

# Inquiry encourages broader corporate reporting accountability

A recent inquiry by the Parliamentary Joint Committee on Corporations and Financial Services (PJC) into corporate responsibility and triple bottom line reporting has found that there is no change required to current regulations for Australia's corporations to show a higher regard for the interests of wider stakeholders in addition to shareholders.

Initiated by Labor Senator Penny Wong, in the wake of recent public concern over high-profile cases of corporate failings in the community, the inquiry sought to address a broad range of current issues pertaining to corporate responsibility. Its report, *Corporate Responsibility: Managing Risk and Creating Value*, was released on 21 June.

Specifically, the committee was charged with looking at:

- the extent to which organisational decision-makers have and should have an existing regard for the interests of stakeholders other than shareholders, and the broader community;
- the extent to which the current legal framework governing directors' duties encourages or discourages them from having this regard;
- whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have this regard; and
- whether sustainability reporting should be voluntary or mandatory for organisations.

Chaired by Liberal Senator Grant Chapman, the committee found that legal changes were not required to ensure that company directors take into account the wider effects of their decisions on other stakeholders, in addition to their shareholders. While it highlighted that there are enough examples of organisations voluntarily reporting to a triple bottom line scope, it noted that Australia is behind the levels of reporting seen internationally.

The committee decided against mandatory sustainability reporting, raising concerns that it would lead to a "tick-the-box" culture of compliance. The committee's report argues the importance of companies engaging voluntarily in

sustainability reporting, rather than being required to do so by law.

A supplementary section of the report from the Labor representatives, however, argued for larger companies, above a certain size, to be required to report on their sustainability performance annually.

Commenting about the inquiry's thrust to *Ecos*, Senator Penny Wong said, 'This report should advance government policy on sustainable business in Australia; however, Labor's preference is for a stronger commitment to sustainability reporting.'

Earlier in the Australian *Financial Review* she observed, 'We accept the evidence from business that directors can have regard to stakeholder interests, but if the courts decided otherwise or there's a recurrence of the argument put by James Hardie Directors, I think the community will be calling on government to act.'

That said, the report also states that 'the committee is strongly supportive of the Global Reporting Initiative (GRI)<sup>1</sup>, and commends those Australian companies which are active contributors to, and participants in, the GRI process.'

The committee also recognised that 'institutional investors are in an excellent position to drive corporate responsibility in Australia because they often have long-term investment timeframes.'

Overall, the report made 29 recommendations, including that:

- appropriately structured incentives be included in remuneration packages of directors, executives and managers as 'an effective way to encourage companies to take a longer-term view, which will ultimately be in the better interests of the company, its shareholders and company stakeholders';
- institutional investors, and especially the \$18 billion Future Fund, consider becoming signatories to the United Nations Principles for Responsible Investment;
- the Australian Stock Exchange Corporate Governance Council (ASX Council) should ensure that companies inform investors of the



Senator Penny Wong is Shadow Minister for Corporate Governance and Responsibility.

Courtesy Sen. Penny Wong

material non-financial aspects of a company's risk profile by disclosing their top five sustainability risks, and providing information on management strategies to address such risks;

- the Australian Government provide initial funding to start the Australian Corporate Responsibility Network, building on the experience of groups such as the United Kingdom initiative, Business in the Community;
- the Australian Government seek to rationalise Australia's greenhouse and energy reporting requirements into a national framework;
- government and industry should liaise on developing a mechanism for setting sectoral benchmarks for greenhouse and energy performance.

The inquiry received more than 150 submissions, more than any other inquiry previously initiated by this committee, demonstrating the significant level of interest in these issues in the broader community.

- Mike Smith and Charlie Hargroves (The Natural Edge Project)

#### More information:

Parliamentary Joint Committee on Corporations and Financial Services (2006) *Corporate Responsibility: Managing Risk and Creating Value*. See [http://wopared.parl.net/senate/committee/corporations\\_ctte/corporate\\_responsibility/report/report.pdf](http://wopared.parl.net/senate/committee/corporations_ctte/corporate_responsibility/report/report.pdf)

<sup>1</sup> The Global Reporting Initiative was established to encourage and broaden reporting on economic, environmental and social performance by all organisations, so that it is as routine and comparable as financial reporting.