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Attention: Mr John Kluver
Executive Director
Corporations and Markets Advisory Committee (CAMAC)
GPO Box 3967
Sydney NSW 2001
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By email john.kluver@camac.gov.au

Dear CAMAC

CAMAC: CORPORATE SOCIAL RESPONSIBILITY – Tim Heesh Submission

Thankyou for providing the opportunity to respond to the CAMAC Discussion Paper.

I have been a Chartered Accountant since 1986. I am on the advisory management committee to the Institute of Chartered Accountants In Australia on matters relating to Triple Bottom Line Reporting and Broad Based Corporate Reporting. I am a director of EcoSTEPS Pty Limited, a multi-disciplinary consultancy which specialises in Sustainability and Triple Bottom Line strategies and practices. I am a director and secretary for the Australian Institute of Social and Ethical Accountability Incorporated a membership organisation set-up to support and promote organisational accountability. I have been a registered liquidator and currently I am a principal and business development manager with the Chartered Accounting firm Jirsch Sutherland in Sydney.

I make this submission under my own name and all of the opinions and comments are mine and mine alone.

Because of my involvement in the area of 'corporate social responsibility' and my long career working as a chartered accountant with a heavy interaction with the Corporations Act I believe I am well placed to provide comment and input to the CAMAC discussion paper.

I respond below to each of the questions raised at the end of each section in the discussion paper. Firstly however I summarise the main points of my response:

Main points in response to issues and questions raised in the Discussion Paper

1. Corporations act in accordance with the traditional financial risk/ return dynamic. Voluntary CSR initiatives will only ever be adopted by corporations if the risk/ return dynamic for the initiatives are satisfactory. Corporations make decisions based on short-term pay-back periods and therefore neglect the long-term consequences of their organisations operations. Because these drivers dictate the way organisations operate many issues about the long-term health of the earth's natural systems and other externalities are ignored. For example, there is no adequate price allocated to air, water, waste, pollution, emissions etc. to protect and maintain these natural systems. If organisations won't adequately share in the protection and maintenance of things such as the natural systems in a voluntary way then they should be regulated to do so.
2. However before regulations are developed and introduced to influence the way corporations deal with their externalities, the regulator needs to know what areas require regulation. In order to find that out corporations should be forced to produce and capture TBL information and produce regular TBL reports. To facilitate that the Global Reporting Initiative should be compulsorily adopted by corporations meeting certain profiles as the standard TBL reporting framework.

3. Verification of TBL reporting should also be introduced at the same time. The stakeholder based assurance standard AA1000SES should be adopted to meet that requirement.

* * *

I would welcome the opportunity to discuss any or all of the matters raised in this submission with CAMAC. I am happy for this submission to be publicly available.

In the first instance, please contact me on 02 9233 2111 or tim@jirsch.com.au

Yours sincerely

Tim Heesh

Tim Heesh

Submission to

**CORPORATIONS AND MARKETS ADVISORY COMMITTEE
(CAMAC)**

CORPORATE SOCIAL RESPONSIBILITY

February 2006

Introduction

The area described as Corporate Social Responsibility (CSR) as addressed in the CAMAC discussion paper is, in my opinion, an appropriate area for the federal government to review in connection with possible amendments to the Corporations Act.

The Corporation has proved to be a very successful legal vehicle in providing goods and services for communities and societies on a range of scales for the last couple of centuries.

Corporations have also been at the forefront of buying and selling their supplies and goods and services with an increasingly globalised outlook and approach. The Globalisation of the 21st century is a different trading regime to the global trading regimes of years gone by. Communications and transportation efficiencies have left no corner of the world untouchable. Every populated region is now a market for savvy business managers to supply their wares and reap the associated rewards.

One of the consequences of this phenomenon is that corporations now operate in many different countries and under many different legislative regimes. The laws of the country of origin are but one set of laws those organisations must now work within.

Another consequence of the rapid globalisation of the economies of the world is that more and more people around the world are accessing the modern trappings of the developed countries of the 21st Century. These trappings have come to represent a proxy for wealth and a societies well being. The flip side of this is that modern industrialised societies are consuming the world's resources at a rate never reached before today. Some of these resources are being renewed, most however are not. Along with the great consumption of non renewable resources is the increasing degree of waste that is a by product of modern industrialised economies.

The modern globalised economy is not about to slow down in its relentless march towards greater and larger economic growth. The two largest populated countries on the earth, China and India, have embraced the industrialised approach to economic growth (and by default acceptance of that as a proxy for wealth and societies well being) and are growing (economically) at unprecedented levels. All significant economic statistics point to a greater and greater demand for the earths resources. All other industrialised economies are delighted with the great wealth they are now enjoying because of these two countries (and others) demand for goods and services.

It is not hard to hypothesis that the continued growth of these two economies along with the rest of the world will place an unprecedented demand on the world's resources and the earth's capacity to deal with the resultant wastes.

It is clear that corporations of the 21st century face different challenges than previously confronted. Governments of the day need to recognise that societies all round the world are developing more intricate trading relationships and the management of the world's resources and its wastes need to change to keep pace with the changing economic landscape. Tools are constantly being developed to

meet these demands however due to the vagaries of market economies, governments need to monitor corporation's responsiveness to these Corporate Social Responsibility (CSR) issues and where appropriate, legislate to ensure corporations comply with the government's expectations in this area which in turn should be a reflection of society's expectations.

Short-Termism, Corporation Limitations & Capital Markets

Governments need to recognise the limitations of corporations in their desire to operate in a manner that takes this very complex globalisation into account. Corporations have always operated to create wealth for their owners. It is hard to imagine an alternative equally successful legal vehicle to achieve this end moving forward. Corporations are essentially dictated by the objective of constantly maximising the profit (bottom line). Managers of corporations are rewarded and incentivised, not by how they minimise the impacts the corporation is having on negative externalities (environmental & social impacts) but rather the profit that can be generated in short time frames generally of 1, 2 and 3 year periods.

Corporations and the personnel that run them are constantly encouraged to develop strategies that generate satisfactory profits over relatively short time horizons. This in turn provides a disincentive for corporations to look far into the future as to its long term viability. Capital markets participants do not generally place a premium on capital that is tied up in long term projects such as the long term survival of the corporation. Reason being is that capital market participants also like results that crystallise in short time frames as they to be rewarded accordingly.

Capital markets also don't generally price a premium on corporations who manage their Triple Bottom Line (TBL) better than others. There is little evidence that the capital markets rely upon that demonstrates that a well managed corporation with respect to its TBL should enjoy a premium for managing that risk well.

In summary because there is very little incentive for corporations to manage their TBL's to maximise the prospect of a sustainable future there can be little confidence that corporations will 'do the right thing' by society unless it is in their financial interest to do so.

Given the capital markets do not place much value on the management of these risks, coupled with the short term approaches inherent in managers strategies along with that of capital market participants, there is little prospect that corporations will voluntarily adopt TBL or CSR approaches without some effective encouragement.

Legislative Encouragement

In that respect corporations will eventually need legislative encouragement to operate in a manner that acknowledges their role in the utilisation and distribution of the earth's scarce resources and the resulting production of wastes into the 'common' of the earth's societies and other living species and ecosystems.

To put it as bluntly as possible, corporations will not have the collective will, desire or official mandate to take into account the well being of the planet if left entirely to their own voluntary 'corporate socially responsible' initiatives. Corporations will need official (legislative) guidelines to ensure that the government's responsibility to the society at large is being factored into corporations operations both locally and overseas.

It is certainly not before time that the federal government turns its attention to this area. Whether Australian Corporations are presently ready or not for some legislative endeavours in the area the government has tagged as Corporate Social Responsibility is not the real issue. The real issue is that this area needs to be for ever more under the review of the government. The world has changed dramatically as have the way corporations operate. The legislation has to change with the times to ensure the best interests of society are being considered.

With that as backdrop to my submission in response to the discussion paper I now address the specific issues raised.

THE ISSUE OF CORPORATE SOCIAL RESPONSIBILITY

1. How might corporate social responsibility usefully be described for working purposes?

The term corporate social responsibility has been around for some time now, probably gaining some traction during the 1990's. It is however not a term that is universally adopted and as the discussion paper points out, is not universally understood. I believe it is a term that currently has no clear definition however if CAMAC require a title to discuss the issues as raised in the discussion paper then CSR is probably as good as any other.

I think that as a rule of thumb what CSR (ie CAMACS generic heading for this area) is all about is a corporations understanding and approach to the impacts of its operations that are not traditionally dealt with in existing legislation. That is, corporations are governed by the corporation's law, listing requirements (if listed) and some other specific legislation. These frameworks define the responsibilities of the corporation and therefore the framework that boards of directors must make their decisions within. Corporations however, through their operations impact upon many different stakeholders and environments which are not specifically dealt with by these legislative frameworks. CSR is all about how corporations deal with the areas of impacts that are not regulated by the existing legislation. These areas have become known as 'externalities' and have been more recently grouped under the TBL categories of Environment, Social and Economic externalities.

To answer CAMAC's question ".....How might corporate social responsibility be usefully described for working purposes?....." I believe CSR should simply be described as the corporations approach to the social, environmental and economic impacts of its activities.

2. Which approach or combination of approaches to responsible corporate behaviour is most appropriate?

The notion of 'responsible corporate behaviour' is extremely misleading. Historically, all companies would consider they have conducted their affairs in a responsible corporate manner. That is, they obey the laws of the land whilst attempting to maximise wealth creation for their owners.

Some companies have developed strategies that could be construed as being philanthropic, whilst others have developed strategies that have some positive social, environmental or economic outcome. The traditional company complies with the law and states because it is a good complier of the law (eg complies with the spirit of the law) it is a good corporate citizen.

All these companies develop their responsible corporate behaviour with the bottom line in mind. It is therefore misleading to suggest that corporations are adopting a responsible corporate approach for the stakeholders that will benefit from their actions. They are doing it because it will improve shareholder wealth.

I site as an example the Westpac Banking Corporation. The company is acknowledged as one of the leading corporations in the CSR field , however its motivation is the improvement of its bottom line, not the betterment of society. Naturally it is happy to achieve both a good bottom line and some positive outcomes for some of its stakeholders .

As such 'voluntary' corporate behaviour is exactly that, voluntary and can never be legislated for. The legislator need to turn its attention to regulating something that it will have power over. A regulator cannot have power over voluntary initiatives that are designed to improve the company's bottom line as corporations are always looking for ways to do that.

3. What are the incentives or disincentives for a company to conduct its business in a socially responsible manner?

This question cannot be answered definitively. There are numerous ways a corporation will be incentivised to conduct its business in a socially responsible manner just as there are many disincentives. A corporation will find out what best works for it and adopt strategies accordingly. Legislation will not be necessary to force a company to adopt a strategy that will create profits for itself inline with its accepted rates of return on investment.

It seems that a more useful way in which to consider the issue of CSR is by acknowledging that CSR initiatives can arise from two separate platforms. It can either be voluntary or involuntary. A voluntary initiative will be introduced where it is acknowledged an acceptable rate of return can be earned from the investment made. An involuntary initiative is one where the corporation would not have undertaken it except it was forced to. Ie the cost of not doing it outweighed the cost of doing it. This can easily be brought under the umbrella of legislative initiatives

It also seems that the real issue with the legislator considering the area of CSR, is whether it is prepared to force companies to undertake CSR initiatives that cannot be easily demonstrated to generate an acceptable rate of return.

4. Do different or additional implications arise depending on the nature or size of the enterprise, for instance:

- **The sector or industry in which an organisation operates?**
- **Whether a company has international operations?**

Clearly, the nature and size of an enterprise matters. Both the nature and size will produce different externality impacts. If a company has international operations that too will create different externality characteristics.

The answers to these questions seem to be self evident.

The real issue here is in respect of impact. The size, location and activities of corporations will be the significant factors in delivering the externality (TBL) impacts. The larger the operations the more likely the impacts are going to be greater. Larger corporations will impact more people, utilise more resources, create more wastes and generally wield more influence than smaller corporations.

This fact needs to be factored in when considering how best to incorporate CSR initiatives into a corporations operations.

5. In practice:

- **to what extent is corporate decision-making driven by stakeholder concerns?**
- **How do companies differentiate between different categories of stakeholders?**
- **In what ways do companies balance or prioritise competing stakeholder interests?**
- **How do companies engage with stakeholders?**

Corporations take into account the interests of stakeholders only where they are legally obliged to, where the financial risk of not doing so is so high as to impact upon the financial returns to shareholders, or where it is going to provide a positive financial return to the shareholders by taking the stakeholders interest into account.

Companies differentiate between stakeholders by the law, and by a risk/ return assessment of the stakeholders.

Corporations balance or prioritise competing stakeholder interests by measuring the risk/return equation of each and categorising each accordingly.

Corporations engage in any way which meets their strategic objectives.

6. In practice, to what extent do stakeholders consider a company's social responsibility performance when making assessments or decisions about a company?

Without analysing each major common group of stakeholders it would be fair to say that unless there is legislative requirement to take into account corporations CSR then there is little incentive to do so. Certainly there are 'green consumer' products developed for those people who feel strongly about these issues but overall there are few materially effective stakeholder groups that force corporations to change the way they do things.

The recent legislative changes that force funds managers to consider the social & environmental issues is an example where stakeholders have been forced to take into account CSR type issues. It is early days and there is not a lot of research done to know what impact this legislation's having.

Certainly Socially Responsible Investors (SRI's) consider CSR performance as do some government procurement practices but overall these stakeholder considerations are sparse and inconsistent.

7. Are there any changes that could enhance triple bottom line, sustainability or like reporting, including:

- **Increasing the level of clarity and comparability of these reports?**
- **Any suggested changes to external verification of these reports?**
-

This is a difficult question to answer presently. TBL reports have only been present since the 1990's. There are a variety of models and presentations although certainly the Global Reporting Initiative seems to have attracted a lot of attention by those corporations that are reporting or considering reporting.

Even though the reporting area is in its infancy that should not be an impediment to its adoption by corporations. Like financial accounting it will become more robust over time and consequently more reliable. Comparability may not necessarily be the big issue between corporations. Possibly a more helpful criteria is whether the individual corporations consistently report their TBL results from period to period. Sustainability indicators and the resultant reports are about continual improvement. The best measure of improvement is a comparison of the organisations progress from period to period, not necessarily what its competitors are up to although one can see when that too would be useful.

The only true way to get comparability between corporations is via regulation and legislation. Left to voluntary mechanisms adoption of a standard approach could be a very long time in the making.

With respect to external verification the first point to make is that it is absolutely fundamental to have a TBL report verified. Without verification its worth as a reliable document must come under question. The actual verification process is also evolving as it too has only been round since the TBL reports were developed. Unlike financial verification, TBL verification gets its leads, benchmarks and materiality levels from the corporation's stakeholders and measures of externality impact. Consequently it will take time for corporations to absorb a true feel and understanding of the TBL and verification process.

With respect to the question, any suggested changes to external verification of these reports, there is certainly a requirement to develop standards and approaches that are consistently applied along with accreditation of the verifiers. That is an area that requires greater consideration

- **Whether any aspect of this reporting should be mandated and, if so, for what companies and in what respect(s)?**

Reporting should be mandated however it will not be useful for all companies.

As noted above size, location and type of operation all influence the importance of a TBL report and TBL initiatives.

The issue therefore is not so much should TBL be mandated but how to decide what companies need to report.

One is tempted to state that the criteria should not necessarily be dollar based as that is not always a good proxy for TBL impacts. However there are good rationale for considering dollar value as an appropriate starting point. Firstly, it is easily determined. Eg Income, Capitalisation, Expenditure, Asset Values. Secondly, generally larger companies on financial measures are the ones with the greater impacts and certainly influence.

TBL reporting, like financial accounting is not only helpful in identifying material items but also identifying areas that are immaterial. For example, in financial accounting all companies must report upon non current assets such as plant and equipment. It matters not that the assets may contribute only a minute value to the assets on the balance sheet. Readers of the financial statements then know that plant and equipment are not relevant to the company The same philosophy applies with items like tax or liabilities such as secured loans. The issue is disclosure and making the user aware of the materiality of the item.

The same approach is important for TBL reporting. Users will need to know what areas are not materially significant just as much as those areas that are of material significance.

-Are there particular issues for small to medium enterprises?

Yes, however the government should focus on the larger corporations first as they have the greater impacts.

DIRECTORS' DUTIES: CURRENT POSITION

8. **Whether, or in what circumstances, companies feel constrained by their understanding of the current law of directors' duties in taking into account the interests of particular groups who may be affected, or broader community considerations, when making corporate decisions?**
9. **If so, is there any useful scope for clarifying the current law in this respect?**
10. **Does the current law give directors sufficient flexibility to balance long-term and short-term considerations in their decision making?**
11. **Are any changes needed to the current law regarding the right of shareholders to express their view by resolution at general meetings on matters of environmental concern?**
12. **If you have any proposal for change, how might it be implemented and work in practice and how might directors be held to account?**

Directors have essentially two responsibilities:

1. to manage a corporations affairs in accordance with the law
2. maximise shareholder wealth

As noted above, directors will initiate 'CSR' strategies if it assists in maximising shareholder wealth. CSR initiatives are unlikely to be illegal and so directors will meet both responsibilities if they believe it is worthwhile to do so.

Consequently, there is no real reason to consider a law change to assist directors in taking into account stakeholders interests etc.

As noted above, the capital markets are focussed on short term results in the delivery of shareholder wealth. If corporations cannot provide desired levels of wealth creation activities within timeframes acceptable to the market place then the market will allocate its investment dollars to assets that are projected to provide the required rate of return within the accepted timeframe.

This is a definite impediment to directors introducing strategies that are predicted to produce adequate returns on the resources invested but may not have a pay back period that meets the capital markets timeframes. Likewise the expenditure of a corporations resources in trying to mitigate risks that it faces through its operations (eg greenhouse gases) into the future will not get the support of the capital markets if that risk is unquantified (or unquantifiable) and difficult to predict when it might impact on the corporations operations.

As a supporter of increased CSR (TBL) initiatives for corporations to undertake, the short-term outlook of capital markets needs to change if CSR limitations are to occur at the level necessary for the corporations to become sustainable into the long-term future.

Because the voluntary approach to CSR is unlikely to achieve this objective in the foreseeable future there appears little alternative at this stage other than to make mandatory certain CSR/TBL type activities for corporations that generate material negative impacts in these TBL areas through their operations.

Obvious examples are industries that have high energy and water uses along with industries that have large ecological and social footprints such as Aluminium production, Manufacturing, Livestock Breeding etc

In that respect it maybe appropriate for the commission to consider 'foot printing' methodologies and TBL/sustainability reporting as first areas that requires regulation. Clearly, corporations and directors need to know what the impacts are before initiatives and strategies can be introduced to minimise the negative impacts of those operations. Once something like mandatory reporting (and assurance) has been introduced, the regulator will then be in a stronger position to identify the areas that need addressing.

It is understood that the market place, and certainly all of the peak industry groups will strenuously fight the introduction of mandatory reporting and any subsequent changes to their operation arising from future regulation of externalities however it is clear the market place will not allocate resources to manage the externalities to the level required by society moving forward. This is a definite case for government to step in and regulate. That is what government is for.

With respect to changes to the laws for directors to be able to take other stakeholders interests into account, there is no immediate necessity to legislate if the government introduces reporting regulations as noted here as the directors will be duty bound to run the corporation within the laws that they are governed by.

DIRECTORS' DUTIES: MATTERS FOR CONSIDERATION

13. Should the Corporations Act be revised to clarify the extent to which directors may take into account the interests of specific classes of stakeholders or the broader community when making corporate decisions?

At the present time the committee should be considering mandatory TBL/Sustainability reporting of corporations of certain size and in certain high impact industries. Once in place other regulations can be considered that will take into account the specific interests of different classes of stakeholders and also environmental and economic impacts.

This is not so much clarification for directors but simply the introduction of mandatory reporting which in its own right will clarify director's responsibilities for reporting CSR/TBL. At this stage the GRI would be one of the front runners for a reporting framework to be considered by the committee. At the very least immediate and extensive studies should be undertaken to identify reporting frameworks that would best suit the Australian corporate landscape.

Once regulations are introduced to manage corporation's externalities directors will again have a better idea of what responsibilities they have to stakeholders other than shareholders.

14. Should the Corporations Act be revised to require directors to take into account the interests of specific classes of stakeholders or the broader community when making corporate decisions?

See above comments as they are just as valid for this question.

15. Does the Corporations Act need to be amended to adopt a pluralist, an elaborated shareholder benefit, or some other approach to directors' duties?

See above comments as they are just as valid for this question.

16. Would any suggested change be intended to go beyond the current law or would it be intended as clarification only?

See above comments as they are just as valid for this question.

17. If a pluralist approach were to be adopted:

- **should directors be permitted to take into account the interests of specific classes of stakeholders or the broader community when making corporate decisions, or alternatively**
- **should directors be required to take into account the interests of specific classes of stakeholders or the broader community when making corporate decisions**
- **In either case what broader interests should be identified?**

See above comments as they are just as valid for this question. In addition to those comments the committee should note that reporting frameworks such as the GRI clarify quite well the areas that stakeholders are usually interested in and after reporting has been mandated a sense of the major areas that stakeholders require attention will emerge and the regulator can then turn its attention to the appropriate regulations at that time. A time horizon of 4 to 5 years seems like the appropriate time frame.

It is the writer's opinion that a pluralist approach is needed in that directors will eventually be obliged to take into account the interests of certain stakeholders/ environment. This can be regulated after mandatory reporting has produced information which highlights the areas of greatest materiality with respect to the corporation's externality impacts.

Until that occurs it is premature to try and determine what stakeholders etc directors should have to take into account.

The argument that directors will end up having a confused understanding as to their responsibility to shareholders if they have to take into account the interests of shareholders is ludicrous. The first step is getting an understanding of external impacts which is currently not available. The next step is to identify which of those externalities requires regulation with respect to how the corporation deals with it in its own operations.

If the corporation is forced to outlay funds due to the regulation which in turn results in a lower profit to shareholders than would otherwise be the case then so be it. This has to be the position because to ignore externalities because there is an unsatisfactory commercial pay back places little value on the negative impacts the corporation is having on society and the environment. Left unchecked the results could be disastrous for society. The government needs to step into these situations and corporations who cannot make adequate returns after taking into account the appropriate mandatory care of their external negative impacts should not be allowed to operate as they are reducing the public's social and environmental capital. These corporations are earning a profit for a small group of investors at the expense of society and the environment. Naturally, an equitable transition policy and program would need to be developed and implemented to compensate investors to ensure there would be no major financial losers. This is a cost society (i.e. the government treasury) which would have to be funded to achieve this end.

- **How might any proposed amendment be implemented and enforced?**

See above.

18. If an elaborated shareholder benefit approach were to be adopted:

- **What form should it take?**
- **Would the UK Company Law Reform Bill clause be an appropriate precedent, either as drafted or with amendments?**
- **How might any proposed amendment be implemented and enforced?**

See comments above however the committee should seriously consider the UK Company Law Reform Bill after introducing mandatory reporting. The UK provisions could be the model to follow with respect to introducing regulations to address the reduction of negative impact externalities.

CORPORATE REPORTING

19. Are any changes to current statutory requirements needed to ensure better disclosure of the environmental or social impact of corporate activities?

Yes. See comments above with respect to the mandatory introduction of TBL/Sustainability reporting and assurance. The current laws are totally inadequate in this respect.

- 20. Are any changes desirable to any other reporting requirements, such as the ASX Listing Rule requirements, the ASX Corporate Governance Principles or relevant accounting standards, to provide more relevant non-financial information to the market?**

The first requirement is to introduce some form of mandatory TBL reporting through the corporation's law for companies of certain size and involved in certain high TBL impact industries. If that is done then no amendment to ASX listing and governance requirements will be necessary in the short term.

- 21. In relation to any proposed further reporting requirements, should desired information be in a narrative or quantitative form?**

This is a difficult question to answer at this stage in the development of TBL/Sustainability reporting. Clearly, quantitative is more attractive however some areas do not lend themselves to quantitative representation. At this stage the committee should consider the existing reporting TBL frameworks and let them evolve. Should it be determined over time that certain requirements of a reporting framework such as GRI are not suitable in meeting the objectives of the law then certain amendments should be made to reflect that position

- 22. Is it possible to specify criteria to assist in comparing narrative disclosures, including by valuing or quantifying intangibles?**

Yes, it is possible to specify certain criteria, but it is not favoured, due to the fact that there is such diversity between businesses and their social impacts.

- 23. Would an additional impact 'environmental or social 'reporting obligation' be appropriate and feasible and, if so, how might it be stated?**

Yes, for all of the reasons noted above.

How it should be stated could be by stating that corporations that meet certain criteria (size, type of operation, industry etc) will need to provide TBL/sustainability report on the same reporting timetable as the corporations financial year end. The committee will have to define the type of reporting framework to adopt.

ENCOURAGING RESPONSIBLE BUSINESS PRACTICES

- 24. To what extent are voluntary initiatives leading to improvements in corporate social and environmental performance?**

Hard to know as not all corporations report on their voluntary initiatives however one must assume that there is possibly some improvement based on those corporations that have adopted voluntary reporting.

25. What lessons may be derived from any experience with voluntary initiatives?

The primary lesson is that corporations will only embark upon voluntary initiatives if they think it will add value to the corporation. It is clear that many corporations still do not even see the benefit from voluntary initiatives and the corporations that do will only support an initiative that can provide a commercial payback.

It has to be said that the voluntary approach is inherently flawed as it won't take the interests of society or the environment into account unless it also assists shareholder value. Clearly there is a conflict in many instances and society and the environment will lose out each time.

Globalisation has generated huge multi national organisations that control huge resources and have great influence on many stakeholders that deal with them. Many stakeholders have little choice in dealing with them due to the nature of their operations. If a voluntary initiative is not in the corporation's best interest then it will not be undertaken. It may however be very/extremely important from society or the environment's perspective. This is where the government needs to regulate to give these stakeholders and the environment a seat at the decision table.

26. What would be the nature of any proposed initiative,

27. What would be its intended purpose and consequences

28. How might it be implemented and

29. What would be its costs and other implications?

The committee will note that the above submission does not recommend the support of voluntary initiatives, rather mandatory requirements of corporations need to be considered and hopefully introduced. Corporations will always adopt voluntary initiatives if the directors project will improve their bottom line.

If the business community (primarily represented by peak business bodies trying to demonstrate some useful purpose to their existence to their subscription paying members) present the arguments (which they will and already have) that business is voluntarily adopting CSR approaches and practices and as such is already taking into account a large range of stakeholders interests other than the shareholders then regulation should not be a problem. That is, regulation of existing practices, all things being equal, is simply codifying existing practices. The introduction of mandatory reporting should not be an issue as corporations that are doing it voluntarily will see no change to their existing cost structures. Organisations that are not presently reporting cannot stand back and say regulation is not warranted if they can't demonstrate that their operations are not creating material negative TBL impacts. You see you can't have it both ways. Either it's done voluntarily, and it's done by all or you regulate it so it is done by all. Business can no longer hide behind the voluntary adoption argument as it is flawed and riddled with self interest and therefore conflict of interest.

Regulation to introduce mandatory TBL/Sustainability/CSR reporting is absolutely necessary and should be introduced without delay.

Tim Heesh
24 February 2006