

## Who'd Trust The Modern Corporation? Summary of Discussion

Sydney, 19th October 2010

A GRI Focal Point Australia event, sponsored by Landcom and Land Lease

**Note:** The following document summarises the key themes discussed during the panel session of *Who'd Trust the Modern Corporation?* - an event hosted by the Global Reporting Initiative's Focal Point Australia. GRI works to encourage debate globally on how sustainability reporting should progress into the future. This brief report provides a summary of the discussion of speakers and participants at this event, and not the explicit views of GRI.

### Overview of the event

*Who'd trust the Modern Corporation* brought together leading domestic and international personalities including CEOs, policy leaders, investors and journalists to discuss: "Who'd Trust the Modern Corporation?"

The focus of the event was on corporate accountability and transparency. It focused on the mechanisms through which corporations are seeking to instil trust in their stakeholder (i.e. not just their shareholders). It questioned whether current transparency and accountability frameworks are sufficient for the current ethical dilemmas facing the corporation, Australia and the world.

The event was attended by over 230 business, government and civil society leaders interested in corporate responsibility and sustainability. The format of the event was plenary presentations followed by a facilitated discussion, in a similar format to the ABC's Q&A program, meaning that the audience posed the questions to the panellists directly around the key themes of trust, transparency and accountability of the corporation. These questions are listed in Appendix A.

### Speakers

#### Welcome & Plenary

- Simon Longstaff, Executive Director, St James Ethics Centre and GRI Board Member
- Rod Leaver, CEO, Lend Lease Australia
- William Kirkby-Jones AM, Chairman, Landcom

#### Panel Discussion

- Michael Luscombe, CEO, Woolworths Limited
- Sander-Paul van Tongeren, Senior Sustainability Specialist - Global Real Estate, APG Asset Management
- Catherine Fox, Deputy Editor, ARF Boss Magazine
- Nick Rowley, Director, Kinesis
- Ros Childs, ABC - Panel host

### About the Global Reporting Initiative Focal Point Australia

The Global Reporting Initiative (GRI) pioneered the development of the world's most widely used sustainability reporting framework, the G3 Guidelines, and is committed to its continuous improvement and application worldwide. This framework sets out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance.

The Global Reporting Initiative's (GRI) vision is that disclosure on economic, environmental, and social performance becomes as commonplace and comparable as financial reporting, and as important to organizational success. GRI's mission is to create conditions for the transparent and reliable exchange of sustainability information through the development and continuous improvement of the GRI Sustainability Reporting Framework.

The GRI Focal Point Australia, established in October 2008, is the Australian arm of the GRI. GRI Focal Point Australia works to bring Australian organisations more actively into the broader international dialogue on ESG disclosure and sustainability and seeks to improve the uptake, usefulness and quality of reporting.

## Summary of key themes discussed during the panel session

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A full length audio recording of the event can be heard at [www.thehub.ethics.org.au/gri](http://www.thehub.ethics.org.au/gri)

### Trust

- In accordance with the title of the event the debate regularly came back to the question of what generates or guarantees trust from stakeholders. Various viewpoints described trust as a hard earned and easily lost asset that is essential for the corporation to successfully function, e.g. generate profits, build partnerships, joint ventures, etc. According to some positions, the tone at the top is that corporate success is bound by stakeholder trust; and that board level commitment is essential to build a genuine organisational culture that establishes trust in stakeholders. Other important ingredients in creating a culture of trust are honesty, accessibility, communication of both positive achievements and challenges, and excellent reporting processes that produce clear, transparent evidence of these measures.
- It was reported that the consumer today have a much broader view of corporate obligations, so a very broad agenda for a publically listed company is not only the right thing to do ethically but is also essential in a commercial capacity. If the licence to operate is withdrawn by the community then there is no space for the business to operate.
- The view was put forward that there is a strong belief at a CEO level that building trust and being transparent is no longer a negotiable option for a successful business that is aiming for sustainability in its lifetime. There is a very determined focus by the CEOs in particular towards changing the nature of their businesses and the nature in which they are perceived towards that of a sustainable corporation.
- It was also commented that corporations have played a very proactive role on particular environmental issues and that there are real examples of corporations striving for change and going beyond merely reporting on these issues. Corporations have been shown to have taken clear steps towards improving their performance and in helping to shape a more adequate policy around the complex problem of sustainability.
- It was identified that there has been an erosion of trust around the executive and board level of companies, not least because of the financial crisis. However, it was also put forth that without having corporate leaders that have a sense of social purpose and public service, the same level and quality of innovation for sustainability and development cannot be achieved.
- Lastly, it was suggested that a corporation should be judged by its actions and not simply the transparency or lack thereof, of its board. It was suggested to not expect complete transparency of the board but to judge the board by the actions of the company as though they are one and the same.

### Voluntary vs. mandatory sustainability reporting

- During the debate attention was drawn to the tension between voluntary vs. mandatory sustainability reporting. Following the question of what is the preferred way to go for Australia, there seemed to be agreement on the position that regulation aims for compliance rather than best practice and hence, should not be advocated as a long-term goal or fix. However, without advocating for over-regulation, it was highlighted that a mandate could be an initial circuit breaker and lead to change in behaviour and thought over the long-term and hence, should not be completely dismissed.
- In this context, the discussion included brief comments on Integrated Reporting (IR) and it was stated that IR should remain voluntary for the time being. Further, it was pointed out that there must be a clear common view of what IR actually means and encompasses for it to be fruitful. It should be implemented within the corporation and evidence brought to bear that shows that it is really integrated within the company's structure.
- It was reported that companies needed to ensure they had followed a cohesive system of measuring and reporting behind any statement that is made about their performance in relation to sustainability. Corporations need to follow rigorous self examination, measuring of company outcomes and to understand their business intrinsically in order to create a clear and simple story about their company's relationship to sustainability that can be easily translated and understood by shareholders, stakeholders and customers.

## Rating/Benchmarking culture

- During the debate concerns were raised about an increased culture of ratings and benchmarking of sustainability reports and “performance”. It was pointed out that such ratings and benchmarking frameworks often focus on claims and statements rather than the actual performance or implementation process of a corporation. In this context, a discussion evolved around two issues: Firstly, questions were raised about the integrity behind reporting and whether or not some corporations are using external sustainability reporting merely as a branding exercise while ideally, it is part of an internal process that enhances and improves a corporation’s sustainability journey. Secondly, questions evolved around the role assurance plays/should play in the sustainability reporting space. In this context, attention was drawn to the reliability of assurance statements and reports in general.
- The point was raised that there is a need to analyse and determine the role of reporting. If companies were to move to an integrated reporting system then we must have a very clear, common understanding of what is being reported on and how it will be measured. It was noted that only a few years back it was presumed that we could judge a company’s value by its balance sheet, profit and loss statement and cash flow statement. The last couple of years have shown that this is not necessarily the case. As we continue to work towards ensuring a system of reporting that provides a true indication as to the health and value of an entity, we must also ensure the transparency and value of this reporting. When a report is made public it is integral that everyone understand that they can use the report in combination with financial information to make an informed judgement about the value of that entity.

## Enlightened self-interest

- On many occasions the discussion was brought back to the question of why corporations take/should take ESG/sustainability into account in the first place. There seemed to be common agreement around the position that “good ethics (good ESG/CSR) is good business”. It was highlighted that most, if not all sustainable actions/activities make good business sense.
- It was noted that most CSR rankings deal with the policies at corporate level and less on the real implementation and execution within the operations. If companies are interested in ESG reporting they simply should start by measuring data, setting goals and they should be transparent on the progress made. It was suggested that the danger of CSR reports is that companies can choose to only disclose a public front.
- It was noted that integrated reporting could solve the problem of having two separate reports for the financial and the non-financial as it’s not only financials that drive a company but also sustainability and governance. External reporting creates a more rigorous system where informed, objective, judgements can be made.
- The question was raised whether reporting was a ‘show and tell’ for external consumption or a process in which can set in train dynamics within organisations and improve understanding of how organisations can progress in relation to sustainability performance.

## Corporate advocacy regarding sustainability

- The question was raised whether or not corporations should be advocates or even engage in advocacy to further and/or enhance existing sustainability efforts. The point was made that in order to bring about change, all key players affected need to be engaged. This stand was strengthened by highlighting that usually, both (all) sides are constrained in their areas of impact and hence, they need to work together to achieve a fruitful outcome.

## Short-term vs. long-term performance

- Today, corporations face the challenge to make or meet sustainable long-term commitments while delivering short-term profits. Taking into account that investment managers by the nature of their occupation generally rely on a corporation’s short-term performance, sustainable long-term performance often remains ignored and neglected in investment decisions. However, the positive view was taken that the current capitalist system is flexible and it was highlighted that sooner rather than later this flexibility must lead to a change in order to account for the challenges of today and tomorrow.

## Appendix: Questions posed from the audience

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### **Question One**

Senior Advisor, One Stone Advisors

In the joint 2009 Business for Social Responsibility (BSR)/Globescan State of Sustainable Business Poll, respondents highlighted two key actions to rebuild public trust: i. demonstrate positive social and environmental impacts, and ii. innovate for sustainability. By contrast, the Reader's Digest survey of Australia's Most Trusted Professions 2010 shows the top ten most trusted are those "who save our lives, care for us, protect us, and give back to us." Ambulance officers came top. CEOs ranked 33rd, in the "dirty dozen." Given this, is innovating for sustainability and demonstrating improved social and environmental impacts enough? Or do we need to nurture a greater sense of social purpose and public service in our corporate leaders?

### **Question Two**

ESG Manager, Colonial First State Global Asset Management

From the outside, company boardrooms and the contributions of directors are opaque. What can companies do to instil trust in stakeholders regarding the performance of their board?

### **Question Three**

Group Risk Manager, Prime Infrastructure

Are Corporations responding more to stakeholder interest in corporate responsibility and not wanting to be viewed as being "irresponsible" than to believing in the fundamental pillars of CSR? If so, is it only a matter of time until stakeholder interest focuses on another *topic de rigueur* and CSR programs fall by the wayside?

### **Question Four**

Director, Better for Business

Much has been said about Rudd's statement that "climate change is the greatest moral and economic challenge of our time." Lack of action on climate change has stalled Australian business progressing on other important social, economic and community issues. How can our modern corporations move beyond the lack of action on this single issue, to progress other 'moral challenges' facing Australian business?

### **Question Five**

Environmental Project Officer, Sara Lee Australia

Given the fact that GFC was caused by the world's biggest corporations, which were dealing with financial derivatives on products and resources that ordinary people cannot not comprehend, what is the future guarantee that any other large corporate organisation will not trigger the market collapse in a similar way?

### **Question Six**

Transformation Manager, Lend Lease

Do the panel think that legislative changes should be made to the Corporations Act and / or accountancy standards to gain wider use and standardisation of transparency and accountability frameworks?

### **Question Seven**

Partner, Baker & McKenzie

If it became compulsory to report on non financial performance, would companies be so forthcoming as they are now when it is voluntary?

### **Question Eight**

Environmental Manager, UGL

What implications do you think the integrated reporting will have on Australian business and the ability to drive the sustainability agenda?

### **Question Nine**

Sustainability Manager, Investa Property Group

In this new era of corporate accounting, many consultancies and 'CSR rankings' are mistaking transparency of reporting as a measure of social and environmental responsibility and delivery. However, providing the data doesn't mean very much if our systems don't acknowledge or account for the harm firms intrinsically cause. How can we design a trust-worthy system that considers the fact that firms like Monsanto and Exxon perform well on global ranking lists, despite their practices and the wider social impacts of their approach and operations?

### **Question Ten**

Director / Senior Analyst, Citi Investment Research

Superannuation funds have a long-term investment horizon, but tend to outsource their funds to managers, who are generally judged on short term performance. Fund managers and analysts, in turn, typically judge companies on short term results, and constantly seek growth in companies they invest in. Against this backdrop, how far can companies go in meeting their longer term responsibilities to society? What changes might assist company CEOs and Boards who would like to be more "sustainable", but are under pressure to produce short term results and to demonstrate attractive (if sometimes risky) growth prospects?