and encourage policy makers to develop guidance in areas where reporting is deficient.

Boosting transparency in supply chain and labour standards reporting

Supply chain reporting was the most consistently under-reported topic area in the CSR Dashboard as 14 companies failed to outline any details about their policy, approach or management of supply chains.[9] Where companies did report on these issues, their performance barely rated on the performance scale and much of their information was scant or superficial. Only one company scored 'above average' in this topic (Woolworths).

By comparison, reporting around labour standards was better, but even here the results were sporadic. Most companies failed to address the full range of labour standards indicators. Topics particularly lacking in detail were those related to 'global commitment to rights at work' and 'freedom of association'.[10] In the absence of clear guidance to rate performance in these areas, researchers developed a scale that highlighted the important role of the Eight International Labour Organisation (ILO) Core Conventions. The Conventions were found to be referenced by global companies that display good practice in labour standards reporting. Unlike their global counterparts, no Australian company directly referenced one or more of the ILO Eight Core Conventions.[11]

Companies also reported selectively on 'commitments to secure work', with only a few outlining employment by contract type or trends in their casual or contract workforce.[12]

These findings highlight the need to better contextualise the intent and purpose of the ILO Conventions by developing dedicated proxies that can be applied in the Australian context, particularly regarding decent and secure work. [13]

As already noted, the area of worker health and safety was well-covered and furthermore, out of the 18 scores of 'Excellent' the highest number (four) applied to worker health and safety performance. The stronger performance reflects the impact of legislation and the role of bodies such as Safe Work Australia and the Australian Reporting Awards organisation in steering companies towards best practice in health and safety performance and reporting. As part of this companies are encouraged to collect and analyse detailed data, report targets and compare their performance against industry benchmarks. The worker health and safety performance rating scale took account of these best practice requirements, and researchers expected to find more companies scoring at the higher end of the scale. However, surprisingly two-thirds of the company sample scored 'average' or 'below average' and three did not rate at all, suggesting companies are either not taking up the guidance of best practice bodies, or alternatively are not reporting this level of detail in Sustainability or equivalent Reports.[14]

The relative lack of attention to supply chain and labour standards confirms findings in other external research about the comparatively poor standard of reporting about human rights issues by Australian firms.[15] The inconsistency in approach between some labour standards areas and others suggests highly selective reporting that could be avoided by introducing clear, persuasive minimum reporting standards. This would inform investors, consumers and others wanting to deal with companies with ethical labour and supply chain practices, and distinguish those companies with a positive culture of workplace rights.

Trade unions and civil society organisations have a vital role in developing and articulating standards that reflect the community's values and expectations around decent, secure and safe work. Such standards should apply locally and throughout a company's supply chains.

Improving reporting standards

It was encouraging to find the use of tools such as the Global Reporting Initiative (GRI), along with evidence of sign-on to benchmarking and other voluntary corporate responsibility initiatives.[16]

Thirteen companies applied or referenced the GRI reporting guidelines and ten had their application assured, seven gaining this assurance by a third party. Such positive results were far from widespread: nine companies did not outline their approach to reporting or to stakeholder engagement.

One company in the sample (Stockland) participated in the international pilot for integrated reporting and delivered a single 'integrated' report that combined financial, social and environmental performance. It is notable that Stockland was one of only four companies to achieve a rating on all 20 of the indicators.[17]

The different formats and styles of reporting that were adopted across the sample companies greatly limited the accessibility of information. Researchers found that even where there was an abundance of information in the public domain, the huge variation in methods of presentation and the lack of common definitions or formats made it difficult to compare companies. Given that this project was undertaken by researchers with experience in locating and analysing corporate information, it would be even more difficult for the common users of sustainability information – consumers, small investors and community groups.

As the move to integrated reporting is still to gain pace globally and in Australia, Catalyst recommends consideration by regulatory agencies, investor and industry bodies of minimum content guidelines for social and environmental reporting, along with measures to promote the increased up-take of tools such as the GRI. For instance, the Australian Securities Exchange could spearhead improvements in disclosures on key sustainability topics where they are particularly weak, through select amendments to the ASX Corporate Governance Principles. This approach conforms with past interventions around gender equality, which greatly boosted transparency and improved performance.

Some immediate improvements can be made by companies, for example benchmarking their reporting against the highest standard, and by better alignment and cross-referencing of different sources of information. Where best practice information has been submitted to external agencies on topics such as health and safety, this should be included in public disclosures on websites and in Sustainability (or equivalent) Reports.'

The project Snapshot *A More Complete Picture of Sustainability* noted data quality in sustainability reporting is a "significant issue". Catalyst has previously made a recommendation to improve the veracity of information and this is taken up below.[18]

Where to next for the CSR Dashboard?

The research has prompted a number of recommendations, outlined below. Feedback from users will contribute to improvements over time. The website has in-built capability to add new topics or to expand the number of companies under review. An on-going series of tailored 'Snapshot' Reports will drill down into existing data and any new applications of the CSR Snapshot.

Recommendations

1. The Australian Securities Exchange Corporate Governance Principles should be amended to require certain senior executives to declare sustainability reporting as presenting a 'true and fair' view. This should not result in any radical or burdensome additions.

2. The Australian Securities Exchange, government regulatory agencies, investor and industry bodies should consider minimum content standards and frameworks to fill recognised gaps in social and environmental reporting. Where necessary amendments should be made to the *ASX Corporate Governance Principles* to mandate improvements in disclosures in sustainability areas of public interest, or where public disclosures are falling short. This approach is consistent with past interventions around gender equality, which have led to greater transparency and improved performance.

3. Trade unions, civil society organisations and others with an interest in rights and conditions at work should articulate standards to measure decent and secure work in the Australian context. This should include promoting the increased take-up of ILO Conventions by companies and, if necessary, involve the development of proxies that reflect the ILO principles that can be applied in the Australian workplace.

4. Companies should, as a regular practice, align and/or cross-reference public reporting about social and environmental performance with the disclosures they supply to external government agencies, benchmarking and/or best practice organisations, particularly in the areas of gender equality, worker health and safety and carbon disclosure.

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[1] Dr Ralf Barkemeyer, Leeds University, quoted in "Howlers and omissions exposed in world of corporate social *responsibility'* The Guardian 24 November 2011

[2] The four companies that provided enough public information for researchers to rate performance on all 20 indicators were BHP, Brambles, Stockland and Woolworths. CSL did not achieve a rating in just one indicator, while AGL, Orica, Westpac and Wesfarmers missed two indicators, and Transurban, Telstra, Woodside and Origin Energy missed three.

[3] In the topic area of community investment, the CSR Dashboard enabled Catalyst to build on its comprehensive 2012 report *What Gives? How Companies Invest in Communities*. Due to the significant interest in that research report a separate summary of the relating to community investment will be released shortly, along with other tailored reports.

[4] See for example KPMG and Group 100 (G100), *Sustainability Reporting: A Guide* (2008)

[5] This refers to the amount of material that companies disclose publicly but does not relate to the quality or accuracy of disclosures. The summary paper, *A More Complete Picture of Sustainability,* notes that unlike financial disclosures, release of sustainability information to the market "is largely unregulated".

[6] In 2011, new gender reporting requirements were issued by the Australian Securities Exchange (ASX), applicable to all public companies and effective in the 2012 reporting year. Under these requirements companies must establish a policy on diversity and disclose that policy or a summary. Companies must establish measurable objectives for achieving gender diversity, and produce Annual Reports on their progress. Companies are also obliged to disclose the proportion of women employees in the organisation, in senior executive positions and on the board.

[7] The Carbon Disclosure Project reported to by many of the sample firms has focused attention on measurement and disclosure of carbon, as has the Commonwealth Government's National Greenhouse and Energy Reporting scheme. A total of 24 companies in the CSR Dashboard sample were required to report under the NGER Act, and eight were not.

[8] A corporation that had scope 1 and scope 2 greenhouse gas emissions above the threshold of 50 kilotonnes must have registered and published these and their total energy consumption online in accordance with the NGER.

[9] The indicators applied related to both labour and environmental supply chain management.

[10] For example, 13 companies did not address Freedom of Association, and all others (bar two companies) achieved a score of below average. Only one company (Origin Energy) addressed risks to Freedom of Association, albeit minimally. Regarding the sub-indicator Fundamental Commitments to Rights at work, the level of commitment was assessed by looking at a company's willingness to sign on to (or reference) the International Labour Organisation Standards (ILO) Eight Core Conventions. As noted in the text, no company directly referenced one or more of the ILO Conventions. Sixteen companies satisfied the minimal criteria for this sub-indicator by providing a publicly available statement of commitment to provision of decent work conditions, but no company scored higher than 'below average'.

[11] A handful of companies made a general reference to applying the ILO 'principles' but offered no evidence of applying the Eight Core Conventions. A comparison with the top ten global companies shows a greater tendency amongst the global group to reference and affirm the ILO Conventions.

[12] Seven companies (AGL, BHP, Stockland, Transurban, Westpac, Woodside and Woolworths scored either 'above average' or 'excellent' in this indicator. This was based on a high level of disclosure about workforce and contract type, and evidence of steps being taken to reduce their casual and contract workforce. It should be emphasised that there are some limitations with this measure, ie workforce changes can be influenced by fluctuations in the business cycle, by selling part of a business, or off-shoring. In the light of these deficiencies, and despite the development of this indicator being informed by a wide-ranging literature search, and previous research findings, Catalyst recommends this as an area for further development of standards, again supported by dedicated research.

[13] These issues have achieved prominence through a recent independent inquiry into Insecure Work. See ACTU, *Lives on Hold: Unlocking the Potential of Australia's Workforce*, the report of the Independent Inquiry into Insecure Work in Australia 2012 www.actu.org.au. The Inquiry found almost one quarter of all employees (2.2 million workers) are engaged in casual employment, and casualisation was growing across the economy. Huge numbers of casual and insecure workers want more stable and secure working arrangements. The Inquiry made a series of recommendations to improve job security for working Australians.

[14] Similar inconsistencies were found when reviewing information submitted to the Equal Opportunity in the Workplace Agency, which was not always fully integrated into public reports or websites addressing diversity. Also, researchers found inconsistent disclosures about carbon emissions as information on emissions submitted to the Carbon Disclosure Project was sometimes dissimilar to that presented elsewhere. This may be explained by the different deadlines set by external agencies for submitting information, or alternatively, by a lack of coordination between staff preparing data for different audiences.

[15] See for example, 2011 research by the Australian Council of Superannuation Investors which found only 17 percent of ASX 200 firms issued a labour and human rights policy covering their supply chains, compared with one third of global firms sampled. Similar deficiencies in labour standards reporting were highlighted in a comprehensive report by Banarra Consulting commissioned by the Construction, Forestry, Mining and Energy Union, titled *2010 Labour Practices in Sustainability Reporting: A review.*

[16] Researchers looked for evidence of sign on-to benchmarking initiatives such as the Carbon Disclosure Project, FTSE4Good, the Dow Jones Sustainability Index, as well as voluntary sustainability or CR initiatives such as the UN Global Company, the Equator Principles, the UN PRI, and initiatives related to the specific industry or business, such as the Australian Packaging Covenant.

[17] A few other companies also chose to insert sustainability information into Annual and Shareholder Reports, but only Stockland adopted the Integrated Reporting template.

[18] Alice Kletter (2010) *Steering Sustainability*. Report for Catalyst by the Centre for Corporate Governance, UTS www.catalyst.org.au