

# From CSR to Enduring Value – How Business is Driving the Sustainability Agenda in Regional Western Australia

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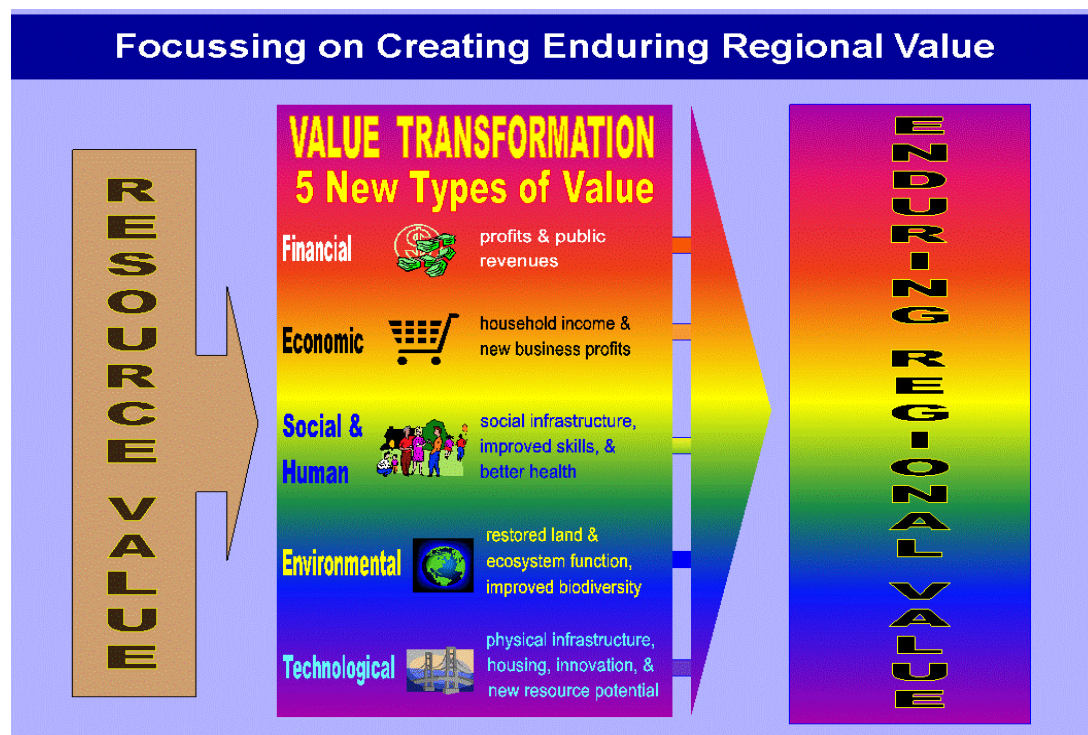
## Key Words

- Sustainability
- Enduring value
- Mining
- Regionalism
- Partnerships

## Introduction

Sustainability has emerged as a core business activity to provide integrated decision-making that improves financial, environmental, and community outcomes. It builds on the notions of CSR, but increasingly advocates a more fundamental rethinking of what business can do. The global companies that dominate the mining industry in Western Australia have been a leading force in producing this new approach. The Argyle Diamonds sustainability story cited here, directly contributed to a ten-fold increase in value over an 8 year period. In an important shift towards using market

Figure 1

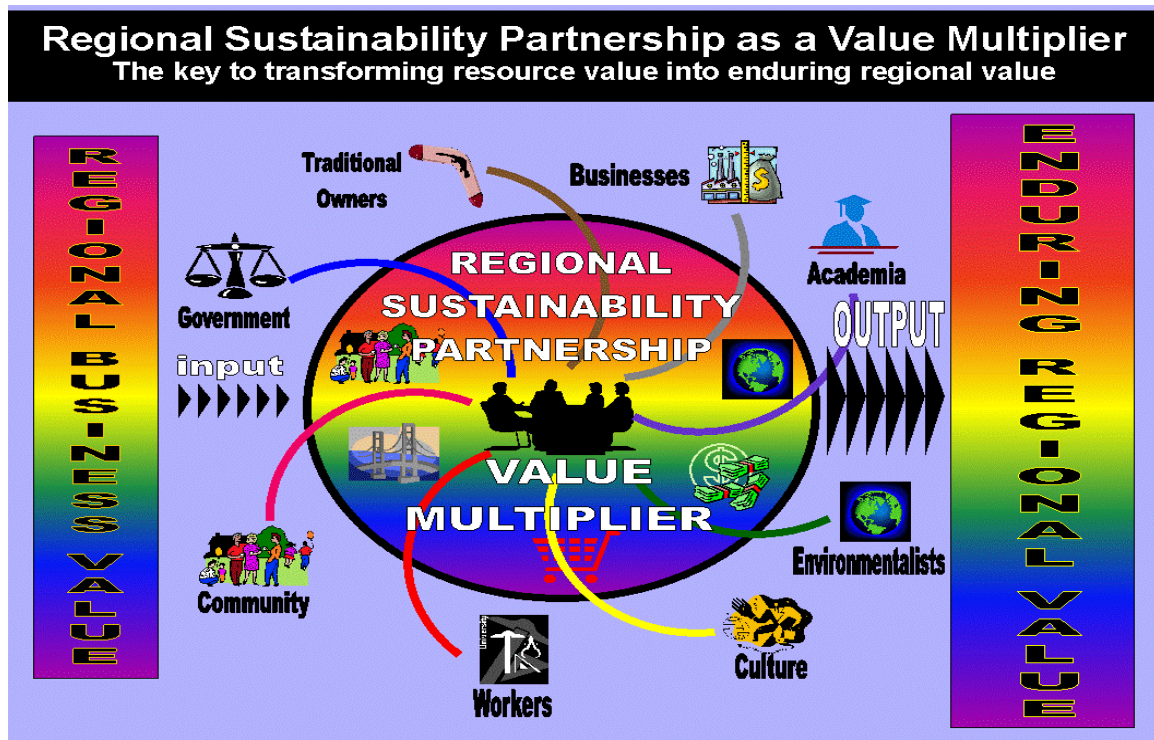


terminology to describe sustainability, transformative experiences, such as Argyle's, are now being explained in terms of the 'enduring value' created. The Minerals Council of Australia captured this shift in an initiative called "Enduring Value: The Australian Minerals Industry Framework for Sustainable Development" [MCA 2004]. The notion of enduring value is redefining CSR as something that is comprehensively and fundamentally part of the normal financial management of a company, rather than as an extra or bolt-on element.

The Sigma Project recently articulated this concept of value as being comprised of Five Capitals. The Five Values in Figure 1 builds upon this insight as a new way to conceive of the impacts and benefits associated with a business. Using the term 'value' as opposed to capital deepens the alignment between the impacts and benefits of a business upon a region with market terminology. It also focuses executives on the link between CSR activity and business value. Whether or not this value can be arrived at in strict financial terms, the effort creates greater alignment between social and environmental concerns and the market. It simplifies assessment of a company's overall regional 'enduring value' contribution (negative or positive) and allows companies and regions to make governance decisions accordingly. The Argyle example shows that when this is done methodically over time, shareholder value need not suffer.

Another benefit of using a 'value' paradigm lies in the way it focuses a business' CSR activities on its own and a region's 'enduring value' or sustainability. CSR activities that do not offer synergies with another pillar of the triple-bottom-line usually lack sufficient business rationale to survive an economic downturn. This is obviously bad for the region, but also for the company. CSR programs that come and go undermine a region's trust in a company, something that can be very bad for business in the future. It can also mean that when programs are started again, much of the previous progress has been lost.

Figure 2



Having come this far, a company is rightfully proud of its progress because the business is more sustainable and the region better understands the benefit of its presence. However, this is where the real opportunity begins. As a company's sustainability understanding matures – both of its own sustainability parameters and how they relate to those of a region – there is an opportunity to multiply the regional and company benefits from those activities. As shown in Figure 2, each of the Five Values can be multiplied by working in partnership with regional groups that have a similar focus.

In collaboration with the Western Australian Sustainability Roundtable, Argyle is proposing that these synergies are most efficiently identified through an overarching Regional Sustainability Partnership (RSP). This is conceptualised as a collection of regional leaders from government, community and business that understand their community, and can bring their collective experience to solving regional problems and identify synergies between existing programs. It is, however, not a governance body. It is a regional resource to be harnessed by organisations, groups, and individuals with ideas about how to do something good for the East Kimberley.

In the East Kimberley test region (described below) there are over 70 different groups working to enhance regional sustainability in some way – all this for a scattered population of 4,000 in a highly remote area of Western Australia. However its size means that a demonstration can be done relatively easily. The demonstration can build on a decade of partnership also. Opportunities to combine overlapping agendas are everywhere. Argyle, with the help of the Roundtable, hopes to multiply the benefits from its CSR initiatives through the RSP to achieve better coordination with the other efforts underway in the region. It is expected that this combined contribution is far more likely to yield the sort of 'enduring value' that regions need to become sustainable in the sense described above, i.e. to leave a legacy of enduring value. Furthermore, as it is a contribution understood in terms of 'value', the company has much clearer evidence of its good stewardship of the regional trust.

### **Experiences with this model in practice**

This model is a synthesis of the knowledge gained through the sustainability transitions of Argyle Diamonds and the State of Western Australia. The lessons of company sustainability and CSR are grounded in Argyle's long experience. The vision of how to take this experience and combine it with a willing State government to multiply the benefits is a work in progress, however it offers important guidance for less experienced companies in how to approach CSR.

Argyle Diamonds brought in a new management team in 1998 to review the impending closure of the mine. Eight years later the mine is still running, considering an underground mine expansion, and is financially valued at ten times the 1998 value. A sustainability transition has been integral to this success to the point that today Argyle's number one strategic consideration is sustainability. But while success stories are good for morale, what is better still for CSR is the way Argyle leaders envision the coming decade. CSR has already faded out of sight in Argyle terminology, though the spirit of CSR remains strong; but, as the company finds new ways to value its contributions to society and the environment as part of its business worth it will become core business. This leap has already been made intuitively, but through the language of valuation CSR type activities will eventually

be rationalised as part of Argyle's sustainability as a business and overtly part of its business value.

Western Australia published a comprehensive State Sustainability Strategy (WA) in 2003. The recently re-elected government has ensured another term of sustainability progress under the direction of the Sustainability Roundtable. The SSS identified two mechanisms as central to turning its broad framework into progress across WA's massive territory – (1) a regional focus and (2) broad-based sustainability partnerships. This overlaps well with similar trends in Europe and globally. Above all, sustainability requires a manageable focus (regions) and a mechanism for engaging regional talent to solve its regional sustainability issues (partnerships). With this in mind the Pilbara region recently completed a Regional Sustainability Strategy that lays out the first of the regional strategies, while the East Kimberley (actually a very large local government region within the Kimberley region) is being mooted as the first test site for a Regional Sustainability Partnership (RSP).

Argyle, through its sustainability mandate, is engaged in many activities across the East Kimberley and elsewhere to develop the region both as a workforce, and as a way to leave in-perpetuity assets. However, the reach of a company is limited to partnering with community and government on individual projects, and it became clear that an overarching framework and mechanism was needed. Also, the large number of projects underway began to need a clearer rationale that Argyle could communicate externally and internally.

To this end, Argyle recently engaged several Australian universities to research different aspects of financially 'valuing' its CSR contributions on a regional scale. The broader goal is to engage with stakeholders to attach financial value to the various amenities created by its CSR work, both in terms of 'stocks' (assets) and 'flows' (activities) (Sigma Project, 2003). The initial work on flows was completed in February 2005, while the work on valuing regional stocks is only just beginning. It was in the course of this research work that it became clear that a Regional Sustainability Partnership could further the East Kimberley's and Argyle's jointly held goals of creating a sustainable East Kimberley. These jointly held goals for the RSP are now in the process of being put forward as an overall mandate to create a legacy of enduring value (borrowed from (MCA 2004)).

An East Kimberley RSP is the ideal consultative mechanism (in combination with university research) for the region to consider the financial value it places on Argyle's impacts, good and bad, on regional social, environmental, and economic stocks. Knowing this, Argyle can then begin to measure the success of its efforts to replenish some depleted stocks, while adding value to others. Argyle's goal (assuming Argyle's two planned underground phases pass economic muster) is that in twenty years it will be able to demonstrate in financial terms that its operations have left a legacy of net-regional enduring value in terms of the Five Values outlined above.

The above comprises a very ambitious vision though it is grounded in a strategy for making it reality. It offers benefits for Argyle, the East Kimberley and Western Australia in the short and medium terms, but is potentially an important model for how any resource development can be assessed and valued in a region. By viewing the mine's and the region's activities in value terms, a degree of rigour is applied to measuring actual benefits, that can be lost otherwise. Companies and governments are often accused of 'green-washing' simply because they cannot demonstrate the

benefit of projects that tackle complex and often entrenched problems associated with poor health, poverty, capacity, and economic opportunity in the regions from where resource developments are located. A valuation paradigm is proposed as the way to ensure that the only activities undertaken are those that demonstrate an ability to move a region out of this mire. Thus the technique is a way of any business, or any region, being able to show that they are not just a pawn of globalisation.

Finally, there is the well-worn fact that corporate executives are held to account, above all, to financial performance measures. Despite many leading executives arguing for the business benefits of CSR, it remains beyond the ability of the market to quantify this benefit. Argyle envisions this valuation strategy as the way to begin closing this gap. It sees that a mining company would have a definite advantage when seeking licenses to develop new ore bodies if it can prove (to an acceptable degree of certainty) that previous host-regions to its operations benefited in terms of the Five Values. This is also the rationale the market needs if it is to directly consider CSR type activities when it values a company's shares. If this research is successful then the end of economic vs social/environmental divide in the way executives and companies are evaluated may begin to disappear. Of course, without CSR practitioners developing new ways of doing business, none of this would have been possible. But, ironically the real value of CSR will only be realised when the argument for its existence has been eliminated.

### **Some do's and don'ts**

Argyle's portfolio includes many sustainability/CSR activities:

- Employing Indigenous people to assist with revegetation of mined areas,
- Training programs to build skills as a means to increase local and particularly Indigenous employment,
- Collaborating with local business to increase regional procurement,
- Creating a flexible employment schedule that can adjust to Indigenous requirements to leave for Law practices,
- Bringing education experts to the Kimberley to assist with training Indigenous children how to maintain their unique culture, while still being able to participate in the wider economy.

Each of these activities has been undertaken within a sustainability mandate. This means that each CSR activity has obvious business benefits for the economic bottom line. Argyle has made a decision not to invest in charity where there are no sustainability implications for the business. The irony is that in doing this, it has also come to see that its sustainability is bound up in a much wider regional sustainability.

This approach also comes with the benefit that its activities are all safe from the vagaries of the market because they are demonstrably part of its economic performance. For example:

- The Indigenous revegetation scheme helped to inform Argyle's revegetation strategy and to ensure its success. It also began the process of building a new relationship with the Kidga people of Warmun, which created enough mutual respect to allow Argyle and a group of Traditional Elders to directly negotiate a new land use agreement with improved benefits for each party.

- Regional procurement along with a relocation of most Argyle staff to the East Kimberly has saved Argyle transport costs and grown the regional economy to the point where new businesses to service the mine are possible.
- Training, education and employment programs are building the Indigenous and local employment base that Argyle needs to reduce the number of fly-in/fly-out workers and attendant transportation costs.

The overlap between Argyle's social responsibility to the communities it works around and its business interests is the reason that the transition to sustainability has lasted through the swings in the diamond market and the present uncertainty about the mine's future. This alignment has made believable Argyle's claims that it wants to leave in-perpetuity assets that contribute to the sustainability of the East Kimberley, because its own interests are so transparently intertwined with those of the region and the State. Thus, the first 'don't' is charity, and the first 'do' is sustainability.

The next step of valuing this while simultaneously augmenting it through a Regional Sustainability Partnership (barring closure) gives the company a sufficiently powerful economic rationale for CSR to no longer use the term. It hopes to do the same with sustainability as it too becomes overtly connected to business performance. Thus, the second 'do' is to embrace a 'value' perspective on sustainability. Even if it is too much to engage with actual financial valuation of a company's impacts, the perspective will enhance the rigour applied to evaluating CSR projects in terms of regional and company sustainability. Ultimately, it will also provide the basis for making the financial valuation assessment in the future.

The last 'do' is to embrace partnership wherever interests are aligned and the intent is strong. To the extent that this is successful, it creates the conditions for developing a broader regional partnership group designed to identify and promote synergies.

### **Wrapping up (advice for application)**

This is a strategy that builds upon the successful transition of a company from CSR to CSR within sustainability, to moving beyond CSR to an 'enduring value' paradigm for sustainability that seeks mutual benefit for a region and the company. Therefore, the many projects Argyle engaged in over the intervening eight-years were part of an organic corporate and regional learning process. At each stage Argyle had a vision and a strategy, each of which was relevant to external circumstances and internal understanding of sustainability. For example:

- At the stage when Argyle was considering whether or not to shut the mine its vision was called "Creating a Future." To do this the company engaged consultants to help it conduct an internal dialogue to assess the possibilities. This dialogue process was successful, and therefore was entrenched in company management processes.
- As this process unfolded the wider mining industry began an exploration of the status quo of its sustainability called the Global Mining Initiative. Argyle management recognised the synergy between its dialogue processes and sustainability and began to explore the implications for the company.
- In 2002 Argyle published its first sustainability report, signalling a degree of confidence in the benefits of sustainability upon the company's business,

particularly with respect to the difficult issues of negotiating Indigenous Land Use Agreements, and as a rationale for its Environmental Health and Safety policies.

- In 2003 the advantages of sustainability were so clear to management through the many CSR initiatives undertaken on that basis that it made it the number one strategic priority. This also occurred in recognition of the fact that its many CSR activities were becoming unwieldy and needed rationalisation.
- Towards the end of 2004 Argyle began engaging with the valuation paradigm as the way forward. A consultant was hired to further improve the alignment of the company's sustainability activities, and to develop a vision for future activities. To this end a Sustainability Steering Group was established including all general managers and some representatives of Argyle's more conceptual sustainability projects. This group is currently refining the vision as it awaits the financial results of an underground feasibility study. Thus, current conditions require both a regional sustainability mine-closure strategy and a regional continued operations sustainability strategy.

From this, some lessons have emerged:

1. CSR here is viewed as a tactical element that operates within both company and sustainability strategic frameworks. It can function with or without sustainability; however, the benefits multiply when CSR activities happen within a sustainability context.
2. For a company to develop a truly integrated sustainability strategy takes time and commitment from its leaders. The transition is ongoing and requires constant reinvigoration from above if it is to take hold. Change is difficult.
3. Market imperatives require a gradual transition to sustainability, as a failure to perform financially can quickly undermine progress. Argyle's transition to sustainability will never stop; but, the eight-year progression summarised above was extremely rapid. The lessons learned may enable new companies grappling with these issues to save some of this time, but the transition requires rigorous management that is in tune with internal capacity and external conditions.
4. A sustainability framework adds enormous value to CSR initiatives. A regional sustainability partnership can take the value of company projects and multiply it into even larger regional value. This regional value in terms of in perpetuity assets amounts to a legacy of regional sustainability and has multiple benefits for a company, including potential direct inclusion in market valuations.

CSR is a tool that allows companies to begin to engage with sustainability. However, benevolence and business imperatives do not truly align. It is far better to take the social understanding that comes from CSR activities to understand the sustainability implications for the business. As this begins to occur, the synergies between some benevolent activities become evident and the market rationale for such exploits becomes obvious. Adopting the language of value early on offers a powerful way to evaluate the benefit of various activities across economic, environmental and social categories. As time progresses, decision-making along value lines allows a company to demonstrate its performance to markets, communities and governments alike.

Whenever possible, company efforts to create enduring value should be augmented by overarching regional sustainability partnerships. These partnerships simplify the task of the company by offering a concise view of regional characteristics and activities, while multiplying the benefits when overlaps occur.

### **Key-references**

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- Minerals Council of Australia, Enduring Value - The Australian Minerals Industry Framework for Sustainable Development. 2004: Melbourne.
- Sustainable Asset Management Index – University of Queensland

### **Relevant web-sites (maximum three)**

- [www.sustainability.dpc.wa.gov.au](http://www.sustainability.dpc.wa.gov.au)
- [www.argylediamonds.com.au](http://www.argylediamonds.com.au)
- [www.sigmaproject.org](http://www.sigmaproject.org)

### **Bio's of authors (maximum 100 words per author)**

Brendan Hammond is the Managing Director of Argyle Diamonds in addition to sitting on several boards. The Argyle transition to sustainability has occurred under his direction and the rest of the senior management team. His vision of using value to create a sustainable market economy is the inspiration for this contribution.

Peter Newman is the Chairman of the Western Australian Sustainability Roundtable, Sustainability Commissioner for New South Wales, and Director of the Institute of Sustainability and Technology Policy. Peter has led the development of the Western Australian State Sustainability Strategy, and is now engaged in a similar process in New South Wales. He has been engaged with environmental and then sustainability issues for 25 years, starting with a focus on transportation and cities issues. Peter is leading ISTP's collaboration with Argyle Diamonds on the East Kimberley Regional Sustainability Initiative, now in the developmental stages.

Erik Stanton-Hicks is a Ph.D. student completing a dissertation on Mining and Sustainability in Western Australia. He is also a researcher involved in the East Kimberley Regional Sustainability Initiative.