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CSR

reporting
goes mainstream

Janine Mace provides some advice on how directors can embrace CSR reporting as it becomes a necessity rather than a choice.

It's annual reporting time again. While directors are familiar with the demands of reporting on their company's financial performance, these days that's only part of the task. Companies are increasingly facing demands to provide information about a variety of operations ranging from carbon emissions through to their human resources policies and environmental performance.

According to Peter Moloney, Grant Thornton director of business risk services, reporting on corporate sustainability is no longer optional. "Corporate social responsibility (CSR) is no longer the domain of interest groups and companies with a social conscience - it will become a necessity rather than a choice," he says.

"Australian businesses can no longer afford to ignore the clear stakeholder demand for briefings beyond the balance sheet."

CSR reporting is now mainstream, with the ASX Corporate Governance Principles revised in 2007 to broaden the definition of material business risks to include areas such as environmental, sustainability, ethical conduct and human capital risks.

The Federal Government is also getting in on the act and floating the idea of mandatory reporting if companies fail to do it voluntarily. And, institutional investors and analysts are taking an interest and asking increasingly pointed questions.

Even smaller companies are not immune from the growing interest in these performance indicators.

The Federal Government, through Treasury, recently commissioned the St James Ethics Centre to work on engaging more Australian businesses in adopting responsible business practices. This includes developing a suite of new tools suitable

for CSR reporting by small and medium-sized enterprises (SME).

FAD OR FACT?

But is this just another passing trend? Moloney believes the push for CSR reporting can no longer be ignored by boards of any size. "You would have had to been living in a cave not to think this is important," he says.

There is also a clear economic and business case for this type of reporting. The 2007 *Tip of the Iceberg?* report by Finsia and Econtech found there was "a significant profit gain of two to three per cent for medium and large companies that voluntarily report on sustainability risks". It also found companies experienced a reduction in capital risk premium of around 30 basis points, lasting gains in labour productivity of around 0.8 per cent and a brand-based price premium of around two per cent.

Moloney agrees there are clear business benefits. "If companies don't do it well, then they will be penalised from a commercial perspective. In the capital markets, there is a definite push for ethical investments, so it's not a commercially sound decision not to do it," he says.

"Even smaller companies want capital and if they are not doing it then they are cutting themselves off from potential sources of funding."

Similarly, St James Ethics Centre executive director, Dr Simon Longstaff, observes: "Companies should see CSR reporting as an opportunity to create a business advantage and perhaps access lower premiums or interest rates."

He notes that while it may make access to investment capital easier, good reporting can also encourage regulators to focus their attention elsewhere, including on competitors.

"An increasing number of people are recognising that if you do CSR well, then the organisation is likely to be managing complexity well," Longstaff explains. "CSR reporting can be seen as a proxy for quality of management."

Over at Insurance Australia Group (IAG), CSR reporting is viewed as going beyond philanthropy. "CSR goes to our ability to survive and compete long-term in business, both as a profit making entity and a participant in the community. Put simply, CSR and sustainability are core business," explains a company spokesperson.

The value of reporting

There is a strong business case supporting the implementation of CSR and sustainability reporting, according to a new publication by KPMG and the Group of 100, entitled *Sustainability Reporting: A Guide*.

It notes the potential internal and external benefits include:

- **Demonstrating transparency;**
- Creating financial value;
- **Enhancing reputation;**
- Achieving continuous improvement;
- **Improving regulatory compliance;**
- Strengthening risk awareness and management;
- **Encouraging innovation;**
- Enhancing management systems and decision making;
- **Raising awareness, motivating and aligning staff, and attracting talent;**
- Attracting long-term capital and favourable financing conditions;
- **Maintaining licence to operate; and**
- Establishing competitive positioning and market differentiation.

More people are recognising that if you do CSR well, then the organisation is likely to be managing complexity well. CSR reporting can be seen as a proxy for quality of management Simon Longstaff