FULL DISCLOSURE
HOW CORPORATIONS TELL THEIR STORY

CATALYST

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> "Corporations will take what they can: when there is a conflict between profitability and the environment or human rights, the profits come first... Big business will protect human rights and the environment only if it is forced to do so." GEORGE MONBIOT: TROUBLE IN THE PIPELINE

OF THE TOP ONE HUNDRED ECONOMIES, 51 ARE CORPORATIONS[1]

In 2010, Catalyst set out to create a better understanding about the nature of the impact of corporate power in our society.

Recognising that our biggest and most profitable public companies draw their wealth from local resources, consumers and workers, we saw that communities are not well organised to articulate what standards and behavior they expect from corporate Australia. At the same time, there has been a growing reliance on corporations to provide public and community services, with an expanding suite of taxpayer-funded agencies created to regulate and sustain corporate activities.

This research project sets out to explore the impact of the growing influence of corporations. Working closely with leading academics and practitioners we discuss in this series the systems that corporations used to explain their activities. Focusing on aspects of corporate governance, such as labour practices, workplace safety standards, taxation, social investment, and environmental practice, our analysis and discussion will be released under our 'Full Disclosure' project throughout 2011.

A dozen of Australia's leading publicly listed companies have been selected for review in each of the above areas. The intention is to capture diverse corporate experience across the service, manufacturing and resources sectors with blue and white collar workforces.

Ultimately, we hope that this work contributes new perspectives to the discussion about corporate standards and broadens the picture of how Australian corporations are responding to the needs of communities.

MORE THAN AN IMAGE PROBLEM

Corporate Australia has an image problem. For decades, public trust in the behavior of our big corporations has been declining. Ten years ago 64 percent of Australians thought big companies had no morals or ethics and 55 percent of people didn't trust them.[2] In a survey conducted in 2010 by The Australia Institute, a whopping eight out of ten people felt that big business had too much influence over everyday life, and more than half thought corporations did not act in environmentally responsible ways.

Coinciding with the community's loss of faith in corporations, there's been a massive increase in systems, tools and methodologies to help companies establish and maintain their reputation. These systems typically sit alongside traditional financial reporting and most are voluntary. They are growing in importance to investors, shareholders and communities in presenting the image of a company and establishing its bona fides, especially in the areas of environment and social responsibility.

Known variously as 'Sustainability Reporting', 'Environment, Social and Governance (ESG) reporting', and 'Corporate Social Responsibility (CSR)', or triple bottom line reporting, these systems rely on companies disclosing information to shareholders, investors and the public about their activities. This information is then subject to an independent audit process and benchmarked against global, national or company standards (see back page).

Although most non-financial disclosures are voluntary, providing information can serve several useful purposes. It can help to attract responsible investors who are on the look-out for ethical investment products. This is something that has grown in importance as institutional investors, such as big industry superannuation funds, seek out investment options that meet the ethical, social and environmental preferences of their members.

A second up-side to corporate reporting is that it helps companies to build their reputation. Gold star recognition can be a useful tool for corporate image-makers, especially if there is a need to resuscitate public and shareholder confidence after some bad press. And achieving good results in one area can be an antidote to poor practices in others.

> **"Reliance on voluntary corporate self-engagement with ethics is misguided and naive. Corporate responsibility and the acceptance that companies must have a social conscience needs firm parameters."**
> JUSTINE NOLAN[3]

SELECTIVE REPORTING

A huge amount of investment money rests on the integrity of corporate reporting but a great many decisions about when, how and what to disclose remain voluntary and at the discretion of individual companies. While voluntary measures of accountability may be preferable to none at all, the absence of consistent regulations and approaches to corporate social reporting can lead to 'patchy' results.[4]

In drawing attention to this, various commentators have referred to the tendency of companies not to report negative outcomes or to omit certain risk factors. There is often a lack of integration with annual financial reports, so that while traditional financial disclosures to the stock exchange are evaluated for their integrity – and companies held accountable for statements made – corporate social and sustainability reports rarely face this level of scrutiny.

Additionally, critics have noted that companies either produce too much information, or too little information of value. This has created a perception that reporting is primarily aimed at a firm's public relations rather than being a measure of real transparency and accountability.[5] Trade unions have drawn attention to a lack of any enforcement mechanism or remedies when company statements are inconsistent with workplace practices. Similarly environmentalists have criticised the amount of time and effort involved in getting behind the 'green-wash' in sustainability reports to properly evaluate environmental practice.

AUSTRALIAN COMPANIES' PERFORMANCE

Overall, the extent of social and sustainability reporting by Australian firms remains low by global standards, both in terms of producing stand-alone reports and in integrating this information into company annual reports. Only 37 percent of our largest national companies produce a stand-alone report about their social and environmental activities, although this is up from 25 percent in 2005.[6]

By contrast a survey by global accounting firm, KPMG, has found 77 percent of global firms follow the Global Reporting Initiative (GRI) Guidelines when making social, environmental and governance disclosure (see back page).[7]

But while the GRI is seen as the leading disclosure framework for assessing corporate conduct its uptake in Australia is low.

Instead we have a proliferation of standards with the potential to *confuse and misconstrue concepts of corporate social responsibility and impede the development of widely accepted standards of conduct.*[8] Thus the task of evaluating corporate activities is made more complex as a variety of measurement and reporting systems is used.

That the lack of uniform standards can undermine the integrity of corporate reporting systems is best illustrated in the case of the Australian Wheat Board which at the same time it *was paying $290 million in bribes to Saddam Hussein's regime in Iraq, ... was also participating in the Australian Corporate Responsibility Index, whereby it was self-assessing how it was going on corporate responsibility and [said] it was doing fine.*[9]

A 2006 Joint Parliamentary Committee on Corporations and Financial Services looked at the broader issue of corporate social reporting in Australia in the context of a number of examples of poor practice by leading organisations. In its report *Corporate Responsibility: Managing Risk and Creating Value*, it rejected submissions calling for greater regulation, preferring an enlightened self interest approach by firms. The committee supported the continuation of voluntary assurance and verification of sustainability reports, and while strongly supportive of the GRI, it felt on balance, it was *too early to recommend it as the voluntary Australian framework.*[10]

External assurance of sustainability reports is one way companies can overcome these deficiencies, but still only 42 percent of Australian firms took the step of gaining external and formal assurance of their social and environmental reports. Major accountancy firms are most likely to provide this assurance[11], some of whom market this service as *reputation assurance.*[12]

> **"CEO's believe the investment community is not supporting corporate efforts to create value through sustainable products and services by failing to factor performance on sustainability issues into valuation models."**[13]
> UN GLOBAL IMPACT CEO SURVEY

SUSTAINABLE FIRMS

The strong take-up of the UN Principles of Responsible Investment (UN PRI — see back page) in Australia may suggest that investors are driving change around social and environmental (sustainability) reporting here, but globally there is considerable criticism about the low level of support from investors in factoring performance on these issues into valuation models.

A survey by Accenture involving 1000 CEOs of UN Global Compact companies recently highlighted that the new language of sustainability is butting up against the short-term financial demands of the investment community. In this survey, CEOs highlighted the need to shift the current focus of investors away from seeking short term yields towards more long term investment returns. This, they say, is the critical factor in reforming corporate culture and achieving more sustainable businesses.

The survey shows that CEOs have adopted a very broad definition of sustainability: 72 percent responded that education was the key global development issue and the one most critical to the success of their business. This was followed by climate change (66 percent). Overall 96 percent of CEOs believe that sustainability issues should be fully integrated into core business practice, and 88 percent support integration through their supply chain.[14]

The Accenture survey identified that by far the most commonly cited factor motivating CEOs to take action on sustainability is rebuilding public trust in their brand and reputation.[15]

As CEOs grapple with a new concept of value that moves beyond a focus purely on short-term profits, trade unions, consumer, shareholding and civil society organisations have a vital opportunity to influence the direction and development of corporate principles that reward sustainable and ethical business practices and human rights.

OUR FULL DISCLOSURE PROJECT

Full Disclosure is an ambitious project that investigates corporate power and influence in a number of areas. It aims to broaden the community's understanding about what drives ethical and sustainable business practice. A series of papers by Catalyst, academics and experts will be released in 2011.

A REVIEW OF SAMPLE COMPANIES

To give some consistency to the series of papers we selected a dozen sample companies and reviewed their reporting practices. Above all the selection process sought to capture a diverse population of firms, spanning blue and white collar workers, and the service, resources and manufacturing sectors of the economy.

SECTOR	COMPANY
Resources	Rio Tinto, BHP Biliton,
Manufacturing	Bluescope Steel, Orica
Finance and services	ANZ, NAB, Qantas, Telstra
Fast moving consumer goods	Woolworths, Wesfarmers, Coca Cola, Fosters Group

There is always a small level of subjectivity associated with any selection process, but an alternative approach (such as selecting the top ten companies) would have heavily biased the reports towards the mining and finance sector, and we sought a broader representative spread.

Disclosure in and of itself is highly commendable, and we recognise that most companies we have selected are leaders in providing public content to be reviewed.

However, a common theme across this project is the degree of complexity and (in some cases) over-complexity of reporting which has elevated reporting on social and environmental practices to a high art.

This obfuscates information and limits transparency while excluding a wide audience. Companies attempt to overcome this by presenting information in the form of statements of achievements, or in glossy reports, but in a number of cases when our experts interrogated these statements they found inconsistencies between the stated outcome and the technical measurement tool.

THE NEED FOR SANCTIONS

Accountability is a vital element in all reporting, and currently there are no sanctions that apply when claims about social or environmental performance fall short of company claims. This is flagged in our research as an important issue for future monitoring and reform.

1 State of the World 2005: Redefining global Security, World Watch Institute worldwatch.org cited in *Disclosures in Social investment*, Netbalance (2010)

2 Eye on Australia Poll 2005, cited by Leeora Black, *Transforming public relations through corporate social responsibility*, address to CSR Summit 2005

3 Justine Nolan (2006) 'Ingrained Culture' Courier Mail 28 November, 2006 www.couriermail.com.au/news/opinion/ingrained-culture/story-e6frerdf-1111112599060

4 New Economics Foundation, *Corporate Spin: the troubled teenage years of social reporting*, November 2000 www.nef.org.uk

5 Ibid

6 KPMG International Survey of Corporate Responsibility Reporting 2008, Chapter 3

7 Ibid

8 Aaron Magner, 2009 *Corporate Social Responsibility: the Global Financial Crisis means it's time to revisit CSR*, page 11, 9 June 2009 www.scribid.com

9 Justine Nolan *Corporate responsibility in Australia: rhetoric or reality?* [2007] UNSWLRS 47.

10 Joint Parliamentary Committee on Corporations and Financial Services, *Corporate Responsibility: Managing Risk and Creating Value*, 2006, www.aph.gov.au

11 KPMG ibid

12 New Economics Foundation, op cit.

13 Accenture, UN Global Compact *A new era of Sustainability* CEO Survey 2010, page 11. The survey involved 766 UN Global Compact member CEOs from around the globe, interviews with an addition 50 member CEOs and with 50 civil society and business leaders.

14 Accenture, op cit. The definition of sustainability for the purposes of this survey is broad and embodies the UN Global Compact's Ten principles, which cover areas of human rights, labour, the environment and anti-corruption

15 Accenture, op cit, pages 19–22

CORPORATE REPORTING SYSTEMS

Despite their voluntary nature, corporate reporting systems are growing in rigour and application around the globe:

The **Global Reporting Initiative (GRI)** is the most widely used reporting framework. It is developed with the input of business, civil society, labour and professional organisations and aims to enable organisations to measure and report on their economic, social and environmental performance. There are three different levels of reporting spanning from partial, to more demanding levels of compliance. The GRI was founded in 1987 and is now in its third version (called the G3). Currently around 1000 companies apply the GRI principles – 56 of these companies are Australian.

The **United National Global Compact** has ten principles covering human and labour rights, the environment and anti-corruption. Companies who sign up to the compact produce an annual report on their progress towards achieving the ten principles (Communication on Progress).[16]

The **UN Principles for Responsible Investment** were developed in 2005. The PRI provide a framework for investors to consider socially responsible investment. Its principles are *voluntary and aspirational, described as a menu of possible actions for incorporating ESG issues into mainstream investment decision-making.*

There are 108 signatories to the PRI in Australia: 33 were asset owners and 57 were investment managers. Globally there are 769 signatories to the PRI.[17] This shows a strong take up of the UN PRI principles by Australian investors. It is estimated that approximately half of the funds under the management of Australian asset managers (around $338 billion) fall under the PRI commitments to the environment, and social and governance integration.[18]

The **Trade Union Advisory Committee** to the **OECD** has produced a checklist to assist unions to monitor reporting against the GRI principles. The checklist includes things like consultation with trade unions, and acknowledgement of United Nations International Labor Organisation's core labour standards.[19]

The Equator Principles are a financial industry benchmark for determining, assessing and managing social and environmental risk in project financing. Financial Institutions adopting the principles ensure that the projects that are financed are developed in socially and environmentally responsible ways and negative impacts are avoided, reduced or compensated for.[20]

As well as the adjacent frameworks, there are a number of standards and disclosure systems that can be applied:

SA 8000 is a voluntary social accountability standard for labour practices. It is based on the International Labor Organisation conventions to measure the performance of companies in eight key areas: child labour, forced labour, health and safety, free association and collective bargaining, discrimination, disciplinary practices, working hours and compensation.

ISO 14001 is an environmental certification standard that enables companies to identify and control the environmental impact of their activities, products or services. It is said to be the gold standard of environmental reporting, but a recent report found few companies use it to report their environmental data.[21]

ISO 26000 is a voluntary guidance standard on social responsibility.[22]

The Carbon Disclosure Project is a not-for-profit organisation that holds a database of corporate climate change information. 2,500 organisations in some 60 countries around the world now measure and disclose their greenhouse gas emissions and climate change strategies through the CDP. Data is available to institutional investors, corporations, policy makers and their advisors, public sector organisations, government bodies, academics and the public.[23] In Australia the project is administered by the Investor Group on Climate Change, which has 40 members and $500 million in assets under management.[24]

The Extractive Industries Transparency Initiative is a global standard applying to the oil, gas and mining industries. EITI points out that 3.5 billion people live in countries rich in minerals and its 12 principles aim to ensure that resource wealth contributes to sustainable development and poverty alleviation, as well as ensuring transparency by governments and companies in declaring revenue streams.[25]

National and company certification systems are also used.

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16 See www.unglobalcompact.org

17 See www.unpri.org

18 Responsible Investors Association Australia Responsible Investment 2009, www.ria a.org.au

19 Trade Union Advisory Committee to the OECD, Global Reporting Initiative (GRI) A Trade Union Checklist.
See also International Labor Organisation www.ilo.org

20 See www.equator-principles.com

21 Royal Bank of Scotland, Australian Strategy, 17 June 2010. Aaron Magner 2009 op cit.

22 See www.iso.org

23 See www.cdproject.net

24 See www.ria a.org.au

25 See www.eiti.org

'The twentieth century has been characterised by three developments of great political importance: the growth of democracy; the growth of corporate power; and the growth of corporate propaganda as a means of protecting corporate power against democracy.'

ALEX CAREY: TAKING THE RISK OUT OF DEMOCRACY

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ABOUT CATALYST

Catalyst is here to organise policy renewal across the progressive community in Australia. Join Catalyst and support our campaign for a fair and sustainable society.

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