



19 October 2005

Committee Secretary  
Parliamentary Joint Committee on Corporations and Financial Services  
Department of the Senate  
Suite SG64  
Parliament House  
CANBERRA ACT 2600

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Dear Sir

British American Tobacco Australia Limited appreciates the opportunity to make a submission to the Committee's Inquiry into Corporate Responsibility.

We attach a copy of the following documents to illustrate our approach. These documents are also available in the download centre on our corporate website at: [www.bata.com.au/socialreport](http://www.bata.com.au/socialreport)

- Attachment 1: A summary of BAT Australia's first Social Report (2001-02)
- Attachment 2: The full version of BAT Australia's second Social Report (2003-04)
- Attachment 3: A summary brochure of BAT Australia's recent, interim report: *2005 Progress Report* (the complete interim report is only available online at [www.bata.com.au/socialreport](http://www.bata.com.au/socialreport))
- Attachment 4: A print out containing the list of current stakeholder commitments (taken from the interim report, which is available at [www.bata.com.au/socialreport](http://www.bata.com.au/socialreport))
- Attachment 5: The BAT Australasia Group's Statement of Business Principles.

We would be pleased to provide further information to assist the Committee. Should you wish to discuss any of the matters raised in this submission, please contact Valerie Ritchie, Corporate Social Responsibility Manager on (02) 9370 2224.

Yours sincerely

A handwritten signature in blue ink, appearing to read "John Galligan".

**JOHN GALLIGAN**  
*Director, Corporate & Regulatory Affairs*

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## **Executive Summary**

- This submission addresses points (a), (e) (f) and (g) of the Committee's Terms of Reference by briefly describing the approach of British American Tobacco Australia ('BAT Australia') in considering stakeholders' interests; making commitments, where practicable, to address stakeholder concerns; and publicly reporting.
- We take the view that we are primarily in business to build long term shareholder value and we believe the best way to do this is to seek to understand and take account of the needs of all our stakeholders.
- We recommend the use of voluntary mechanisms to guide organisations' development of processes and systems enabling them to consider stakeholder interests. For instance, we reference AccountAbility's AA1000 Framework and Assurance Standard, and the Australian Standard for Corporate Social Responsibility.
- We recommend approaches that provide organisations with the flexibility to evolve their approach over time, and in a way appropriate to their organisation and their stakeholders.
- We believe that it is important to provide voluntary benchmarking and recognition mechanisms for organisations that are endeavouring to improve their performance in meeting the interests of stakeholders and the broader community.
- In our opinion, organisations reporting to stakeholders need to determine the information of material interest to their stakeholders rather than comply with prescribed requirements (such as a generic set of indicators).
- We believe it would not be appropriate to adopt a regulatory model from another country without assessing what that regulation achieves by way of company disclosure and stakeholders' satisfaction with the information.

## **BAT Australia's Experience**

The BAT Australasia group of companies was formed in 1999 as a result of the merger between W.D. & H.O. Wills Holdings Limited and Rothmans Holdings Limited. In 2001, the Australian holding company was delisted from the Australian Stock Exchange. The ultimate parent company is British American Tobacco P.L.C, the twelfth largest listed company in Great Britain.

In 2001, despite no longer being a listed company in Australia, the BAT Australasia group of companies, along with the other companies in the British American Tobacco Group, adopted Corporate Social Responsibility as a management philosophy. At the same time, the Australian operating company adapted the British American Tobacco Group's social reporting process. This culminated in the publication of BAT Australia's first Social Report in 2003.<sup>1</sup>

In 2004, the BAT Australasia group of companies adopted a Statement of Business Principles (refer to Attachment 5).

### **Terms of Reference (a): Regard for Stakeholders' Interests**

We believe it is important to define "stakeholders". We define stakeholders broadly as any group, company or individual who influences our business or who can be affected by our business activities.

The Institute of Business Ethics (UK) defines a company's five principle stakeholders as "those with whom the company has a financial relationship. They are shareholders; customers; employees; suppliers and the community (through the payment of taxes). Other interested parties who may have influence over the company's behaviour would include the media; campaigning NGOs; competitors and the regulators, although these latter might be financial stakeholders if they have power to regulate prices."<sup>2</sup>

BAT Australia considers the views of all parties, however, has particular regard for the interests of its 'principle' stakeholders.

BAT Australia's social reporting process involves stakeholder engagement in the form of independently facilitated and verified stakeholder dialogue sessions. The purpose of the dialogue sessions is to determine stakeholders' issues and gain feedback on the company's performance in meeting stakeholders' expectations. Stakeholders that are unable or unwilling to attend a dialogue session are also invited to make a written submission to, or have a one-on-one interview with, the facilitator.

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<sup>1</sup> The operating companies in New Zealand and Fiji also publish Social Reports responding to local stakeholders' interests.

<sup>2</sup> Source: <http://www.ibe.org.uk/faq.htm#18> downloaded on 11/10/2005

Following the dialogue sessions the company publishes, in a Social Report, its response to the issues stakeholders raised at the sessions. This response may provide information, or it may involve the company making a commitment to undertake a specific action aimed at addressing an issue raised. For a list of the current commitments, refer to Attachment 4. In the Social Report the company also publishes social, environmental and economic data.

Our reports (refer to Attachments 1 to 3) cover a wide range of issues, including minimising the health impacts of our products, business sustainability for tobacco farmers and retailers, the environmental impact of cigarette butt littering and employee concerns.

Additionally, BAT Australia periodically conducts stakeholder research to determine which issues are the priority issues for stakeholders. These studies have included a wider range of stakeholders.

Hence, this social reporting process is a formal process by which the company takes into consideration the interests of stakeholders (other than shareholders). This formal process supplements our day-to-day approach to managing issues and making decisions, as outlined in our Statement of Business Principles. That Statement defines the way in which we operate our business. One of our business principles states:

**The principle of Mutual Benefit is the basis on which we build our relationships with our stakeholders. We are primarily in business to build long term shareholder value and we believe the best way to do this is to seek to understand and take account of the needs of all our stakeholders.**

To ensure all employees understand that our company decision-making should have regard for the interests of relevant stakeholders, in 2004 BAT Australia undertook employee communication on the recently adopted Statement of Business Principles and the company has offered employee training on Corporate Social Responsibility in 2003, 2004 and 2005.

### **Terms of Reference (e): Alternative Mechanisms**

We support the use of standards and other mechanisms that encourage best practice in the field of corporate responsibility.

BAT Australia's social reporting process, briefly described above, was developed to meet an international framework – AccountAbility's *AA1000* framework and audit standard. With our social auditor, we are endeavouring to meet AccountAbility's recent *AA1000 Assurance Standard* for our current reporting cycle<sup>3</sup>.

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<sup>3</sup> Our next stakeholder dialogue sessions will be held in October/November 2005 and the next report will be published in April 2006.

AA1000 is a framework guiding organisations in developing a social and ethical accounting, auditing and reporting (SEAAR) process. According to AccountAbility, the three principles of a quality SEAAR process are materiality, completeness and responsiveness. For further information refer to [www.AccountAbility.org.uk](http://www.AccountAbility.org.uk).

An internal review of BAT Australia's performance against the Australian Standard on Corporate Social Responsibility (AS 8003-2003) was presented at a meeting of the company's Corporate Social Responsibility Committee in 2004.

We believe that it is important to provide voluntary recognition and benchmarking mechanisms for organisations that are endeavouring to improve their performance in meeting the interests of stakeholders.

BAT Australia has participated in the 2001 and 2002 Good Reputation Index, Reputex 2003 and the 2004 Corporate Responsibility Index. These indices have provided benchmarking of the company against companies and, through completing the surveys, highlighted areas of improvement for integrating corporate social responsibility throughout our business.

Other mechanisms provide useful benchmarking and feedback that help us to improve our social reports. These include our participation in the *Sustainability and Environmental Reporters Benchmarking Program 2003-2004*, conducted by URS Australia, which provided specific feedback on our first Social Report. BAT Australia has also entered The Association of Chartered Certified Accountants (ACCA) Australia & New Zealand 2003 and 2004 *Awards for Sustainability Reporting*. We intend implementing a number of the suggestions that were provided in the 2004 judges feedback reports.

### **Terms of Reference (f): Appropriateness of Reporting Requirements**

BAT Australia has voluntarily chosen to publish social reports in line with AA1000 and have both the overall SEAAR process and the report contents verified by an external auditor trained in AA1000.

BAT Australia has also adopted the Global Reporting Initiative's *Sustainability Reporting Guidelines*. The GRI provides guidance on performance indicators that organisations may include in their sustainability reports. The AA1000 and GRI frameworks are complimentary.

From our experience, if our company were to only publish data on the GRI indicators, we would not be publishing information of *material*<sup>4</sup> interest to certain stakeholders.

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<sup>4</sup> AccountAbility defines the principle of materiality as "concerning the need to include significant information that is likely to affect one or more stakeholder groups and their assessment of the organisation's social and ethical performance. The complexity of defining materiality for social and ethical issues demands inclusive processes of stakeholder engagement (including an analysis of stakeholder needs) to assess the significance of information". *AccountAbility 1000 (AA1000) Framework, Exposure Draft*, November 1999, p 11

Through stakeholder research and stakeholder engagement, we identify the issues of material interest and include information on those issues in our social reports. However, the robustness of issue identification is dependant upon the willingness of stakeholders to participate in either the dialogue sessions or the stakeholder research.

In our view, providing incentives for organisations to consider the interests of, and account to, stakeholders is preferable to setting a triple bottom line reporting requirement for all incorporated entities in Australia.

Setting a minimum reporting requirement will increase the number of organisations that are reporting, but it does not necessarily follow that the standard of reporting in Australia will improve, nor guarantee that the reported information meets the material interests of all stakeholders. This is particularly so as the stakeholder set for one industry can have very different reporting preferences<sup>5</sup> for the stakeholder set of another industry (as evidence by the GRI's development of sector-specific indicators).

In our view, a mandated minimum tends to breed a culture of compliance and 'box ticking' but may not develop organisational commitment to, or innovation in, reporting.

We endorse the approach of AccountAbility and the Global Reporting Initiative in encouraging best practice and guiding an organisation in evolving its reporting process. These organisations have developed a framework which gives organisations the flexibility to develop their own approach, suited to the organisation and its stakeholders. This is preferable to a 'one size fits all', prescriptive approach.

Furthermore, a tiered approach is more practicable. It is not reasonable to expect an organisation that is reporting to stakeholders for the first time to attain the same level of disclosure as an organisation that has been reporting for many years. For instance, an organisation may take a number of years to develop the data collection mechanisms for many of the GRI indicators, and establishing data collection systems can be costly.

### **Terms of Reference (g): Policy Approaches in other Countries**

BAT Australia is aware of the introduction of the Operation and Financial Review (OFR) requirements in Great Britain. UK Company Law was amended to meet the European Union's Modernisation Directive, requiring all large and medium<sup>6</sup> companies to provide:

“a balanced and comprehensive analysis of the development and performance of the company's business ...[which] shall include both financial and, where appropriate, non-financial key performance indicators ... Including information relating to environmental and employee matters.”

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<sup>5</sup> In terms of report frequency, format, depth and breadth of information and issues or topics covered.

<sup>6</sup> Medium-sized companies can be exempt from the latter part of this obligation.

The OFR is required of Great Britain quoted companies. It will reflect the directors' view of the business and it will be prepared for, and cover matters relevant to, shareholders. "To the extent necessary", the OFR shall include information about environmental matters; employees; social and community issues; persons with whom the entity has contractual or other arrangements; receipts from, and returns to, shareholders; and all other matters the directors consider to be relevant.

The regulations took effect in March 2005, so that quoted companies are to produce OFRs for annual year 2006. Practical concerns with the implementation of the regulations are currently being addresses by the companies.

We believe it would not be appropriate to adopt a regulatory model from another country without being able to assess what that regulation achieves by way of company disclosure and shareholders' satisfaction with that information.