

*Submission to the Corporations and Markets Advisory Committee
Corporate Social Responsibility*

*By
Dr. J. Raar,
February, 2006.*

Corporations and Markets Advisory Committee
Corporate Social Responsibility
Discussion Paper.

Attention: Mr. John Kløver

SUBMISSION ON ASPECTS OF SECTION 4 (4.8) IN THE TERMS OF REFERENCE, NAMELY:

Should the Corporations Act require certain types of companies to report on the social and environmental impact of their activities? (Page 101)

Research undertaken during a Ph.D albeit in the middle nineties, together with more recent research efforts indicate the following:

- Industry requirements have prompted firms to adopt environmental and social reporting.
- Industry standards and their strategic requirements initiate environmental and social business practices, which are more discernible if profits are favourably impacted.
- The reporting of environmental and social impacts resulting from corporate activities is currently minimal and of a voluntary ad hoc nature, with inter and intra firm comparability a concern.
- There is a considerable 'gap' between the information provided internally, and that reported to external stakeholders, thus reducing the reliability of the information communicated.¹

The approach undertaken in this submission is to contend that:

- a) strategic planning and control systems offer a mechanism for firms to 'reorchestrate' responsibilities and linkages to the environment and other corporate citizenship values.
- b) life-cycle assessment is a management technique to assist in this objective.

¹ References are available upon request.

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Therefore, in a general answer to the questions raised on Page 101 of the Discussion Paper, the following recommendations are provided:

1. To assist intra and inter firm comparability, mandatory standards for environmental and social reporting should be:
 - industry-based with a longer term focus.
2. The basis of these reporting standards would be the:
 - Strategy adopted by the industry, and its corresponding inclusion in the strategic stance of the individual firm.
 - The end of period comparison of actual performance to the specified industry stance.
3. Initially areas of values to be applied can include:
 1. *The overall goal of utilitarianism for the community*, and how the industry and individual firms will incorporate this goal into daily operations. Individual industry sectors will provide supportive objectives that then flow into the individual firms operating within their specific jurisdictions, including:
 - Environmental and social objectives
 - Workplace objectives (applicable also to global activities)
 - Community objectives
 - Product and service objectives
 - Source and use of raw materials
 - Technological inputs to reduce the use of natural resources.
 - All emissions (goals and performance).
 - Ecological footprints.
4. Importantly, the strategic stance information must be consistent with internal reporting systems, including the control mechanisms and reporting benchmarks. Hence the audit function/s would enable the confirmation of the information reported to the public.
5. The format for the reporting on strategic information may contain narrative information. Nevertheless, consistent with the idiom ‘what gets measured – gets managed’ then the benchmarks for performance and associated reporting will be quantitative. Currently Total Quality Management benchmarks are reported internally in nonfinancial terms. ‘Corporate citizenship’ performance measures are also suitable for reporting in non-financial terms.

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6. To aid understanding and comparability, the financial results will exclude the quantification of items such as intangibles. Supplementary information in a consistent triple bottom line reporting format can also be included in financial or nonfinancial terms, as outlined above.
7. The mandatory requirements for financial reporting are stated in the Corporations Act. However, the formal guidelines and procedures to conform to this requirement are contained in accounting standards. A similar requirement for citizenship reporting (triple bottom line) is feasible.

Correspondingly industry groups would pre-determine their own benchmark specifications.

For individual firms, nonfinancial measurement and benchmarks are used within internal information systems, and fall within the jurisdiction of the accounting and auditing profession. These control and/or internal benchmarks can then be accumulated/summarised and transferred to external reporting requirements.

8. The reporting of environmental impacts has, and remains the topic of interdisciplinary and international studies. The evolvement by the Global Reporting Initiative of the measurement in quantitative terms of the 'ecological' footprint' is encouraging, however, the time frame and boundaries of association require specification and predetermination. For some industries and firms the life cycle of their product may be determinable and the impacts measurable within a specified jurisdiction of boundaries and time horizons. Others industries and firms may not be in a similar position.
 - (a) Importantly, the reporting of impacts will include the potential for risk. Any risk will ultimately impact of the financial results of the firm, and eventually reside with ordinary shareholders should this not be averted. Pollution and health effects arising from management decisions taken a number of years ago, may impact on current cash flows in terms of clean up costs or litigation claims.
 - (b) In the process of formulating a strategic approach is integration of the time dilemma for differing values, i.e. one year for economic performance measurement, ten to fifteen years for pollution prevention outcomes, and up to fifty years for total environmental impacts to be manifested in observable effects.
 - (c) Therefore the reporting of impacts and risk can be:
 - In accordance with industry goals and those of the individual firm
 - Specified according to boundaries and jurisdiction of the industry and corresponding reporting entity

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- Specified in accordance with a time-frame that is consistent with environmental impacts flowing from the industry group and the individual entity.

In summary, this approach offers external parties the accountability of directors against two aspects, (a) their adherence strategic stance of the industry, and (b) the related goals and performance of the individual firm.

Therefore, the collective input of industry groups would assist in disseminating goals and objectives. Those industries and firms which are conducting their business activities outside social and community values, would be placed in a 'must do' position. (In an ideal world all firms would morally embrace corporate citizenship values without any necessity to 'prompt' them).

The aforementioned recommendations are consistent with communities and cultures throughout the global community and may be transferred internationally at both industry and firm levels.

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Note: This viewpoint expressed in this document is that of the researcher and does not purport to represent that of Deakin University.