

FULL DISCLOSURE STEERING SUSTAINABILITY

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CATALYST >>

While corporate boards are assuming more responsibility for oversight of conduct and taking account of specific social and environmental issues, citizenship is not yet fully embedded into boards or the operating structures and systems of most firms

MORGAN, RYU AND MIRVIS 2009¹

ABOUT THE RESEARCH

The past decade has seen a growing interest in the social and environmental activities of public companies. But surprisingly little attention has been paid to the internal structures and processes that support and encourage sustainable business practice.

With this in mind, Catalyst commissioned the Centre for Corporate Governance to report on the governance arrangements in place in leading Australian public listed companies. Specifically the project looked at what steps are being taken by companies to integrate social and environmental benchmarks into business strategy and reward systems within their firms.

The analysis published in a separate comprehensive report (the report) is timely and valuable. It shows that companies are creating governance structures to support and lead sustainability initiatives. At the same time, the report recommends that more research and guidance is needed to help companies report more fully and to link remuneration to sustainability performance.

This paper highlights key elements of the report. Thus all references, unless otherwise stated relate to the full report.

A NEW MODEL FOR CORPORATE CITIZENSHIP?

This project has highlighted that most companies in the Steering Sustainability sample are still *getting to grips* with the management stage of sustainability by supporting social and environmental issues that align with the company's existing strategy. It found that *no company had reached the mature phase of the responsibility stage, but some companies are progressing towards it should they continue in their current direction.*

As the research was being conducted several companies in the sample received negative publicity. Orica did not alert the public to toxic chemical spills from its Newcastle plant; Qantas was engaged in a protracted battle with its workforce; and BHP (and Rio as minority owner) *was dealing with striking miners at a Chilean copper mine.*

These are all issues that challenge the integrity of social and environmental management. Disclosure frameworks are just one — albeit important — part of the sustainability chain. The increased use of these frameworks to report about social and environmental activities across our sample firms is encouraging. At the same time, the project shows the need to monitor performance against clear and consistent guidelines to ensure that companies not only sign up to sustainability principles but are sustainable in all their activities.

STEERING SUSTAINABILITY

HOW COMPANIES MANAGE THEIR CORPORATE RESPONSIBILITIES

THE SCORECARD

The Centre for Corporate Governance developed a scorecard of four indicators to guide their review of sustainability governance. These were Communication; Commitment; Leadership and Implementation.

The graphical profiles show a rating of either Below Average ⊖, Average ⊕ or Above Average ⊕ for each of the four indicators in the scorecard.

The main chart shows a superimposition of all 12 company profiles to identify trends across the data set. The chart's transparent edges show that few companies received an Above Average rating on most indicators.²

Individual company profiles are shown at the bottom of the page.

COMMUNICATION

The approach to communication varied widely. Four companies received a below average score, four average and four rated highly. The report recommends that companies integrate sustainability information. Four companies had done this, combining their sustainability and financial report. Spreading information across different websites or targeting different groups was considered less helpful. In these cases links should be provided.

All companies mentioned their key stakeholders and the need to engage them in sustainability activities. But details about how companies went about this varied widely. These ranged from a brief sentence, *we engage with our stakeholders* to detailed tables outlining the methods used such as customer focus groups, investor briefings and input into government policy-making.

COMMITMENT

Sustainability reporting is voluntary. Thus a company's approach to disclosure can give an indication of their level of commitment to social and environmental principles. While reporting against these benchmarks can capture the extent of a company's public disclosures, it should be noted that it does not in itself verify the quality of the information that is provided.

Significantly, ten of the 12 companies reported against the Global Reporting Initiative (GRI). The GRI is the leading disclosure framework for corporations. Its take up in Australia is considered low by international standards so its strong application amongst the sample firms is a very positive finding.³ Four companies reported at the highest GRI A+ level.

Seven of these companies had their GRI application level independently checked. Another three companies using the GRI self-assessed or did not assess their overall application level.

All of the twelve companies are involved in the Carbon Disclosure Project, and several subscribe to other voluntary initiatives, all of which are detailed in the full report. Less encouraging was the finding that some companies in the sample referred to initiatives they must comply with by law. In some cases these initiatives were mentioned *in a way that could potentially mislead the reader into thinking their involvement was voluntary*.

LEADERSHIP

Ten of the twelve companies had a section of their corporate website or report dealing with their overall governance framework for sustainability. This suggests *an increasing awareness ... that sustainability ought to be managed more formally*. At the same time, there was great variation in both the quality and quantity of the information provided.

Six companies had created a board sub-committee dedicated to sustainability issues, and a further five companies had a management committee dedicated to this issue. Interestingly, no company appeared to have a specific committee at both levels. Some companies mentioned more than one committee overseeing sustainability, often focussed around different aspects of risk.⁴

In the main however, there was not a lot of public information about how these committees functioned or any explanation of why they were established at a particular level. Information about leadership below senior management level was also hard to find: only three of the 12 companies explained systems and processes for sustainability at site level.⁵

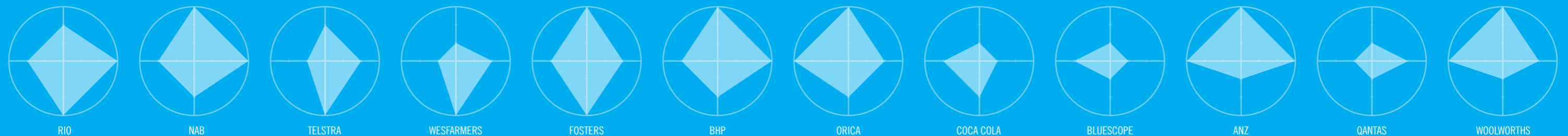
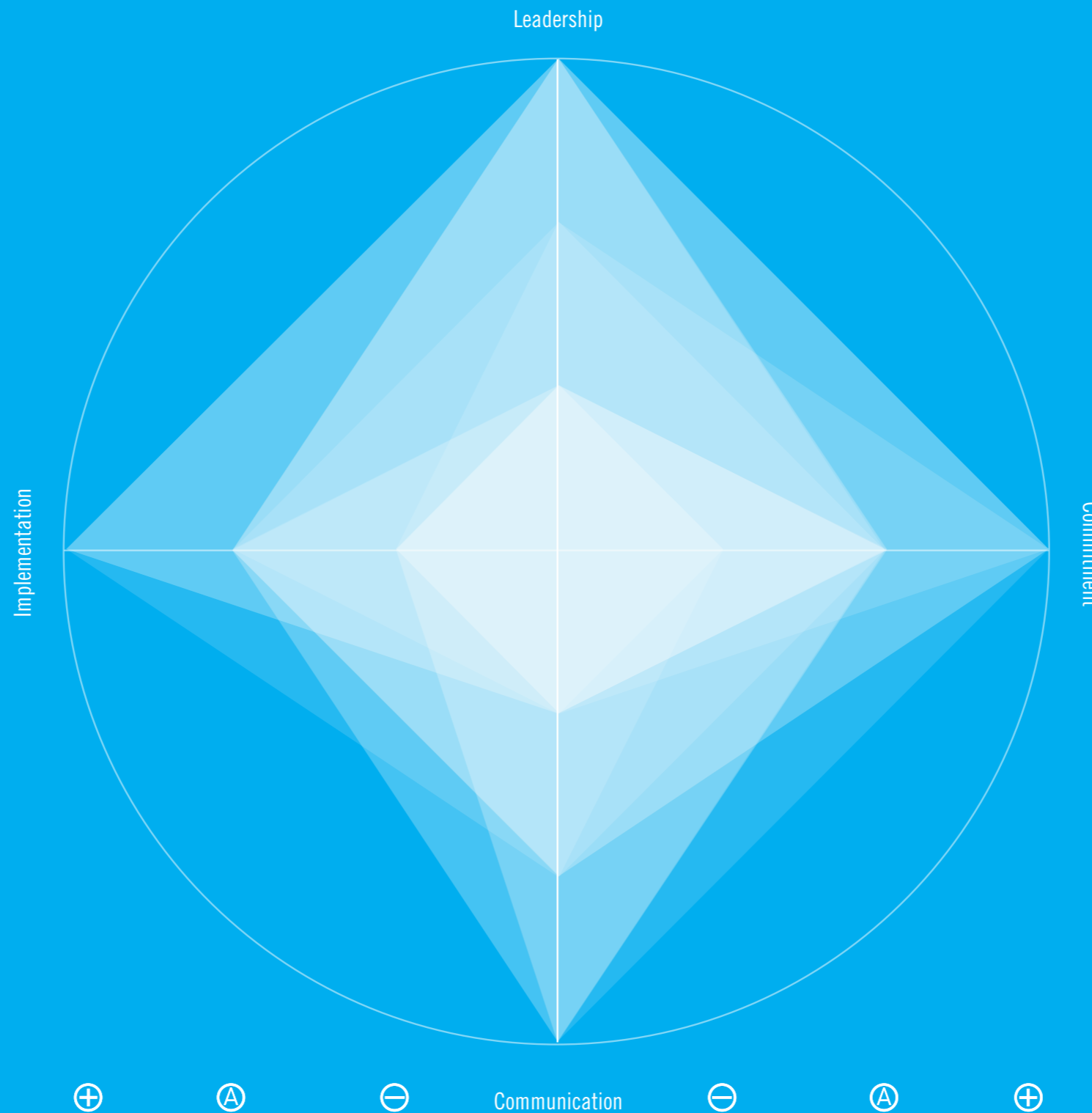
IMPLEMENTATION

An important aspect of this project involved looking at the relationship between sustainability policy and business strategy and the extent to which they are integrated and complimentary. In the group of sample firms, clear statements about this were few and far between.⁶ While the diversity of firms in this sample makes a common management approach unlikely, further research could assist in *identifying best practice integration strategies*.

A further question that the researchers hoped to answer was whether the twelve companies had taken the step of rewarding their employees for sustainability performance. While *almost all the companies appeared to include certain aspects of sustainability in their remuneration schemes, usually in the short term incentive plan*, the percentage of total remuneration dependent on these factors was likely to be *very small*.

The most common sustainability indicator linked to remuneration was safety – referred to by eight of the twelve companies. However, *it was not clear exactly how safety performance was measured or what proportion of remuneration might be dependent on it*. Only two companies mentioned specific metrics such as lost-time injury rates or medically treated injury frequency rates.

Significantly environmental performance was absent in most companies' descriptions of non-financial performance measures incorporated into remuneration policy. While *some companies referred to 'safety, health and environment' as a bundle ... the performance indicators mentioned only related to safety measures*. This is highlighted as an important issue for further investigation.



For many companies, development of corporate responsibility practices has occurred in a piecemeal fashion in response to the specific demands of stakeholders. Companies have now reached the stage where they need to consolidate and integrate these practices into overall business strategy. Like any other aspect of corporate governance, this requires clear leadership as well as structures and processes that ensure plans are properly developed, monitored and implemented.

CENTRE FOR CORPORATE GOVERNANCE, 2011

RECOMMENDATION

Much more research is needed to explore the issue of best practice implementation systems for sustainability including how to incorporate non-financial performance indicators into remuneration policy. Companies also need more guidance on how to lead and govern sustainability including how to integrate this with existing corporate governance systems.

A recommendation arising from this research is that consideration be given to including guidance in the Australian Securities Exchange's Corporate Governance Principles, recommending that companies:

- set up a board committee with responsibility for guiding and monitoring the development of sustainability strategy and its implementation
- publish their policy on corporate responsibility to include: the business case; strategic drivers; framework for monitoring and implementation; and methods for receiving input from stakeholders
- disclose the relationship between remuneration policy and sustainability performance
- require certain senior executives to declare sustainability reporting as presenting a 'true and fair' view.

ABOUT FULL DISCLOSURE

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 behaviour 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.

Throughout our *Full Disclosure* series, a standard list of a dozen publicly listed companies have been selected for review. The intention was to capture diverse corporate experience across the service, manufacturing and resources sectors with white and blue collar workforces. All companies that have been selected are relatively mature reporters on sustainability.

ACCESSING THE FULL STEERING SUSTAINABILITY REPORT

This paper is a summary of the findings from the Centre for Corporate Governance research. This research was commissioned by Catalyst in 2011. The full report and company analysis can be accessed via our website, along with past papers in our Full Disclosure research series. The report is also available from the Centre for Corporate Governance, UTS www.ccg.edu.au

ABOUT THE CENTRE FOR CORPORATE GOVERNANCE

The Centre for Corporate Governance brings together academics with backgrounds in management, finance, accounting and law to provide a comprehensive, interdisciplinary approach to corporate governance research. The University of Technology, Sydney is well-known for its applied research and close contacts with industry.

ABOUT CATALYST

Catalyst is a policy network, established in 2007 to support progressive research. Catalyst has established close links with academics, trade unions, community and faith organizations, who share our focus for good lives, good work and good communities. All our material, including our publication *Equality Speaks*, is available on the Catalyst website.

AUTHOR

This summary was prepared by Jo-anne Schofield, Executive Director, Catalyst. Any errors or omissions in this summary are those of the author.

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- 1 Morgan G, Ryu, K and Mirvis, P (2009) Leading corporate citizenship: governance, structure, systems. *Corporate Governance* vol 9(1)39
- 2 It is important to point out that the project did not evaluate the quality of companies' disclosures against these indicators. Rather it searched for evidence of internal governance frameworks to guide companies in these areas.
- 3 Catalyst 2011 How Corporations Tell Their Story www.catalyst.org.au outlined that in 2008, only 37 percent of our largest national companies produced a stand-alone report about their social and environmental activities.
- 4 For example NAB has three management committees dealing with different aspects of sustainability: risk management, climate change and community. Woolworths explains the role of its two committees, the safety and health executive committee and the sustainability executive committee, whereas Fosters, mentions four 'leadership teams driving improvement in different areas: environment, global procurement, quality and community.
- 5 It should be pointed out that while some companies rated poorly on this indicator, they may have governance arrangements in place which are simply not publicly reported.
- 6 For example, GRI Guideline 4.5 suggests that companies disclose the linkage between senior executive's remuneration and the organisation's performance and expressly states that this should include social and environmental performance. While some companies provided a statement about the existence of a link, this was not considered very helpful without an accompanying explanation about the nature and extent of that link.