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JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL  
SERVICES

**Reference: Corporate responsibility**

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**JOINT STATUTORY COMMITTEE ON  
CORPORATIONS AND FINANCIAL SERVICES**

**Monday, 20 February 2006**

**Members:** Senator Chapman (*Chairman*), Ms Burke (*Deputy Chair*), Senators Brandis, Murray, Sherry and Wong and Mr Baker, Mr Bartlett, Mr Bowen and Mr McArthur

**Members in attendance:** Senators Chapman, Murray and Wong

**Terms of reference for the inquiry:**

To inquire into and report on:

Corporate Responsibility and Triple-Bottom-Line reporting, for incorporated entities in Australia, with particular reference to:

- a. The extent to which organisational decision-makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community.
- b. The extent to which organisational decision-makers should have regard for the interests of stakeholders other than shareholders, and the broader community.
- c. The extent to which the current legal framework governing directors' duties encourages or discourages them from having regard for the interests of stakeholders other than shareholders, and the broader community.
- d. Whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders, and the broader community. In considering this matter, the Committee will also have regard to obligations that exist in laws other than the Corporations Act.
- e. Any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and/or their directors.
- f. The appropriateness of reporting requirements associated with these issues.
- g. Whether regulatory, legislative or other policy approaches in other countries could be adopted or adapted for Australia.

In inquiring into these matters, the Committee will consider both for profit and not-for-profit incorporated entities under the Corporations Act.

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**Committee met at 11.24 am**

**NEWMAN, Professor Peter W.G., Director, Institute of Sustainability and Technology Policy, Murdoch University; Chair, Sustainability Roundtable, Western Australian Government**

**STANTON-HICKS, Mr Erik Michael, Researcher and PhD Candidate, Institute for Sustainability and Technology Policy, Murdoch University**

**ACTING CHAIR (Senator Wong)**—I declare open today's hearing of the Joint Parliamentary Committee on Corporations and Financial Services. Today the committee will hear evidence regarding its inquiry into corporate responsibility and relevant related matters. This is the second public hearing of the committee and further hearings will be held in Melbourne later this week and Sydney next month. We express our gratitude to the contributors to this inquiry, including those who will be appearing before us as witnesses today.

I reinforce for the record that all witnesses appearing before us are protected by parliamentary privilege with respect to the evidence provided. Parliamentary privilege refers to special rights and immunities attached to the parliament and members and others necessary for the discharge of parliamentary functions without obstruction or fear of prosecution. Any act by any person that operates to the disadvantage of a witness on account of evidence given by him or her before the Senate or at any of its committees is treated as a breach of privilege. Unless the committee should decide otherwise, this is a public hearing and, as such, all members of the public are welcome to attend.

Welcome, Professor Newman and Mr Stanton-Hicks. The committee has been provided with a copy of your submission. I invite you to make a short statement, after which members of this committee will ask questions.

**Prof. Newman**—I am the Director of the Institute for Sustainability and Technology Policy at Murdoch University. I am also Chair of the WA Sustainability Roundtable and have spent 2½ years working with the WA government full-time on the sustainability strategy. So I overlap in my responsibilities somewhat. I am primarily speaking as an academic but I also have government roles and will refer back to them at times.

My interest in sustainability is reflected in my institute. We have 80 PhD students working on sustainability issues. Mr Erik Stanton-Hicks is working on mining and sustainability and has recently—in the last 24 hours—come across an article which is very exciting for us and we want to talk about that. That is why Erik is appearing here today.

I will briefly make a statement about the three papers that I gave you. Erik and I have written a short paper on corporate social responsibility for a book that is coming out, where we got together the model that we had developed with Argyle Diamonds. I think it is important to put at the outset that, in Western Australia, we have a number of major resource companies that have shown a degree of corporate responsibility that is world leading—Argyle Diamonds being one of them. They are setting the bar for the rest of the Western Australian economy because of the work they are doing. It is important to document this and to have their approach examined, because it is innovative. The work that we did was to begin the process of documenting it.

The second paper refers to the state's sustainability strategy, which I have a copy of here. It is a substantial document. We are still the only state that has developed a strategy such as this. The other states are working on them. It began as a global process. It was done by nations in the 1990s and local governments and is now being done by states. Involved in that is an approach to corporate responsibility, and we have a section in our report on that. A roundtable was set up to coordinate this activity, and one of our subgroups is on corporate social responsibility. A very big part of the process is a participatory approach to decision making—and the article I gave you is essentially about how we have been doing that in the past five years. We have recorded a number of innovative projects.

The third paper is about sustainability assessment. This is of interest because no-one else in the world is doing it, despite it being a very obvious thing to do. A sustainability assessment integrates an approach to decision making about major projects, where you get economic, social and environmental factors considered at the same time. I say it is obvious. It is very obvious to anyone outside, but the process is dominated at the moment by environmental processes. Social and economic factors are not considered in the same transparent, public way; nor are they considered in a systematic way. It was of great surprise to me to find this. It is obvious that the reason that the social factor gets dropped off is that it is hard. You would think that the economic factor would be done—but it is not. The approach that we are developing in this state is to try to bring together these three factors.

We have now had four case studies of how to do sustainability assessment, and a number of companies are trying to do that themselves. Argyle is one of them, and BHP Billiton has recently done a sustainability assessment on their LNG project in Onslow and their Ravensthorpe project. It is an obvious thing to do, because the social and economic factors become as significant as the environmental factors and are of great concern to people but people cannot get involved in those parts of the decision making unless they are put on the table. To me it is fundamental to any understanding of corporate responsibility to have a government process that enables social, economic and environmental factors to be considered simultaneously and in a transparent and public way. That is what we are working on in this state.

A Canadian expert, Robert Gibson, has written about this a lot. He said we are still the only place in the world doing it. The Dutch began it and abandoned it because it was hard. The Canadians keep talking about it but still have not done it. I would hope that the process that is being developed by your inquiry can make a case for why sustainability assessment should become a normal part of government assessments and we should develop the skills and ability to do that.

Key to that is being able to put financial numbers on all of those factors, social, economic and environmental. That was why it was very exciting for us to get the document that was circulated by the World Business Council for Sustainable Development. It was produced by the Canadian Roundtable on Environment and Economy, which is similar to our roundtable, along with the private sector and a number of companies. Of very great interest to us was that the mining sector led the way to produce this in Canada. They are all the same mining companies as ours, but they have put on the table how you can get a calculation on shareholder value for a whole range of factors, like greenhouse gas savings. They have calculations. It comes out at 81c a share. They have calculations on what risk reduction means. It was \$4.24 a share for Teck Cominco.



**ACTING CHAIR**—Are you referring to the document you are about to table?

**Prof. Newman**—Yes, I am. I have not yet tabled it.

**ACTING CHAIR**—We should receive that, because it might be useful, perhaps as an appendix to your submission.

**Prof. Newman**—I was running on there and getting very excited.

**ACTING CHAIR**—I want it before us because we are very interested in this. One issue in the third of the three documents that form your submission is that it has things in it like ‘Insert table 3 about here’. Was that the format in which it was intended to be put before the committee?

**Prof. Newman**—The tables are at the back. It has since been published but I did not have an electronic copy of that.

**ACTING CHAIR**—Fair enough.

**Prof. Newman**—We could do a supplementary submission in writing about this.

**ACTING CHAIR**—This is received as a supplementary submission. Senator Chapman has arrived. I will hand the chair to Senator Chapman.

**CHAIRMAN (Senator Chapman)**—Please continue.

**Prof. Newman**—I was just raising a new report that has come out in the last 24 hours for us. It is therefore a supplementary submission. This report is able to calculate the value to shareholders of corporate responsibility. I think that will be of interest to this committee. The value to shareholders of corporate responsibility has been seen for some time. Lots of papers have been written about it. Lots of annual reports are now showing developing stakeholder interest in a whole range of factors other than the price of the shares. It is of great interest and helps the company. We have been part of that movement to try and specify what those factors are. What we have not ever been able to do is get to the point where we can measure that. This report has shown the amount of money per share that you can generate if you do the right thing. That would be of considerable value for the development of this methodology.

We are keen to make contact with these people and apply it here. We have a very similar economy to the group that has worked on this so far. In many ways, you can do the complicated calculations easier. If you are in the Kimberley and you have one big mine, like Argyle Diamonds, the whole economy can, in a sense, be affected by the one activity of that one company, and you can measure it a lot easier. If that company was operating in Pinjarra, like Alcoa is, it is a lot harder to see how it affects the community and to measure it. We think it is quite possible for us in Western Australia to begin the methodology of working out how you improve shareholder value by being responsible corporately and to demonstrate it. We will be working on that to get these companies to help us to find the numbers.

I have a very quick example of how it has happened here. We have been working on this model of enduring value, as it is called, in the Argyle Diamonds mine. ‘Enduring value’ is the

new term for sustainability—that and regional enduring value. We wrote the paper which tries to show the five capitals model—the capitals being financial capital, economic capital, social and human capital, environmental capital and technological capital—and how you can measure these for a region based on any development. We developed this with Argyle Diamonds. In the last six months, they have been desperately trying to put it into practice because they had to apply to the Western Australian government to get a royalty reduction for the next phase of their activity. The next phase is the development of the mine underground. It is a much harder operation with much lower profits. They applied to the WA government to get a reduction in royalties, which has never happened in the Western Australian experience. For the government to give them that, they had to have a very good case. They prepared that case on the basis of that five capitals model, the five areas of value that they contribute to the region. They showed that, if they closed, it would be a very significant loss of value to that region. So, to keep them going, they could measure and show to the WA government why a reduction in royalties would help. So it has been applied. It has been politically relevant and of great significance to that part of our regional economy.

**CHAIRMAN**—Are either of you aware of a recent study undertaken in the United Kingdom by Professor Chris Brooks of Cass Business School, Stephen Brammer of Bath University and Stephen Pavelin of Reading University which showed that those companies that rated most highly with regard to corporate responsibility rated the worst in terms of returns to shareholders by a factor of 24 per cent?

**Prof. Newman**—No, I do not know that study.

**Mr Stanton-Hicks**—I am aware of it. I have read a report on it but not the report itself.

**Prof. Newman**—That will cause ripples through the industry, no doubt. I have been aware of the debate about how business should just be business and get on with business and not worry about corporate responsibility because that is government business, not theirs. That debate has been going backwards and forwards. Evidence being gathered by groups like the Deakin University one that has corporate responsibility as their key, generally shows the opposite. I have been aware of that and collected that information for some time. Certainly, the sustainability index that is part of the Dow Jones tended to suggest that those companies that had sustainability in their approach did better. I would be interested to see the methodology for that and how it has been calculated.

In the end, I think it would be hard to convince the companies in Western Australia about that, because they know that if they do not show corporate responsibility they do not get to base 1. They are not able to work with their regions, they are not able to work with government and they do not get their licence to operate. For them, it is not an academic discussion any longer; they have to do it. They are very interested to hear from government about the extent to which they should do it and the framework they should work within. But the commitment to being responsible citizens is not an academic issue for them; it is just a practical one of how you do it.

**Senator WONG**—You will be pleased to know there were a number of criticisms of that study and the narrow basis on which they looked at what constituted good corporate governance practice. But that is a debate for another day, I assure you.

**CHAIRMAN**—In your experience, does the push for commitment to corporate responsibility come from the investment community—in particular, institutional investors? Is that more significant than perhaps the commitment from employees, environmental groups or community groups?

**Prof. Newman**—I developed the state sustainability strategy, working with the Premier for 2½ years. The reason that strategy appeared here—it was an election commitment, but the WA government did not really know what it meant after they got elected—was that the mining companies got together and said, ‘What do we want from this government?’ And the most important thing they wanted was a sustainability strategy in order to provide a framework for them to understand what their responsibilities were. They believed that there was not enough of a plan and a framework for them to work within, and they saw that as the No. 1 responsibility. They went to the Premier and said, ‘Please do a sustainability strategy.’ So it was not the Green groups, it was not citizen groups and it was not institutional investors; it was the major resource companies in this state. They are the dominant part of our economy, and they said, ‘In order for us to continue the kind of economic development that we have, we want you to show us this framework.’

We spent 2½ years on that and developed the framework. We were closely involved with the mining companies in that process. They constantly showed us in case studies how important that was. They understand the environmental things now; they know how to do those. The environmental assessment processes are clear; they know how to get through those. But they do not know how to deal with Indigenous people, they do not know how to deal with local economies, they do not know how to deal with local procurement issues, they do not know how to deal with local government and they do not know how to deal with strategic issues that are of value to them. There is no process for these issues to be raised. They could not even show what they were giving to the Western Australian economy in any serious way—no assessment process allowed that. So they said, ‘Get us a framework.’ At the same time we had the Keating review of major project decision making; Michael Keating came and did that. That process revealed the same issues and came up with the same conclusion: that we need a sustainability strategy and a way of doing sustainability assessment. So it was driven by big capital, in my view.

**CHAIRMAN**—Given the absence in Australia of a standard reporting framework for non-financial information, how seriously do you believe the capital markets take the information that is published by companies that do currently report?

**Prof. Newman**—I do not think it is taken very seriously. I think it is being done largely by Public Affairs in order to show they are doing the right thing and the companies are really looking to see how it can be done in a more deeply understood and mainstream way. I think it is still on the periphery, which is why this report from Canada is very important: it is actually showing us a technique of how that can be done and introduced. You do a report and it does not make any distinction between ‘this is the financial report’ and ‘this is the other stuff’. It is actually all part of one, because the company executives understand that they are part of the same thing. It is just that their ways of thinking have been pushed by accountants into one way of reporting on it. We need to find ways in which that other activity can be properly accounted for, and we have not had that technique of doing it yet.

**CHAIRMAN**—You might be aware that the federal environment minister, Ian Campbell, has asked the ASX to develop a standard reporting framework for non-financial information, and that includes whether GR might be an appropriate measure for this. Do you think this will offer an opportunity for a useful standardisation of information or do you think the market is more likely to view it on a ‘what gets measured gets managed’ basis?

**Prof. Newman**—I think they will be very interested in that. It is an important opportunity. I would certainly like to make a submission to that process and assist with that. I believe that a number of the leading companies in this state would be keen to trial that approach and to show that it helps them, because they are in a situation where the financial reporting processes are easy and the other is the part they find difficult—and it is the other that makes the difference.

**Senator WONG**—Thank you for your submission and for your evidence today, Professor. The first place I wanted to start from—and you have really started there—is what the role of government is. As I understand it, your Western Australian sustainability strategy goes across a whole range of sectors and looks at government processes et cetera. In a nutshell, what this committee would be looking at is what government can do to encourage—or inculcate or possibly require or facilitate in some other way—private sector companies to integrate long-term value sustainability considerations into their core business. I suppose what I am interested in from your end, given that you have been involved in this strategy, is how you went about involving the corporate sector. You mentioned the resources sector and what they saw they got out of it. What can government do? What did government do? What can be done at the Commonwealth level?

**Prof. Newman**—The way we went about it was to scour the internet for innovations in sustainability. That threw up innovations at the local government level in housing, planning and building, and in corporate responsibility. We tried to bring together what governments were doing about all of these things. In the end we covered 42 areas—we thought that the answer to life, the universe and everything was a good number!—that cover the whole of government. One of those areas is corporate responsibility. That was one way we did it. When I say ‘we’, I mean that I brought 50 research students with me from ISTP, my institute, who were given access to government, and they were able to do all of this legwork. Erik was one of them. It was an extraordinary experience to work on, because they really did know how to get access to information that others did not have.

The second thing we did was case studies, because in many ways there are innovations happening on the ground that have not yet been properly written down or incorporated into ways of thinking and decision making. So we did case studies. We got money from the Rio Tinto WA Fund for the Future to pay a number of people to get involved in developing that exercise. So it was being done through Murdoch University at the same time, but they were feeding directly into our strategy. We had 42 case studies done. Where the mining companies, the small industries, the local governments and the government departments were doing interesting stuff, we went and did five-page case studies, with pictures and so on. We put them all on the web and we were getting 8,000 hits a day on the website, with 60 per cent of them coming from the US. There was considerable interest, and I think our stories meant as much as the other processes, because what the case studies do is throw up what the companies say: ‘This is as much as we can do and we really need a framework for this, or we need guidance or direction from government on that.’ That helped us to frame the policy work.

That process was also an educational one for the government bureaucracy, many of whose members had no idea that these things were happening in our own state. I didn't; I had no idea that the mining companies were doing such interesting work. You do not hear about it. They do not get to talk about it. Everybody thinks mining companies are rapacious and out there just digging up the dirt and making huge amounts of money.

**Senator MURRAY**—No, they don't!

**Senator WONG**—Let's move on!

**Prof. Newman**—You ought to hear what they say about us for even associating with them! So getting these stories told and written down was a very important educational process. I will give you a little example. The Department of Industry and Resources, who are responsible for corporate responsibility and the assessment of projects in general, had a real problem when we kept raising the idea that Indigenous employment strategies ought to be part of every resource project. We have people out there who want to be there, who need to be trained and brought into the mainstream of the mining sector. We have companies wanting to do that and no framework to do it in. We were told by the department people involved: 'That's social engineering. Governments shouldn't be involved in social engineering.'

**Senator WONG**—Can I stop you there for a second? I am just conscious of the time. I am happy if you want to tell us about how you changed the minds of government bureaucrats; that might unlock the secrets of the universe for us! But what I am particularly interested in is how you shift companies and what role government has in that. From what you are saying, it seems that there was already a willingness in the resources sector here in WA to look at these issues. That is not necessarily a view that is shared everywhere—

**Prof. Newman**—No, it is not.

**Senator WONG**—so, if you are in government, what do you then do to try and engender this 'enduring values' perspective that you speak of in your submission?

**Prof. Newman**—It is part of the same story. There are companies doing the right thing, but not all of them—in fact, only a small proportion of them—so you do the case study on those companies. The government bureaucracy then said, 'That's happening anyway.'

**Senator WONG**—This is the proportion of Indigenous—

**Prof. Newman**—Yes; that is just an example. The minister then said, 'I want to make this a part of every resource project, so all the other companies have to come to government and, when they do, they have to have that in their plan.' We would not have been able to do that unless we had had Brendan Hammond and the Argyle Diamond project to be able to refer to and say, 'They've done it; 27 per cent of their work force now is Indigenous in a five-year program. They've broken the back of it; they know how to do it.' But, after 40 years, the Pilbara had less than one per cent. Those companies are now doing it. Woodside is now committed to being the Argyle of the Pilbara, they are saying. You can change them if you go about a process of documenting properly the innovative companies and having a framework that says, 'That's the bar we want.' So the government needs to be able to say that; it does not have to regulate it. In

my view, you can say, 'This is what we want,' and then, whenever a company comes forward and they look for the guidance, they say, 'That's the guidance,' and then they set out how to do it. If you regulate it by saying that you will achieve X per cent in a certain way, it is just too hard to do—most of these issues.

**Senator WONG**—But didn't you regulate? If the minister is saying—

**Prof. Newman**—No, he did not regulate.

**Senator WONG**—I thought you said that the minister then said, 'If they come to me with development applications, I will expect this to be part of it.' That is a de facto regulation, isn't it?

**Prof. Newman**—It is a de facto regulation but it is not a legal regulation; it is not a legal requirement. It is not like the Environmental Protection Act, which requires that you do certain things. I think that eventually we will get that kind of status, but we do not know enough yet about how to do that. We just need to have the guidance and the goals being set. You can then break some of these underlying problems that have been around—Western Australia's history on Indigenous employment is very poor; how do you break it? You cannot just dictate it, but you set goals and you incorporate it into every new development project. That is how I believe you will bring the corporate responsibility bar up.

**Senator MURRAY**—I would like to say that it works because the minister has to approve licences and so on. So an informal requirement still has impact and weight; otherwise, it will not be looked at favourably for the application.

**Prof. Newman**—We are associated with a new project in the midwest. We went to them and said, 'We'll be associated with this as long as you do X, Y, Z, because we think this is now setting the bar,' and they are going to do it on Indigenous employment. So it does work, but government is not driving it as much as the innovative companies. They are the ones who will really make a difference, so they have to be able to show it on the ground.

**Senator WONG**—What was the process of pulling together the sustainability strategy in terms of business?

**Prof. Newman**—We had a very big public process. There were lots of public meetings and workshops, and we always had Chamber of Commerce and Industry reps coming along to those. They had to struggle with the idea of whether sustainability was really a 'reds under the bed' type of concept or whether it was mainstream for them. We had endless discussions with the Chamber of Commerce and Industry just on the definition. It took us 2½ years to come up with a definition that they agreed to. In the end, I think they believed that it was a worthwhile process, but we had to do a lot of hard talking.

**Senator MURRAY**—I am very interested in your ability to put a numerical value to these issues, because, without numbers, things do not end up having meaning in terms of benchmarking, making progress or targets or achievements. As soon as you introduce numbers, you raise the possibility of audit.

In financial systems regulation, effectively governments have always been able to outsource the enforcement of a standard system of accounting through the audit process. The auditor acts as the conduit for integrity reporting, if you like, to stakeholders, shareholders, governments, the community at large and regulators and so on. Governments have facilitated uniformity. So what were originally Australian accounting standards are now international accounting standards which conform with the former. All governments have required in black-letter law is a relatively precise responsibility and duty of care for auditors. It is not extensive. If you look at the Corporations Act, the requirements on auditors are relatively low.

It seems to me that the prospect offered by your innovative work—the chairman was missing when you told us that you are the only people in the world doing this numerical value determination—is that audit becomes a real and beneficial possibility. So private companies do what they want in terms of innovation and so on. Governments have expectations, society has expectations, but it is the auditors who will report on the matter. What you do not want, in my view, are multiple audits, because of the cost to the corporation. It seems to me that there is the potential for auditing companies to develop the ability to audit the economic, social and environmental as well as the financial, which is not what they do at present. In the development of your numerical model, have you thought through how application of enforcement uniformity could be assisted through the audit process?

**Prof. Newman**—No, we have not thought through that, apart from seeing that the Auditor-General type role could incorporate this. As a matter of interest, I believe the group that is doing the most in this area is the Canadian Auditor-General's office, which has a sustainable development person who toured Australia recently. She has the role of auditing every federal government agency on sustainable development grounds. So it must be beyond the financial, and they are developing techniques on how to do that. The really interesting thing is that we have had a swap with an Auditor-General officer from Perth with a Canadian one for a year for that person to come to grips with what they are doing over there. That person is Colin Campbell, the brother of the minister. So we have a connection to Canada. He is in the thick of things at the moment working out how the Canadians and their Auditor-General's office examine sustainability issues across their agencies. I believe they are the innovators. The person who has come here is a French-Canadian guy who is very interesting to talk to. Maybe we should get him to meet your committee. They are the ones who are working through a system of how to do that. At this stage, it is not quantified but it is clear that they have responsibilities that they have to fulfil. They get told, and it is reported publicly, if they do not do it.

**Senator WONG**—This is for governments?

**Prof. Newman**—For government only at this stage, but they are creating a model for how it can then be applied across the private sector as well once that model is shown to work.

**Senator WONG**—Interesting.

**Senator MURRAY**—In your discussions with corporations when you are developing these models, what sort of people are you having them with? My interest is whether it is an across portfolio discussion, for instance. Are the people concerned with internal audit or financial systems involved in your discussion, or is it the operational people? What sort of people?

**Prof. Newman**—The interesting part about Argyle was that they had them all around the table. The financial person was the hardest to bring along. He knew exactly what needed to be done, and he did not really want to know about these other things. The CEO, the managing director and the people who were involved in the strategising for the company could see that they really needed him to come with them and show them how to translate it into numbers. So he was always there. In the end, he could begin to see that this was going to make the difference. He has now moved on into a bigger role in Rio because, in this example, he could genuinely show in numbers what that regional value meant to their company. That is our main experience with Argyle. It is a very different company in that I think they were very committed from the top down to this much more and had a corporately responsible approach to the future. If it is not driven from the top down, it is very hard to do it.

**Senator MURRAY**—I have long thought that the human mind reacts well to measurement so that even when you get to the ultimate intangible, such as beauty, people try to measure it. They will give an artwork a financial value so that it kind of fixes in people's heads as being worth a lot of money. It fits the other areas of the human psyche. The difficulty with numerical value driven assessments is that they can be subjective, and they may not endure—in other words, they may be fashionable. You have used the word 'enduring', but you have also been at pains to say that, in the model they are developing, they have found a way of netting off the negatives and positives and arriving at a real value per share of a particular activity. That requires, if you know anything about accounting standards—and some of these things go to several hundred pages because of the thinking that is involved in them—a great deal of expertise and depth to develop. If this is ever to take off, do you see the necessary creation of the equivalent of, say, an Australian Accounting Standards Board in these areas so that you get people of real expertise who are dedicated, over time, to developing the standards in a way which is functional, understandable and credible and reflects real value to both society and the corporation?

**Prof. Newman**—Yes, we do. Sustainability accreditation, I believe, will happen. We will move from ISO 14000 and the other ISO standards that are around at the moment into something that can be brought together, and people can accredit their processes along the lines we are now beginning to see as needed. I have another PhD student working on a sustainability accreditation system standard. The first big papers are coming out now. BMW have been through a process in Germany to try to develop within their own system how they could be accredited in terms of sustainability which goes beyond the ISO 14000. It incorporates reporting processes, community engagement, development of key performance indicators and strategic planning. All of those things are being brought together into a process that could be called corporate sustainability accreditation.

**Senator MURRAY**—You can see where I am going to with this line of questioning. It is my belief that once academics and business innovators have broken the back of the original thinking—and if you are going to systematise it, eventually that is the job that governments do—they create a formal mechanism by which systematisation can occur. As the chairman knows well, the accounting standards boards for years were private sector operations. Eventually governments got involved with systematising and ensuring integrity systems surrounded them in the interests of corporate organisations.

**Prof. Newman**—But it is still essentially a private sector exercise, the Standards Australia process.



**Senator MURRAY**—I sense that you are still very much in the early days.

**Prof. Newman**—Very much.

**Senator MURRAY**—When you are talking as an individual with a couple of PhD students and a few contacts around the world, it is not yet—

**Prof. Newman**—No. The next phase is research to the point where we can get real examples and models of thinking and then some trials in which we will demonstrate it. We are still at the stage of getting our thinking together, because it is an integrated approach. All of our history has been about dividing up into silos of thinking. That is the whole modernist approach.

**Senator MURRAY**—In what time frame do you think governments could meaningfully get involved? In other words, have the efforts that are being put in advanced sufficiently for governments to become meaningful facilitators and contributors?

**Prof. Newman**—In five years we could see a dramatic change in this. Looking back to the last five years, when I started on this, we had no idea what sustainability could really mean for a state government. We worked it through. We have worked with industry and with the community to a point where we really feel we are getting somewhere. We have a whole new profession beginning. We have formed a professional body with 180 members. They make their employment in sustainability that was not imaginable five years ago.

We believe that these issues are on the cusp of research and policy. This is what is driving government. If you want to see an innovative edge, this is it. The really innovative public servants and innovative policy makers are trying to come to terms with sustainability. I think that it will, in the next five years, become very much more mainstream, and we will get down to having clear guidance and government will play a role in it.

Government has to walk with this at this stage. It is not at a point where you can just say what it is. It is at a point where we are walking together and we are, in a sense, in partnership. It is very bipartisan. It is very new. But it is very exciting. People like Erik, who are going to make their lives out of this, I will be handing over to. Over the next five years we will see dramatic breakthroughs in this area.

**Senator WONG**—Arising out of that, I think you have answered how long the government should persist with collaboration as opposed to doing something different. I think you are saying that we need a fair few more years of a more collaborative approach. But I am interested in knowing how successful you think you have been to date. To what extent do you think the corporate sector here in Western Australia have taken on this enduring values perspective and have done some of the things that the strategy suggests? Are we talking about a very small proportion? Are we talking about a large proportion of particular sectors, such as mining? How successful have you been?

**Prof. Newman**—We will know by the end of this year about that. We are going to do a state of sustainability report. We want to incorporate the private sector doing their own report on that. So we will get the Chamber of Minerals and Energy to report on their sector, and the Chamber of

Commerce and Industry, the Engineers Association and so on. But we will get them to feed in to us how well they think they are doing.

**Senator WONG**—We have to report to the Senate before then.

**Prof. Newman**—Yes, I know.

**Senator WONG**—If you can tell us anything before then, that would be useful.

**Prof. Newman**—I am always surprised by how much more rapidly it is moving than I expected. It is easy to forget how much this is taking off. I am amazed within government how it has happened. The younger people have just leapt into it, and we now have very exciting things coming forward all the time. It was not something that they were told to do; they are just inventing it as they go. That process is unfolding. We do another 20 or so case studies every year, and we are constantly finding more opportunities to show that it is happening. I do not think we will be able to show a turnaround in Indigenous employment, health statistics and things like that immediately—they are long-term issues that we are dealing with—but the company awareness of these broader issues as part of their responsibility is growing daily.

**Senator WONG**—Growing from what?

**Prof. Newman**—Growing from a very low base.

**Senator WONG**—Do you think most major companies would be aware of it?

**Prof. Newman**—Let us say most resource companies in this state, some industries and very few SMEs.

**CHAIRMAN**—Professor Newman and Mr Stanton-Hicks, thank you very much for your appearance before the committee this morning and for your contribution to our deliberations.

[12.21 pm]

**GOH, Mr Gavin, Adviser, Corporate Affairs, Alcoa World Alumina Australia**

**HORNE, Mr Kim, Refinery Manager, Pinjarra, Alcoa World Alumina Australia**

**RUSSELL-BROWN, Ms Anne, Manager, National Community Partnerships and Sponsorship, Alcoa World Alumina Australia**

**CHAIRMAN**—The committee has your submission before it, which we have numbered 78. Are there any alterations or additions you wish to make to the written submission?

**Mr Horne**—No.

**CHAIRMAN**—I ask you to proceed with an opening statement. At the conclusion of that, I am sure we will have some questions for you.

**Mr Horne**—Firstly, thank you for providing Alcoa with the opportunity to appear before your committee. Alcoa World Alumina is pleased to participate in the committee's inquiry on a matter of such importance to the Australian business community, our employees and the communities in which we operate. We have made a written submission, as you mentioned. It provides an overview on our approach to sustainability and some of the programs that we have already implemented across our Australian operations.

We believe we can add most value to the committee by sharing in a practical way our experiences as a major Australian producer and employer with a very long history of engagement with local community. We therefore defer to others more qualified than we are to answer questions relating to the legal intricacies of corporate law and directors' duties. Perhaps I can begin by saying a little about us.

Alcoa is the world's largest alumina producer, with operations in 43 countries. We have over 131,000 employees across the globe. Our products are used worldwide in packaging; building and construction; transport; and aviation, including the new Airbus A380. Alcoa has been part of the Australian industry for over 40 years, and we have led the development of Australia's alumina industry to where it stands today. We operate bauxite mining and alumina refineries in Western Australia, alumina smelters in Victoria and aluminium rolling mills in both Victoria and New South Wales. These operations produce over eight million tonnes of alumina a year, which accounts for about 13 per cent of the total world demand, and almost half a million tonnes of aluminium. Our investment has provided essential infrastructure and supported the growth of regional communities.

We are one of Australia's leading regional employers, and we provide more than 7,500 jobs, mainly in regional Victoria and Western Australia. We are a leading Australian exporter, with \$2.8 billion of exports each year. This makes a significant contribution to Australia's economy, with 80c in every dollar earned by Australia staying in Australia. Alcoa distributed over \$2.5 billion in 2004, including wages, local suppliers, royalties, taxes, rates and dividends.

Global businesses like Alcoa are working throughout their operations to ensure environmental, social and economic stability and sustainability. Alcoa is a value based company, and our values and principles require us to meet the highest standard of corporate behaviour in all aspects of business. We recognise that being a responsible corporate citizen requires a strong corporate ethic, adherence to our strong values and engagement with employees, the community, government, suppliers and, in fact, our customers.

We are committed to our employees by providing a healthy and safe workplace, training and development opportunities, a flexible work environment that balances work and family, and equal opportunity. We have one of the lowest work injury rates in Australia and we are working towards our ultimate goal of an incident-free workplace. Our programs include 'Alcoa future women of industry' scholarships. We provide 50 scholarships a year to encourage young women to consider careers in our industry. We are an important trainer of apprentices, with 35 new apprentices being employed by Alcoa this year across Australia.

Alcoa has had a strong and long commitment to environmental management. We are recognised as a world leader in mine site rehabilitation, and we were the first mining company in the world to achieve 100 per cent biodiversity in our rehabilitated areas. This work led to Alcoa being the first mining company to be recognised by the United Nations for inclusion in its Global 500 Roll of Honour. We have supported Landcare Australia for over a decade with over \$20 million in community, environmental and Landcare projects. Our 20-year partnership with Greening Australia has resulted in the planting of over 10 million trees and rehabilitation of thousands of hectares of degraded land.

Community and stakeholder engagement is a key element of Alcoa's sustainable strategy. We have established community consultative networks at each of our locations in Victoria and Western Australia. These foster ongoing two-way communication and consultation with the communities in which Alcoa operates. We also work closely with local communities on our growth projects to ensure that we meet community expectations and maximise opportunities for local jobs and businesses. Under the banner of Partnering Stronger Communities, Alcoa has formed partnerships to support and strengthen those communities. Each year we provide \$12 million in community sponsorships and partnerships, which include our community based training and apprenticeship programs.

An example of a partnership that brings together Alcoa values and community benefits is our support for the KIDS Foundation, the Kids in Dangerous Situations Foundation. The KIDS Foundation is dedicated to childhood injury prevention and recovery. The Alcoa Foundation will be providing \$US250,000 over three years to roll out the KIDS safety clubs to schools in our communities. In addition, our Point Henry smelter and rolling mill is providing \$1,500 every week that we go injury free to this program. It is a great way to promote our safety values with employees, and we are planning to introduce this program to all other sites. It is efforts like these that have led Alcoa to being named as one of the world's most sustainable corporations at the World Economic Forum in Switzerland and one of *Fortune's* world's most admired companies.

We need to acknowledge, however, that despite our best efforts there are areas where we fall short of the targets that we set for ourselves and that the community expects of us. Our approach in such situations is to be accountable and work hard to address those issues. We are strongly committed to ensuring that the company fulfils our social responsibilities and that our social

contribution is a meaningful one. The aluminium industry is in the midst of global transformation, and this growth makes for a once-in-a-generation opportunity for us in Australia. However, it is only by meeting our social responsibilities that we believe we can maintain our community licence to operate and therefore continue to grow in our country.

**CHAIRMAN**—Thanks, Mr Horne. On page 1 of your submission, you say:

Alcoa's Values and Principles require Alcoa to meet the highest standards of corporate behaviour in all aspects of business.

How do these values and principles shape your corporate responsibility activities? In particular, are there any examples you can give as to how they have influenced or changed Alcoa's business practices?

**Mr Horne**—That is a difficult question. The values and principles are a written document which you can be measured against, and we are measured against those by our internal audit. But it is more powerful than that in that it sets the culture of the organisation. You could not be successful as a leader of one of our operations today if your financial results were outstanding but you had not met those social responsibilities. I could be very sure in saying that all of our Australian operations will be markedly different than they were 10 years ago because of the publication of those and the measurement against them, and we are measured against them.

**CHAIRMAN**—You also indicate in your submission that Alcoa's 'management remuneration includes a component directly linked to specific community, market, environmental, health and safety targets'. Firstly, what proportion or component of an executive's variable remuneration does that aspect make up, and how far down the management or employee chain do such aspects of remuneration go? Secondly, have those incentives actually changed management's approach and behaviour in practice?

**Mr Horne**—Absolutely. We are a multinational company, so we are multi-layered, much to our chagrin. But if we work from our most important employees, our blue-collar employees, many of the incentive schemes that we have with them will have a matrix approach which will have environmental health and safety targets in them. If they fail to meet those targets then the productivity or bonus scheme will not necessarily pay. The program that is mentioned in the submission kicks in at two levels higher than that—not front line supervisors but their supervisors; it is at the supervisor or superintendent level. The incentive compensation portion is between two and five per cent at that level, ranging to above 30 per cent the higher the individual works in the organisation. So that makes up a higher proportion of income the higher one is in the organisation.

**CHAIRMAN**—And has this actually changed managers' approach in practice—

**Mr Horne**—Absolutely.

**CHAIRMAN**—or do they simply pay heed to it because it is presented to them as a target linked to their remuneration?

**Mr Horne**—I am not qualified to dissect the motivation. What I do know is that it changes behaviour. Whether it is a case of ‘I’m simply doing what I need to do because those are the targets that have been set’ or whether it also fires up an intrinsic motivation to do ‘a better job for everybody around me’—I would hope it was the second—it is probably a combination of both. But it does change behaviour.

**Ms Russell-Brown**—I think the recognition and reward goes beyond just the financial, in that there is quite a bit of celebration within the organisation whenever those targets are met, so there is very much a sense of being acknowledged within the company for meeting those targets.

**Senator WONG**—Thank you for your submission and for your opening statement, Mr Horne. I want to go to one of the more controversial issues, the aluminium sector’s greenhouse gas emissions, which is obviously an issue that gets some community attention. I do not particularly want to go into the technicalities of that, but one of the things you said in your opening statement was, ‘There are times when we do not meet community expectations and you have to address that.’ I cannot recall quite what you said. I am interested in that. What happens if Alcoa’s views around what its targets ought be, in whatever area—this is obviously one of a number of areas—do not accord with community expectations? How do you manage that; what do you do?

**Mr Horne**—I understand—

**Senator WONG**—Without getting into an argument about what those targets should be. I am more interested in what happens internally. For example, if you say, ‘Okay, we as a company try to do the right thing; we try to set a range of targets’—that is probably not a good term in this context because everybody gets worried about what that means—or objectives around various social, environmental and economic community factors, what happens if there is conflict around those?

**Mr Horne**—I understand the sustainability principles of combining all three of those factors. But combining all three is a very difficult message to get through to 7,500 people, so we still segregate them in our communication. I think you can look at the segregation in the management structure and process. With finance, it is clearly auditable: there are a set of standards that you must meet. Greenhouse, to me, falls in environmental, and I do not think anybody has any second thoughts about environmental issues as important as greenhouse gas, water or any other emissions being environmentally legislated. Our aim is to never meet the legislation but always pass it. So, if greenhouse gas emission levels are legislated, we will meet them whatever that takes. In fact, we will go past them. We have had 40 years of great success in environmental management by never waiting for the legislation.

With social factors it is much more difficult to legislate the precise right answer for either our company or for industry. I believe very strongly that those agreements need to be made between the communities in which we operate and the company involved. Whether that is a very big company or a very small company, if the company wants the licence to operate today, it has to work with the community in which it is engaged. The difficulty I think industry and our company would have would be if people many miles away, perhaps thousands of kilometres away, started telling communities and companies what was the best arrangement for that community and that company.

**Senator WONG**—I am not sure what you mean—whether you are suggesting Canberra bureaucrats or government does not have a role in suggesting what targets should be.

**Mr Horne**—No. I should have made that clearer. I think today government will always have a role in what it chooses. Newspapers, media and small groups of people who have more influence than groups of people close to the operation are more of a worry, I think, for both those communities and companies.

**Senator WONG**—What do you think is the greatest sustainability challenge facing your company at the moment?

**Mr Horne**—It is probably having the wisdom to listen to communities and supply what communities want rather than what we or others may think they want. That is the challenge. The challenge is to deliver what the community needs, not what white-collar people or committees think they need.

**Senator WONG**—How do you define the community?

**Mr Horne**—I define the community in a number of ways. In fact, in our submission we talk about community consultative networks. They are the people closest to us, within 20 and 30 kilometres. Then, of course, there is the state of Western Australia and the nation of Australia. We have to listen to all of those, but we cannot get swamped and not listen to the people who are close to us.

**Senator WONG**—But on issues like greenhouse emissions, the community affected is obviously far larger than those people who are actually in the location.

**Mr Horne**—Absolutely.

**Mr Goh**—I want to add something on greenhouse emissions. Alcoa and the aluminium industry are already going beyond compliance in terms of reducing greenhouse emissions. There are two issues for our industry. Energy comprises 35 per cent of the cost of producing aluminium, so it is in our business interests to reduce energy usage and greenhouse emissions, but it is also more of a long-term thing. We understand the sustainability issues relating to greenhouse. That is something that we have been working on in Australia and also as part of the wider global industry to try and address. We have reduced greenhouse emission intensity. For every kilogram or tonne of aluminium we are producing we are reducing carbon emissions. We are doing so through energy efficiency and also through a range of other measures. I guess that is something that we have to put out to the community—we are doing something on greenhouse but we do understand it is a long-term issue.

**Senator WONG**—It was put to me by someone that some industries, and yours amongst them, were suggesting that a better depreciation regime to assist in the uptake of new technologies so as to reduce emissions was a good thing. If that is something you would like to tell us about, you might want to take that notice. If it is not something you want to speak about, that is fine.

**Mr Goh**—Thank you.

**CHAIRMAN**—You refer in your submission to the company's commitment to various codes of practice agreements, including the Minerals Industry code for Environmental Management. Firstly, have you found it valuable to participate in those codes and, secondly, how effective are such measures in preventing potentially damaging behaviour by one or a small group of company officers or employees? In your view, to what extent do such measures provide a foolproof guard against poor corporate behaviour?

**Mr Horne**—I do not think they are particularly effective at foolproofing. I think they are particularly effective at roadmapping to better performance. I think they are a way for rapid transfer of best practice and best technology, and that leads many people who would struggle to find the best way forward to go forward much quicker. I think the ultimate answer on the safeguard is: perhaps if they were not going to use it they would not sign up to it in the first place.

**CHAIRMAN**—Can you tell me whether your ethics and compliance hotline has made Alcoa employees more willing to speak up about practices they might perceive as violating the company's code of conduct? Also, can you give us some examples of what types of issues get raised on the hotline?

**Mr Horne**—It seems to be a volatile mix between free access to the CEO and the Australian culture of not necessarily being intimidated by anybody. The hotline gets a reasonable level of use on myriad issues. I would not quote the number, but there is a very low percentage, perhaps one or two per cent—and every one is fully investigated—that actually has some legitimate credence in the complaint. And, therefore, it is worth it. It is worth us investigating every single one to find one or two. But it certainly makes people feel more empowered. Every employee has access to a PC or a telephone. They can be in contact with the CEO instantly on any of those complaints. When I say the hotline has reasonable levels of use, in Western Australia it is probably one or two, maybe three, calls a month, straight to the top of the organisation.

**CHAIRMAN**—You claim a very low staff turnover. Have you done any analysis to see whether there is and, if so, what might be the link between that and the company's corporate responsibility activities?

**Mr Horne**—We have not studied it, although we have done a number of employee surveys where we have tested whether people are aligned and believe what we tell them. I think it is a contributor. It is a company that most people who work for us can be reasonably proud of. I think that is a great motivation for Australians. Having said that, we are very well geographically located, so we attract quite often mature—or, at least, experienced—employees who would like to spend the 15 or 20 years at the end of their career living in Perth or Mandurah and still working in a major resource province rather than necessarily spending that time in the far reaches of Australian mining. So, where those two mix, I am not sure that we know statistically. We do know that people are engaged with what we are doing and are reasonably proud of those efforts.

**CHAIRMAN**—What is the main source of your commitment to corporate responsibility and sustainability? Does it come from the investment community, particularly institutional investors, or from employees, community groups or government?



**Mr Horne**—No. I think it came from a CEO two CEOs ago. He fearlessly led the health and safety campaign with such passion and personal commitment that you could not help but lift. He had that ball rolling and immediately swung to environmental. That was rolling, and the whole social context just got caught up. No, I think it was leadership led.

**CHAIRMAN**—So it was internally generated by the leadership.

**Mr Horne**—Absolutely. Sustainability roles and all those things are very important today, but this company is not new to this. Without covering ground that is covered in our submission, it is quite wrong for people to say that sustainability strategies have prompted a huge amount of activity. The resource sector, certainly in this state and in this company across the world, is 20 and 30 years old. In fact, the Alcoa foundation is 52 years old. It exists for no other reason than sustainability.

**Senator MURRAY**—That is an interesting remark. The other night I saw the excellent Clooney political film *Goodnight, and Good Luck*, which is about the early fifties in the last century. Alcoa was the sponsor of the American CBS organisation, which ran the Murrow campaign against McCarthyism, so there was a bit of corporate responsibility way back then.

**Mr Horne**—I would not guess at the motivation.

**Senator MURRAY**—You do make a legitimate point, that corporations need to tell their story and for it to be a credible story. With new entrants into the world of public policy or community activism, people are more likely to be responsive to an organisation which has a credible history. I think in some respects the reaction of Alcoa was built on self-interest, and I do not mean that in the worst sense. It would be bad business for you not to have attended to the public health and safety issues about which the people of Western Australia, for instance, were concerned. I think that is an automatic consequence of doing business. I am more interested in those which are more at arm's length. For instance, Indigenous employment or greenhouse gases do not have the immediacy that a noxious emission on your local village would have. What drives a corporation to take that bigger view, that world view or that world citizens view?

**Mr Horne**—I think your summary is very accurate. That is business today if you want reasonable approvals or if you do not want stringent conditions. If you want projects in Africa you need to be able to bring an African delegation here and show it how you have done business here. We do that constantly. We constantly open doors in other parts of the world by showing such people our performance here. It is enlightened self-interest and it is about us continuing to build our business, but to build our business today we have to do good work on all of those fronts. Fifty, 60 or 80 years ago, that was not needed; that was not required by the business environment. Today it is. I think it is a great competitive edge. The companies that I deal with—my own company, Alcoa, and the companies in the various chambers—jealously guard their ability for this because it is a competitive advantage not only in this country but across the globe.

**Senator MURRAY**—I am one of those who have been very impressed by the mining sector's reaction to the environmental pressures of 20 years ago: they really did lift their game. The result is that they created expertise in areas in which they never had any before. Take, for instance, the measurement of environmentally detrimental uses and the development of environmental experts, people who are expert in land reclamation or species preservation—all sorts of things

you would not expect in a resource company. Have you found this in your own company with the introduction of people with expertise in, for instance, renewable energy—because energy is such a big issue for you—or solid and liquid waste? Has that happened?

**Mr Horne**—Absolutely. As for those two examples, clearly they are headline issues today. But I can give much more subtle examples. We now have resident experts in salinity. Salinity is not a big issue in our particular environment but we got involved in Landcare in Western Australia with land that is largely salt laden. We wanted to make sure that the community based activities were very successful so we needed some expertise and an expert to help us. There was not going to be one in Tammin. Each community was not going to have a salinity expert. We gained the experts but we used them to help us as well and now our own knowledge of salt in the Darling Range is much more advanced. Take the study of dieback. I can honestly say we have got probably two or three world leading experts working for us. They share their knowledge with all the rest of the technical community. But we do not want to sit on the regulations. We want to be a number of steps in front of the regulations and therefore we will hire and attract the best minds to take us there.

**Senator MURRAY**—I am not a pessimist in this area. Neither do I believe you need to step back—as a government community or as a business community—from what has been happening. My perception of business community activity 30 years ago is that it was superficial: sponsorship of things at the chief executive's discretion and 'being a jolly good chap'. Now it seems to me that these sorts of things we are discussing are integrated into a corporation's language. You pay good money to employ people who are capable of that, there is a long-term commitment and it becomes part of the natural psyche. But yours is a highly profitable business. Do you think if tough times came—and I do not expect them to come—this would be the first area to suffer?

**Mr Horne**—I think it is the single strongest banner Alcoa could wave: that during the tough times—and we have had tough times; in the seventies and eighties they were very tough times in this industry—this was the area that we worked hardest on and did not cut. There was the environmental research and development in the seventies and eighties, when because of the alumina price this organisation did not return a dividend for its first 25 years in existence. They were the same 25 years that placed us where we are today, because people had the foresight to see that this was going to be essential. It is essential; it is not being 'a jolly good fellow' at all. It is good business, and we did good business for 25 years during tough years. Now I think we are reaping the benefits. I think my generation of leadership is indebted to the people of 25 years ago. They had the foresight to spend the money at the right time; we just continue to do it now.

**Senator MURRAY**—As a Western Australian, I am aware that you have moments of great controversy in your corporate life. There has been media, political and public commentary about negative sides to your business. What is the effect of that on the psyche of people who are trying to invest more and improve your corporate responsibility relationships? Do you end up being defensive and say, 'Well, sod them; we won't put any more money into it because it is having no effect,' or do people recognise it as legitimate? Do you feel it is unfair? What is the psychological impact on the corporate mentality?

**Mr Horne**—If I could poll the 3,600 people, I would get every one of those reactions a number of times. Our workforce is extremely defensive and is someone critical of us for not

launching a stinging rebuttal to every comment. They would like full-page ads and television programs because—I said before that they are proud of who they work for—their pride is being damaged. At a corporate level, I think we have taken accountability for not handling it as well as we should have. I am talking about the perceptions and concerns of people, rather than any physical activity. It was that we did not handle the contextual issues well. We have to wear the account for that and we have to take the time and trouble to repair it. We think we have largely done that. There is a small group of people to whom we have not conveyed our sorrow at the event that took place, and nor have we convinced them that it is worth going forward with us. That is work in hand for us.

So all of those emotions exist, except we have not cut spending, we have not said we will withdraw from the marketplace, we continue to support Landcare, we continue to train people and we continue to work in the community as energetically as possible. The other reaction was also available: ‘Why don’t we go out and flood the place with money and gifts, and see if we can’t buy our way out of this?’ We did not take that option, either. If you look at our spend, it is very consistent.

**Senator MURRAY**—I think corporations like yours have a penchant for causing an extreme reaction in a small group of people who may have been, very legitimately, affected. Although Greenhouse is a big issue, the level of anger and emotion to be expressed towards Alcoa is likely to be generalised and will dissipate compared to when somebody feels that their personal health or their children’s health has been harmed. That is very much a personal issue. I want to give you this analogy. Some of the churches have had rings of paedophiles. A minority of priests have conducted themselves in a way which is just awful for the institution as a whole—which is dedicated to good works and to good missions. Some of the churches have dealt with this very badly. They have tried to buy people off, or they have run a public relations smokescreen and so on. But others have said, ‘Here is a problem. We are going to dedicate a special unit to it. We are going to apologise to everybody. We are going to deal with it face to face. We are going to make a long-term commitment.’

Do you think corporations such as yours, which have a small group of individuals traumatised by a particular circumstance, who have that trauma mentality, need to have a unit which is dedicated to fixing a past problem—because these are past problems—so that the corporation can move on? The churches should be able to move on, in the analogy I have offered.

**Mr Horne**—It is a difficult analogy. There are two things we need to do, and I think we are doing them. We are addressing both of them. Firstly, there is the true content of the concern. That is science. It is very difficult science, but it is science. We need to spend whatever we need to spend to measure it and control it and reduce it. We were doing that the whole trip and we will need to do that out into the future on greenhouse and many other things. The community is becoming much more aware of many things that could be harmful. The issue for us, in particular, with Wagerup was that we did not manage the outrage. We did not manage this deeply personal emotion of ‘You might be harming me or my child.’ We did not understand as a corporation how to manage that outrage. We tried to manage it with science, but science is not an answer to that—

**Senator MURRAY**—Because it is emotional.

**Mr Horne**—Because it is emotional. We can talk in parts per million or parts per billion. People will see it and say, ‘I don’t want any part. You keep saying ‘part’. We don’t want a part. You can quote world health standards, you can quote Australian health standards. I want to know that my child is not at risk. Tell me that.’ So we just did not manage the outrage. If we needed a special unit, the unit would have been to deal with the outrage, deal with the emotion, deal with the ‘people feeling’ while we were working on the science. We continued to work on the science and the outrage grew on us to the point where it was not manageable for a long period of time.

I have a number of roles. One of those roles is I am President of the Chamber of Minerals and Energy. We have shared this learning with many of our competitors. The resource industry does not need another Wagerup. If we get anybody else who has this sort of outrage, we need to manage it much more humanely, much more immediately than the typical corporate response, which is ‘Let’s do a study. We will work out the right solution. We will get there.’ That is not the right answer for outrage.

**Senator MURRAY**—I used the example of churches deliberately because, particularly in the early days, many of them were advised to deal with the matter legally and legalistically: ‘Don’t acknowledge liability; restrict the monetary compensation,’ and so on; all that did was just inflame emotion. We are talking together because you happen to be the witness, but there are many other companies which have had this problem: motor vehicle manufacturers that have had a defective part and have killed people, or alcohol companies, because you get a minority of people who abuse the product, and so on.

Within the whole issue of corporate responsibility and the response to deleterious consequences for a minority of customers is the question of whether the modern company, the large corporation, is equipping itself to deal with this at various levels. How do you train the modern executive and the modern board to look at things not purely through the prism of law or cost but also through the prism of emotion? A community’s response to the negative side of your business is, I think, mostly emotional; it is less about money, it is less about law.

**Mr Horne**—I totally agree and I think that the major mining houses in Western Australia totally agree with you as well.

**Senator MURRAY**—I am interested in how it arrives at that understanding. How do you get that into the corporate culture, given the weaknesses of human beings?

**Mr Horne**—I think it is primarily through leadership and, secondly, through writing down the values and principles and measuring how your executives live up to them. Nothing leads people more strongly than behaviour. If we have got a kiln that people are uncomfortable with, and we monitor it and say, ‘It seems okay to us,’ but they continue to say that they are uncomfortable with it, we shut the kiln until we can address that problem. That leadership, that behaviour, convinces the people who work for us that we care, and then they care. I think you will find numbers of examples of that, not only in our organisation but in others.

**Senator MURRAY**—We have five universities, I think, in this city. Only one of them has basic courses that every single student must do. That one is the Catholic University of Notre Dame, although not only Catholics go there, as you know, but the full spectrum of the community. One of the courses that they require everybody to do is ethics. In this city we have

been churning out lawyers for a century, and they did not have ethics as a part of their basic training. There are monetary values but there are also ethical values. Does your company consciously try and incorporate ethical values?

**Mr Horne**—Absolutely. And we train staff in them.

**Senator MURRAY**—Formally?

**Mr Horne**—Formally. It is computer based training—a terrible way to do it, so I apologise. I get sent a computer file which challenges me to answer a number of questions. I read some case studies. It challenges me to answer a number of questions. If I answer the question incorrectly it rejects me; if I do not answer the questions at all, that is reported to the CEO. I have to read the case studies; I have to understand the contents; I have to answer the questions correctly. Does it ensure my behaviour changes? No, it does not. But it certainly sends a very powerful signal about what the bosses' bosses' boss thinks is important and is asking us to do. That training, both in ethics and compliance, is taken all the way through the leadership ranks on an ongoing basis.

**CHAIRMAN**—What framework does the company use for preparing its sustainability reports?

**Mr Goh**—We have been preparing sustainability reports for a number of years. It used to be a purely EHS report—environment, health and safety—but in 2002-03 we launched a new report which also includes social issues and community issues, in addition to all of the above, and economic issues.

Our situation in Australia is a bit unique because we have a parent company that is based in the US. Alcoa Inc., the global company, prepares its own sustainability report and it uses the global reporting initiative template. In Australia we are still learning by experience. We have been finding that some of the issues contained in the GRI need not necessarily be the best way we can engage our local communities in Australia, so we are still in a constant learning process to see what fits best. I am not sure if that answers the question, but that is the framework that we have been continuously trying to learn, and relearn as well.

**CHAIRMAN**—So you have some concerns about the global reporting initiative framework?

**Mr Goh**—It is not so much concerns as it is about trying to find the best model we can use at a local level to engage the stakeholders that we need to engage—that is our local communities, government and so on. There is still an ongoing discussion within the company on how we can best do these things. It is still a learning experience for us.

**CHAIRMAN**—What is the company's position on external audit of sustainability reports?

**Mr Goh**—We do not use external auditors in Australia. Our experience is that all of the data that we include in the sustainability report has to be rigorously checked all of the way up, ultimately to the managing director. So a line person provides it, that has to be ticked off by a supervisor and that has to be ticked off by his supervisor, all the way up to the managing director. Using the internal processes has produced a degree of rigour so we can be confident with that information. Of course, it is a big organisation. Sometimes you ask three different

people the same thing and you get three different answers, especially when it comes to numbers. That is a problem that I think all organisations have. But we have found that the process has worked to date without requiring an external audit.

**CHAIRMAN**—Given the absence of a standard reporting framework for sustainability, how seriously do you think the capital markets in Australia take the information that is provided by those companies that report voluntarily?

**Mr Horne**—I do not think the question pertains largely to us. We are New York based and listed. Trade in our shares in Australia is quite minimal. In a generic sense, certainly in this town, companies that are thinking of floating or raising equity pay that part of their prospectus good heed, but I am not really in a position to say how the capital market view it.

**CHAIRMAN**—From what you have said, I take it that the company's directors take an expansive view of directors' duties in relation to the interests of shareholders and other stakeholders. Has there ever been a challenge that the directors have had to face in perhaps making a choice between the interests of one or two over the others in that group of shareholders, employees, communities?

**Mr Horne**—I am sorry, I am not in a position to know that fact.

**CHAIRMAN**—Do you have a view on the proposal by Chartered Secretaries Australia in their submission to us that the inclusion of a replaceable rule would be one way of enhancing sustainability and sustainability reporting, to the effect that there would be a clause in a company constitution to permit directors to take account of the interests of stakeholders other than shareholders?

**Mr Horne**—I am not aware of the submission but I think I probably understand the intent. My answer is that good directors in good companies do not require it; it is part of their role currently.

**CHAIRMAN**—Would you see a danger in that becoming a quasi mandatory rule if it was introduced?

**Mr Horne**—The question of legislation or at least regulation in this area is vexed. I and Alcoa see this as competitive. You do not want to set a standard where everybody can rest, as long as we are meeting the standard. Today it is the competition for best reputation, for capital, for right to operate and for what I will describe—because I use the words 'government favour' carefully—as 'government support'. You want us to be innovative. You want us to be searching for the next bar, not looking behind us saying, 'Well, at least we passed that one; we can rest.' I think that is a generic position that our industry and our company would take.

**CHAIRMAN**—Is there anything more that the federal government should be doing to promote corporate social responsibility?

**Mr Horne**—The thing that we all struggle with a little is telling people what we already do, and there is a risk for corporations to do that. I think there is a role for government to encourage others by demonstrating great case studies. And there are great case studies, in not only our

company but others and not only our industry but others. Australia cringes a little from promoting vigorously when we think we are world's best practice and therefore it does not get spread around as quickly or as efficiently as it could. That may be a role for government, for you, to consider.

**Senator MURRAY**—We boast about our sportsmen but not our scientists.

**Mr Horne**—Exactly.

**CHAIRMAN**—Can you comment, from your experience in your role with Alcoa, on the influence that institutional and retail investment interests have in encouraging sustainable business practice and perhaps, if you like, the ethical investment industry.

**Mr Horne**—It is not an area of my expertise. My only comment would be that we do many analysts tours of our location and they do ask a lot of questions on sustainability and corporate governance. You can impress them with profit, but they already know that. They can read and count. They want to know how we are doing the other side of the business. If you have not got a good story to tell, I imagine it is a very long tour.

**CHAIRMAN**—Have you done any cost-benefit analyses of your CSR activities?

**Mr Horne**—The short answer is no, but we know that they are working well.

**CHAIRMAN**—So you would be surprised by the academic study that I referred to earlier that has just been done in the UK which said that those who rated most highly on CSR rated the lowest in terms of investor return?

**Mr Horne**—If you did it in Western Australia today you would probably find that Rio, BHP, Alcoa, Alinta, Woodside and BP—I will stop the list because I will forget somebody—would be very surprised to see it, because I think we would claim to be at the top of corporate responsibility. Not that we are making too much money, but we are certainly doing okay just at the moment. We are not into tax debate here, are we?

**CHAIRMAN**—No. As there are no further questions, thank you for appearing before the committee and for your assistance with our inquiry. It has been very valuable.

**Proceedings suspended from 1.13 pm to 1.57 pm**

**McCABE, Dr Margaret Mary, Director, Corporate Programs, Governance and Corporate Social Responsibility Research Unit, Curtin Business School**

**NOWAK, Professor Margaret Jennifer, Research Director, Governance and Corporate Social Responsibility Research Unit, Curtin Business School**

**RATH, Dr Subhrendu, Associate Professor, School of Economics and Finance, Curtin University of Technology**

**CHAIRMAN**—I welcome representatives from the Governance and Corporate Social Responsibility Research Unit at the Curtin Business School, Curtin University of Technology. The committee has before it your written submission, which we have numbered 128. Are there any alterations or additions you wish to make to the written submission?

**Prof. Nowak**—Nothing material.

**CHAIRMAN**—I invite you to proceed to a brief opening statement, at the conclusion of which we will have questions.

**Prof. Nowak**—I will start by saying that we do acknowledge that there is some good work being done in corporate Australia in the area of corporate social responsibility and sustainability. However, we also argue that, for a number of reasons I will outline, the system is currently flawed in relation to the way in which it pushes companies to do so. In particular, the argument at the moment is largely based on the fact that it is good for business to take into account corporate social responsibility and sustainability.

However, the good for business argument does fall down when we start to look at some of the other pushes that are operating on the corporate sector and, in particular, the very short-term nature of many of the systems that are operating within that sector. I refer in particular to the short-term nature of much of what is pushing the way in which both CEOs and boards are being remunerated. We would argue that another factor is the short-term contracts of many CEOs and those in other executive positions. That means that even the good for business argument does not really stand up to scrutiny because the other forces that are pushing corporations do not support that good for business argument.

We argue that we would like to see a statement about corporate social responsibility in the Corporations Act. Interestingly, we find that this does not run counter to what many company directors, if questioned closely about what they believe corporate governance is about, will tell you. In relation to that, I would like to quote the definition in use, which resulted from a very substantial research project that Dr McCabe did. The definition in use that came out of that work is:

... corporate governance is ... the ongoing independent exercising of professional judgement ... by the board as custodian of the company's assets ... in the best interests of a variety of stakeholders including shareholders, employees, customers ... with a commitment to demonstrate integrity, responsibility and accountability.



I think it is important to note that stakeholders do get a mention in that definition. The other thing that is important to note is that in really good corporate governance the directors are really pushing the importance of integrity, responsibility and accountability.

The sort of approach that we sometimes see championed which gives the shareholder pre-eminence in corporate governance really follows from two things. It follows from our Corporations Law. It also follows from a very restricted view in the community of what business is. Probably the best quote that one can put on that came from Milton Friedman, way back in the seventies. He argued that the 'business of business is to make profits'. You will notice that there is nothing in that statement about how you make profits. The real problem that one comes across is that you can make profits in an amoral way rather than in a moral way. It is very important to recognise that, in doing that, one then creates problems within the rest of the community in the way in which business is given its right to operate. I think we have to move away from the view that the business of business is solely to make profits. We have to view business within the community, because it has been given a right to operate within the community.

We argue for stakeholders to be included as one of the elements within the Corporations Act. We are not necessarily arguing, however, that this requires continued strong regulation of the sort of reporting that has to be done in relation to stakeholders. In pushing that argument, I go to some work we have done in Austria, where in fact stakeholders are automatically included as part of the responsibility of business. It is interesting to note there that there is not the same push for what is often called here black-letter law and for really heavy responsibilities in terms of reporting and accountability. The argument there seems to be that business is actually much more responsible to its stakeholders because it knows that it has to be and that there is a community of interest there. One thing that is different about Austria is that their boards do have employees on them. That is one of the elements of ensuring responsibility to stakeholders. But there seems to be a totally different climate, and our research suggests that that is a cultural issue, that you have to change culture to get that responsibility. So we would argue that you can have stakeholders there and make the CEO responsible, as part of their performance, for looking after the stakeholder interests without having heavy responsibilities in relation to the need for onerous reporting.

The final argument we use in response to these issues is that, if you look at the way in which our corporate law is drawn up, it represents the property rights of only one set of individuals, and that is the shareholders. The directors have a duty to the shareholders. There is nothing comparable about duties to other elements of the community. So what we have is a situation where the property rights of shareholders are fully looked after in corporate law but the property rights of other stakeholders are just incompletely specified. Instead of having them in corporate law, what we end up with is that every time there is a problem or an issue we have law outside of corporate law which then provides for further regulations which companies have to look to. So you might have occupational health and safety law or environmental law—all of these types of laws—looking after the property rights of individuals other than the shareholder. Our argument is that if you put stakeholders into the Corporations Law then in the longer term and with the cultural changes that we would hope would result we will reduce the need for heavy regulation outside corporate law to look after the interests of stakeholders who currently are not being considered within the corporate law.

That is probably all I want to say, except to add to the argument that we do think that one of the issues that currently is making for short-termism in corporations and therefore means that even the ‘good for business’ argument is not always being considered appropriately when looking at sustainability is this whole range of issues around the remuneration of executives and the length of their contracts. Subhrendu has some views in relation to that particular issue, but one of the pieces of research we have done also suggests that where you make remuneration issues longer term, such as those relating to the ownership of equity with strict provisions about trading that equity, then the measures that we have of longer term returns to shareholders, such as economic value added, show that holding of equity is positively related to economic value added increases and that it is much more positively related than it is to other types of remuneration packages. So we would argue that remuneration is one of the issues here as well.

**CHAIRMAN**—Thanks very much, Professor Nowak. Do your colleagues have anything to add as part of the opening statement or are you happy to move to questions?

**Prof. Nowak**—We are happy to go to questions.

**CHAIRMAN**—I will start with, for want of a better term, ‘short-termism’. You attribute a lack of corporate responsibility to the short-term nature of executive tenure and remuneration incentives. Hasn’t that also been a problem for long-term shareholder value as well as corporate responsibility issues?

**Prof. Nowak**—I would argue that that is the case as well. In fact, I make the statement in the submission that long-term shareholder value is also damaged by the short-termism of some of the current incentives.

**CHAIRMAN**—Would you accept that that has been recognised in recent years and that there have been some changes to remuneration packages to encourage a longer term view?

**Dr Rath**—Yes, there has been. Most noticeably, the movement away from solely granting stock options towards shares and so on is the right direction in terms of avoiding certain incentives. I would also agree with Margaret with regard to the behaviour of the corporate managers in terms of their independence from the board or vice versa. I believe that the corporate boards bear a very large responsibility framework. We are looking at corporate responsibility, and the responsibility ultimately lies with the boards of directors. These boards are not sufficiently independent of the executives to be able to exercise their responsibility. A lot of times the CEO or influential executives have the board members under their control. That has resulted—at least, in the past—in behaviours which are not ethical or responsible. So some focus should be made on the relationship between the executive and the board, where the board does take a bit of an adversarial role, when it matters, with the CEO actions.

**Prof. Nowak**—I would like to add to what Subhrendu said. I think it was interesting to see how boards responded to the latest round of meetings when shareholders had the right to look at executive packages. A lot of the discussion in the financial press was very much that boards did not like this questioning to occur and at times were getting quite angry and anxious about that sort of questioning, and certainly were not accepting that questioning to any degree. I think that is an interesting indicator that maybe we still have not made this move yet to a real consideration of what the remuneration package should be signalling to managers.

I also think that the very short-term nature of many CEO packages in Australia—three years but usually a five-year maximum—is a contributor to this. Structuring a package which gives long-term considerations—10 or 15 years in some instances—is not helped by the fact that the CEO knows that they will not be around when things hit the fan later on. I think that is an important issue. I would contrast that with at least some of the instances I saw in my research in Austria, where CEOs expected to be there for a considerable period and were seeing themselves as responsible for growing their organisations over a longer period of time. None of these things can be taken as being true of all cases. It is really more a case of a tendency in that direction.

**CHAIRMAN**—Is this, in a sense, a conundrum of tenure, in that, to keep executives accountable to stakeholders, they probably tend to be given relatively short-term contracts—

**Prof. Nowak**—I would argue that, much as I would say to a manager if they wanted short-term tenure to make sure that their employees were doing the right thing, that it is a failure of will on the part of the board. The board is responsible to ensure that the manager, the CEO, the senior executive group are performing. Tenure is a very weak way of ensuring that they are performing. There are other ways to ensure performance, and those other ways include being very clear about performance requirements and about the fact that you can sack them. It is not a case of sadly saying goodbye to them at the end of their tenure—you can sack them. In Austria, that was seen as the major role of the board. They said, ‘If the CEO is not performing, we will get rid of him’—or her. I think it is a failure of will on the part of boards that see tenure to be a way of looking after that performance arrangement.

**CHAIRMAN**—Do you have any specific proposals with regard to remuneration that would overcome this problem?

**Dr Rath**—I would like to make one. A lot of the time, the board has the CEO or most of the executives, or some representative of the executives, involved in the design of their compensation package. I think that should be left to the board to do on their own and then present it to the executives for acceptance or rejection. The CEO should not be influencing at all the way the board goes about compensating the managers. That is the key argument I would make in terms of making the compensation side of the thing independent from the CEO.

The other aspect is that, with some of the unethical behaviour—or in some cases illegal behaviour—some of the board members would perhaps know. They would perhaps see something, and it may not look illegal but they sense that something is wrong. In a lot of these cases they are not strong enough, or they do not have the incentive structure, to say, ‘No, we should not do this.’ A lot of the time these board members are appointed by the CEOs, and a lot of the time there is a group network which operates which appoints these board members and which endangers the independence of the board. In our view, there should be some focus in corporation law to address the issue and that in some cases the board members should be able to say, independent of the CEO, that these actions are not in the best interests of the corporation. When we have a group of people—probably 10 or 15—there would be a fair sense of what is legal or illegal, ethical or unethical but, when it comes to a dominant person deciding what is right for the company and it gets carried through the board, that is where most of the irresponsible behaviour comes through.

**CHAIRMAN**—Thanks. You cite the Austrian example as being beneficial—that is how you see it. How do you justify that, given that the Austrian and German economies, and European economies generally, over the last decade have been regarded as performing poorly, and given that—one therefore assumes—the corporate components within those economies have been performing poorly? And one of the reasons given for that is this tripartite board structure, which has militated against reform in those countries.

**Prof. Nowak**—Yes, I believe that people have argued that. On the other hand, the German economy had that tripartite board structure throughout the postwar period and it was one of the leading growth economies over a large part of that period.

**CHAIRMAN**—Perhaps I should have prefaced my remarks by saying that perhaps in the 1950s and 1960s—

**Prof. Nowak**—And the 1970s and 1980s.

**CHAIRMAN**—it was regarded as an advanced model, but it has not kept pace with changing demands.

**Prof. Nowak**—Only in the 1990s have there been any problems. The same is not true of Austria. Austria is performing at the moment much better than Germany. My case study was not on Germany, so I do not know what is written into German corporate law. But I do know that stakeholders are written into the Austrian law and Austria's performance over the last 10 years has continued to be strong. That would be my argument. One would need to go further into that. It was a case study that looked at the climate and the way in which things were done within companies.

There are other reasons why Austria may be less well off than say America, including a lack of resources, a landlocked economy and a range of other things. But it is an interesting exemplar in this particular area and one of the countries in Europe that is always held up as one of those which are very socially responsible in terms of the environment and its social networks and communities. I would argue that that is an interesting case study.

**CHAIRMAN**—In your comments, you also referred to the corporation being given the right to operate in the community. Do you differentiate between that and, if you like, the right of the individual citizen to operate within the community?

**Senator WONG**—They get limited liability.

**CHAIRMAN**—That is in a financial sense.

**Senator WONG**—It is a pretty big advantage. That is the historical basis.

**Prof. Nowak**—One of the things that corporations get from the community is limited liability. That is one of the elements in the right to operate. The other element of the right to operate is that corporations and other businesses use community provided resources in their operations. The community does have an important stake in what our corporations do.

**CHAIRMAN**—When you talk about community provided resources, what do you mean?

**Prof. Nowak**—The community provides a range of resources. If you see the community as owning everything from its own labour to the infrastructure to the environment, then they provide a range of resources in that way.

**CHAIRMAN**—The community and individuals in the community use the infrastructure as well, and both the individuals and the corporations pay taxes that fund those sorts of facilities.

**Prof. Nowak**—That is correct.

**Dr Rath**—If I can elaborate on what Margaret is saying: individual property rights and corporation rights do not exist in a vacuum, in the sense that the activities of corporations impact on individuals in the community or the society. Some actions are taken without regard to an individual's concern. Even when those actions are completely separated from the individual's own sphere of influence, they can still have an impact on them. In that sense, we are referring to the fact that individuals, even though they are not part of the corporation, should have some say in what actions the corporations can take.

**CHAIRMAN**—Should that be covered by black-letter law, then?

**Dr Rath**—Not necessarily black-letter law, but there should be some recognition, which has been lacking in the past history of corporations, in the sense that we are arguing that there should be some kind of statement that they owe the community and should give something back. Perhaps that would be the first step in ensuring some kind of responsible behaviour.

**CHAIRMAN**—What is your view of the degree of permissiveness in directors' duties under the current Corporations Law? Some have argued that the existing Corporations Law is sufficiently permissive for directors to take into account stakeholders other than shareholders. Others have argued, particularly in the James Hardie case, that the Corporations Law is not sufficiently permissive to allow directors to take into account other stakeholders. Do you have a view on that?

**Prof. Nowak**—I am not a lawyer, but I would argue that at the very minimum the issues that had to be taken into account in the James Hardie case needed to be taken into account by the directors without their feeling that there was any possibility that they could be seen as not fulfilling their duties. There is merit in Ms Hellicar's argument that directors' duties should enable them to take into account the way in which their actions will affect stakeholders, and I believe that needs to be taken on board. Otherwise, you get instances where in fact shareholders could have challenged the board had they not decided to restructure the company in such a way as to diminish the property rights of people whose health had been damaged.

**CHAIRMAN**—Do you foresee instances where the interests of shareholders will be in conflict with the interests of other stakeholders? In that situation, how should directors resolve such a conflict?

**Prof. Nowak**—If you took the long-term view, of course, in the James Hardie case the interests of the shareholders and the stakeholders may well have been the same in the end. But in

fact the company did not take the long-term view; it took the shorter term view, and that supports our argument that the short-term view often overrides many of these interests. I am sure that, with hindsight, James Hardie might have done things a little bit differently. But if you take Meredith Hellicar's argument that one of the things that was in the minds of the directors was that they needed to do this restructure to protect shareholder value as they saw it at that time, then I think that gave them a rather lopsided view of the way in which they should be making their decision. I would argue that that lopsided view needs to be corrected.

**Senator MURRAY**—It also means that the cure is more expensive than the prevention.

**CHAIRMAN**—Given the absence in Australia currently of a standard reporting framework for corporate responsibility, how seriously do you think capital markets take the reports of those companies that do issue public reports on corporate responsibility issues?

**Prof. Nowak**—Subhrendu, do you have a view on that?

**Dr Rath**—Not very seriously, if you ask me. The capital markets especially do not regard statements of corporate responsibility as anything more than window-dressing—something to satisfy the 'flavour of the day' requirements, so to speak, rather than anything else. The capital markets simply look at the bottom line; that is what they look at.

**CHAIRMAN**—Would that change if a particular standard were adopted, such as the GRI?

**Dr Rath**—I am not so sure. It might change.

**Senator MURRAY**—Are you sure you are right on that? Surely capital markets take account of a risk appraisal strategy. This whole area is really about risk; it is not about nice-to-do stuff. There is a risk to you if you do not pay attention to public health and safety issues, environmental issues and so on.

**Dr Rath**—That is true. The markets do look at the risk, to the extent that if a company is involved in the asbestos business they look at the health implications of continuing to do that business. But I am referring solely to the impact of the statements or the requirements of making a statement. I do not think that the capital markets put much emphasis on the importance of those statements, other than making their own assessment of the liability or the risks of the particular business that a company is in. They make their own assessment of how that business sector is, rather than relying on the statements made by the companies that say, 'Yes, we are looking after this part.' I do not think they attach much importance to that.

**Senator WONG**—My first question is about your comments, Professor Nowak, on Meredith Hellicar's statements and, consequently, your suggestion in the submission as to at least a minimum level of change. Disparate views have been put to us on that obviously, including by those who might be advocates for corporate responsibility and for changes that facilitate that but who would suggest that that is not the correct analysis of the decision made by the Hardie board—that is, it is not a correct or accurate analysis to suggest that they did not go down the path that one might have hoped they would have because of this legal issue. I understand that Ms Hellicar's statements differ from that, but we have had a range of views on that. I do not know whether you want to comment.

**Prof. Nowak**—As I said, I am not a legal person. In making my statement I was only reflecting on the fact that it would be a possibility that people would reflect on those directors' duties issues. The stronger points I would want to make are in relation to the whole structure of the short-term nature of returns coupled, I think, with a failure of information. I notice that the issue of the GRI as a reporting framework is interesting, but even before that the reporting framework of companies to their boards is one which needs a lot of strengthening in itself. Work that we have done suggests that board members do not believe very often that they get the information that they require to make the sorts of decisions that they need to make.

One of my recommendations which I have not woven into this, but which I have put forward before, is a great strengthening of the ability for corporate boards to take advice from and to seek information outside of the corporation. This is regularly done in the US, where corporate boards are allowed to bring in their own advisors and people to do research for them. That is something that we should be looking for to strengthen the boards in a whole range of areas, from remuneration issues right through to ensuring that they think that they are getting the information that they need about the culture and the moral structure within the company. I know that audit committees provide some of this, but the internal audit function itself and the auditors can also fall over on those sorts of issues. I think the right to outside information gathering is quite important.

**Senator WONG**—I want to come briefly to the stakeholder issue and whatever structures you are suggesting. In the submission you say:

... we do argue for inclusion of a generalised statement of responsibility ... within the corporate law framework.

Are you suggesting a change specifically to directors' duties?

**Prof. Nowak**—Yes.

**Senator WONG**—The chairman asked you some questions about executive remuneration. I was interested to read in your submission that you say:

... an increase in the focus on equity in the organisation (with limitations on trading), as an element of ... compensation, provides a proven incentive for executives to focus on corporate sustainability.

I hope you are right. I do not know if you want to take this on notice but on what basis do you say it is proven?

**Prof. Nowak**—We are looking at the research on economic value added particularly, which gives a longer term view of the corporation. There is definite evidence that the longer term compensation package via equity does ensure that the individuals take into account the longer term.

**Senator WONG**—There is some discussion on that in the Kala paper, which you have attached to your submission, and also on EVA with Evans and Todesco.

**Prof. Nowak**—Yes, the Evans and Todesco paper has some information on the economic value added. I will see if there is anything further we can get for you on that.

**Senator WONG**—I would be interested particularly in getting a bit more empirical evidence on the executive remuneration proposition you make, if you are able to. I would appreciate that.

**Prof. Nowak**—Okay.

**Senator WONG**—The stakeholder boards, as I am sure you know, is not a proposition that would get the support of a lot of the companies that appear before us.

**Prof. Nowak**—I do recognise that, although it is interesting to look at what company directors were saying. They were actually saying in our research that company directors do have to take into account stakeholders.

**Senator WONG**—In most of the discussions I have had, certainly in the context of this committee, they seem to be saying: ‘We do this anyway. You don’t need to talk to us about it.’ I am oversimplifying their view. One of the comments made by a witness earlier today, Professor Peter Newman, who has been involved in the Western Australian sustainability strategy, said that a benefit to the strategy in particular sectors and companies in Western Australia—I am paraphrasing, so I may get it incorrect—was that essentially it gave them tools and information for engaging with stakeholders, how to go through that process of considering how community might respond to certain issues and how to deal with issues. It seems to me stakeholder boards are one example of how you might do that. It is one example of a structure you might put in place to inform yourself, but it is not necessarily the only one.

**Prof. Nowak**—I know Shann Turnbull has also talked about stakeholder boards. It depends on what responsibilities you give those stakeholder boards. We were arguing that it may be simpler just to put stakeholders as one of the directors’ responsibilities and then leave the board with the issue of ensuring that the executive group reported to it in relation to how it was meeting its responsibilities to stakeholders. That would be a simpler way of doing it. The stakeholder board is an interesting way and that has some similarities with what Austrian and a large part of European company law provides. It is another way of approaching it, and it is a way in which many government departments approach it—by having stakeholder groups that provide them with information about how they see the operation of the organisation.

**Senator MURRAY**—The statement of yours that the community essentially gives business a licence to operate explicitly brings to bear the social contract—the issues of reciprocal or mutual obligation—and therefore means that it is not a question as to whether there should be mutual obligation but of what are its boundaries or limits. That is correct, isn’t it?

**Prof. Nowak**—Yes, that is right.

**Senator MURRAY**—I think a major weakness in the assessment of this area is the belief that Corporations Law of all the stakeholders actually allows shareholders to be fully participant and represented. I do not think that is true. I think our structure is typically oligarchic, that it is a structure which favours shareholding, not shareholders, numerically. I think that in an era of mass market capitalism it has kind of extended itself to third-party capitalism with a sort of hands-off approach.



Let me explain what I mean by that. Most mum and dad investors, as they are described, are not competent to make decisions about corporate affairs, either by virtue of time limitations, expertise or anything of the sort. Most of them lodge their shareholdings through third parties who hold them in escrow—institutions and so on. Because those institutions do not have a direct relationship with the economic interests of those shares, they are often inclined, or were inclined until pressures started to be put on them by governments and others, to be hands off and not exercise their vote. I think a major way in which you can improve this whole area would just be to require those who hold shares in escrow, namely the institutions, to exercise a compulsory vote.

**Prof. Nowak**—I would agree that that is an important issue.

**Senator MURRAY**—I think if there are difficulties in doing that across the myriad issues, you should at least require that vote in three major areas, namely, constitutional changes, remuneration and election of directors. If institutions at least voted automatically on those I think you would get a significant lift in the capability of boards and in their ability to assess various stakeholder needs.

**Prof. Nowak**—I do make the point in my submission that we did some research which showed that, within the group we looked at, about a third of the funds managers voted on all issues, about a third voted on no issues and saw themselves as quitting the shares if they did not like things and about a third were iffy, one way or the other. That research was in 1999. Things may have improved a little since then. But I would argue that they should be taking a point on all matters brought forward to the board and that the trustees should be reporting back to their stakeholders, if you like, the mum and dad investors, in relation to how and why they have voted the way they have. I think that would meet some of Subhrendu's concerns about, as you also say, how boards are put together and the remuneration committee decisions. On the other hand, I think that we need to be cognisant of the fact that the boards were pretty unhappy this last reporting season about the fact that some institutions and some shareholders actually wanted to have a critical comment about those issues. I thought it was quite concerning that boards were not happy to take that sort of feedback on board. The financial press was full of those sorts of comments.

One of the points I make is that I think it incumbent on government to actually start outlining the sorts of things that are acceptable in a broader sense, both in terms of whether in fact it is acceptable that companies get upset about people having a view on these things and in terms of a range of moral matters. I have been quite shocked to see in the financial press a large number of people coming out and arguing: 'Kickbacks when you are trading overseas—that's okay. That's just the way we do business. There's nothing wrong with that.' As an economist I know that there is a huge amount wrong with that because in fact that distorts the market. Are we right to go overseas and distort the markets in countries that have not fully developed and have not yet managed to achieve the rule of law quite to the extent that we have? It strikes me that there is a whole range of those sorts of issues. I think it is quite important that statements like that are seen as immoral and that making them is seen as something that should not be done.

**Senator MURRAY**—Public companies are specifically, by virtue of their constitution and Corporations Law, democracies. They may be inadequate in many cases, but the essence of democracy is that everyone who owns a share is entitled to vote that share. In the exercise of that

democracy, however, there is a lack of honesty. Dr Rath referred to an inadequate identification of conflicts of interest and people excusing themselves from decisions on which they have a personal interest such as remuneration decisions. There is also the issue whereby, in my view, people are not entitled to be referred to as independent directors when they are subject to the patronage of a block of shareholders or a particular economic interest in the company, and yet people do. Simply because they are not executive they call themselves independent, and they are absolutely not independent.

My own view is that if you made some of those areas clearer you would immediately have a sharpening of responsiveness to markets, to all their shareholders not just some of their shareholders, and to stakeholders generally. This requires very little interference with Corporations Law. It just requires a clearer delineation of boundaries and declarations and of occasions on which you should exhibit better standards. How do you react to those views?

**Prof. Nowak**—The problem independent directors have is this lack of information. It is a very real issue for a genuinely independent director.

**Senator MURRAY**—How many of those are there?

**Prof. Nowak**—There are not that many, but the genuinely independent directors find that they do not get the information to act independently easily. That is one reason why I have argued in another forum that there should be a right, maybe a very much more clear right, for independent directors to get outside information, to be able to ask for outside research, perhaps even to have a secretariat that actually provides them with information about trends in the industry.

**Senator MURRAY**—Sorry, Professor, I understand that point, but you are not suggesting that be made a requirement of Corporations Law, are you?

**Prof. Nowak**—I do not see why not.

**Senator MURRAY**—You mean that the law would say that boards must provide independent services for independent directors?

**Prof. Nowak**—Yes. I do not see why not. It would bolster independence and therefore bolster all those issues of independence that will enable boards to make decisions which are genuinely able to take into account all the information they should have.

**Dr Rath**—The ability of the boards to be independent is compromised by the fact that a certain level of expertise is needed to be on a board of a particular company or in general. To the extent that the labour market for directors is limited in finding appropriate people, we have the situation where we cannot find sufficiently independent people. In that sense, boards or companies in appointing directors go to people they know can handle the intricacies of running a board. But that does not mean that they cannot be independent or that at least in some areas of exercising control over the actions of corporations such as where executives can take decisions which are inherently misguided, or whatever term you might want to use, they can exercise that control by saying that they are independent and should have some say.

**Senator WONG**—Can I just follow up one thing very quickly. Senator Murray indicated three areas where he thinks there should be compulsory requirements for proxy voting, essentially. You said that you think they should have to vote on everything. You may not have a view on this, Professor Nowak; it may be too legalistic, as opposed to a broader economic issue. But you did have a view on what you would want these institutions to take a view on, somewhere between Senator Murray's suggestion and your position. I am interested to know what you think that would be.

**Prof. Nowak**—Remuneration and directors would be the two—

**Senator WONG**—The election of directors and remuneration?

**Prof. Nowak**—Yes.

**Dr Rath**—I would also say on the definition that the corporations are inherently democracies in operation that there is one big difference and that is that they are transitory democracies. I may be a shareholder today but may not be tomorrow. Having the choice of getting out of the situation by selling my share is an added dimension to this democracy.

**Senator MURRAY**—But you are always replaced. To sell a share, there has to be a buyer. If you have not got a buyer you remain a shareholder with a vote. The vote is never diminished; the vote is always the number of shares in issue and who holds them.

**CHAIRMAN**—Are you aware of a recent study in the UK by Professor Chris Brooks of Cass Business School, Stephen Brammer of Bath University and Stephen Pavelin of Redding University looking at the relationship between corporate social responsibility and stock returns where they apparently found that on average the return for the least socially responsible companies was 24 per cent higher than for the most socially responsible companies?

**Prof. Nowak**—I could find you as many studies that have the returns the other way around, and there are some considerable problems with how you determine what returns are—whether returns are short term or long term. There are a considerable number of studies that show that corporate social responsibility has paid off for firms. So I think there is not a settled view on that particular one. And there are a couple of studies that show that firms that have taken a particular green line have had longer term success. We can line those studies up, I am afraid.

**CHAIRMAN**—There being no further questions, I thank each of you for appearing before the committee and for your contribution to our inquiry. It has been very helpful.

[2.57 pm]

**KESSELL, Mr Keith Martin, Executive General Manager, Corporate Affairs, Wesfarmers Ltd**

**CHAIRMAN**—I welcome you to this hearing today and invite you to make an opening statement.

**Mr Kessell**—I am pleased to respond to an invitation to attend these hearings. I do so primarily in the context of triple bottom line reporting or that aspect of your inquiry, because I do not claim any expertise in corporate governance—I do not claim any expertise in a lot of things—and I suppose it is particularly about the sustainability reporting issue. Perhaps it might be helpful if I were to outline how and why Wesfarmers got involved in this and, very briefly, how we do it.

We have been reporting on the general triple bottom line since 1998. In that time we have produced this fine report I am holding, *Environment health and safety report 1998*, which is 24 pages long, and, last year, this report, *Social responsibility report 2005*, which is 92 pages long. I do not say there is necessarily any virtue in length, but the report has come a long way since we started out. It is my direct responsibility because I have responsibility for sustainability issues across the Wesfarmers group.

Wesfarmers is, as I am sure you know, very diverse. I say it is a unique animal in Australian corporate life at the moment because none of the other great conglomerates are around anymore. Our business interests range from things like coalmines to hardware stores and a few other things along the way. I think we therefore have special interests and special challenges in doing this sustainability reporting.

I am often asked why we got into it in the first place. Essentially, it was because we were responding to public expectations. We were aware that there was definitely—and this was back in the late nineties—an interest in companies reporting on non-financial activities, so we went into it mainly on that basis. We also at the time very strongly thought, and still think, that it increases our employees' awareness. We have about 30,000 employees across Australia and New Zealand now, and most of them are in Bunnings. It increases their awareness of these issues and, we think, improves performance because when you ask them to provide data on and report on some of these things, which previously a lot of them have never had to do, it puts the spotlight on them. We think that is a very healthy thing.

It also demonstrates our willingness to be accountable. It is an important part of what I call our 'sustainability profile'. It enhances our reputation with employees and, we think, with investors. It is part of being an employer of choice. We also think it identifies potential cost savings. We do things, for instance, in Bunnings now that we would not have done before in terms of water saving and energy preservation. I think I heard Senator Murray mention it earlier, and as far as we are concerned it is part of our overall risk management approach. If we were not taking an interest in these areas we would be leaving ourselves badly exposed. Also, by doing it when we did, we positioned ourselves ahead of the regulatory game. While regulation is not yet upon us—

I realise this committee is having a look at that—we thought it was important to get in there and start to get things right and working.

It covers all of our wholly-owned business units. The report is authored by people in those business units under my chairmanship. I coordinate it and set the directions, and we try to step it up every year. I think we have made quite impressive improvements over time. It is subject to internal and external verification. Internally, we do it as we would a financial due diligence statement, where the authors are required to verify and justify by reference to documents et cetera every single sentence in the report. We have had it externally verified for the last five years by the Snowy Mountains Engineering Corporation, which, a few years ago anyway, was at the forefront of this sort of reporting in Australia. It is then signed off by the managing directors of each of the business units and by the Wesfarmers audit committee, which goes through it extensively before authorising its publication.

A couple of years ago we made some significant changes. We aggregated a lot of the group's important indicators up the front. One of the criticisms had been that they were too hard to find. We deal with it because our business operates on what I call a federalist system—and one that actually works, unlike the political system. I am sorry; no offence meant. But it does.

**Senator MURRAY**—You will have to try harder if you are going to offend us!

**Senator WONG**—It is not an uncommon view when we come to Western Australia, we have to say.

**Mr Kessell**—It is interesting, though, because I look at us as the 'federal government'—we are the banker et cetera and we set guidelines. The work is done and it happens this way: our business units are totally autonomous on a day-to-day basis, subject to guidelines. The group authors are the real owners of it. We made some reference in the report to picking up some of the GRI criteria in 2004. We put things in there like political donations, for instance, and every couple of years we have it benchmarked by a company called URS Australia Ltd in terms of comparative assessments. It used to be called Dames and Moore. It does a lot of this sort of stuff for major corporates.

That is where we are at. We regard it as a very important part of our corporate life. It always had the support of the former managing director and has the support of the current managing director, to whom I report directly. So there is no issue with the business units in terms of complying with our requirements for it. We believe it is a pretty good attempt to do this. It actually now contains more information on our company's activities than our annual report—much more, if you leave aside the tables and tables of financial junk that no-one understands at the back of the annual report.

This is the most informative document about our company and we are very proud of it. This year I intend to take it forward further. This year we will engage in a formalised stakeholder questionnaire and interview process to see what specified stakeholders think—and you would understand that we have a hell of a range of stakeholders across these very different business units—which we will peer review against other industry sectors; for instance, are other coalmines reporting on things that we are not reporting on? All in all, it is an evolving product and we think it has gone pretty well. We are totally committed to continuing it.

We believe that it should be done on a voluntary basis. I do not believe there would be any merit in trying to make these reports compulsory because, apart from anything else, I simply do not believe that you can get what I might call a single bottom line for the triple bottom line. If you wanted to impose a framework on this, unlike the accounting frameworks I think it would be an extraordinarily difficult process. As you would know, even the definitions of sustainability et cetera vary widely. So we believe that it is best done on a voluntary basis and that sensible companies will do it. When last I looked, only about a third of the top perhaps 50 companies in Australia did such reports, some of them incorporated with their annual reports. I will not carry on any longer. I am happy to answer questions about that or perhaps comment a little on the broader issue of stakeholders and boards responsibilities to stakeholders.

**CHAIRMAN**—Thank you. Does the commitment of Wesfarmers to corporate responsibility and your reporting process arise out of what you see as—as I suppose Professor Nowak, our previous witness, put it—an obligation on the corporation because of its licence to operate, or do you see it more in the light of applying the view that the business of business is to make profit and it is done on the basis of enlightened self-interest because it assists your long-term profitability and sustainability as a business?

**Mr Kessell**—I suppose that, overall, we would characterise our community contribution, which includes philanthropy and I suppose some of this, as enlightened self-interest. We think it makes very good business sense to address these issues in a serious way. This is not a leaflet or a PR document, even though it comes under a PR type person. It makes very good business sense, we think, to address these issues. As I said, I think it is an important part of risk management.

I do not think we would think initially: ‘Oh, there’s an obligation on us to do it,’ but because we have reasonable antennae we are responding to what we see as a developing trend. While many other people obviously do not do that, it is also a great help in responding to questionnaires that I regularly get from socially responsible investment funds and rating agencies. We have mentioned in the report that we are a member of the Dow Jones DJSI World, which I think is about the top 10 per cent of the biggest 2,500 companies in the world. Storebrand Investments out of Norway rates us in that respect. It is a very important tool to be able to point to those people in that sector, indicating that we have this product and that it is a very detailed product. We also get recognition elsewhere. We were a finalist in December in the Australian Sustainability Awards, which are run by *Ethical Investor* magazine. So we do think it particularly helps our standing in that sector. Obviously at the moment that sector in Australia is not financially significant, but it is growing.

I was interested in the question that was put about what the financial markets think. Frankly, I do not think the financial markets give much thought at all to this stuff. I do a presentation to analysts on this and on aspects of our sustainability effort, when we have our annual roadshow in Sydney, and I do not detect an overwhelming interest coming from those people. In fact, before coming here today I was talking to our managing director, Richard Goyder, and he said that he has never been asked by an analyst about any aspect of our sustainability performance. But that is no reason not to do it. As I say to the analysts I present to: addressing these things—and that includes a couple of years ago getting an analysis done of our greenhouse gas exposure—is part of risk management, and if you know that is what we are doing then you ought to think about it occasionally. But we cannot make them do so.

**Senator MURRAY**—Is it a reputational issue? Let me give an example. If I am interviewing you for a job where I want particular skills I will focus on those skills, but when I ring up your character reference I am interested in your reputation. I do not ask you questions about your reputation at the interview, but I ask your referees about your reputation. Is it like that, that it has much bigger meaning in reputational terms than in the direct analytical relationship?

**Mr Kessell**—It certainly does. That is why I say the ‘business case’, because we believe that corporate reputation is a hugely important part of being successful in business. We think that if you do not pay attention to these aspects you are taking a very short-term view. So, yes, it all feeds into our reputation. But we prize reputation and we think reputation delivers perhaps immeasurable but very important advantages in terms of our relations with regulators, with government and with potential investing partners who like to do business with us because they see we are a sustainably focused, ethically operating company. So it all feeds to reputation directly, yes.

**CHAIRMAN**—Have you done any cost-benefit analyses of your corporate responsibility activities or, in the same context, have you identified any cost reductions or new business opportunities that have opened up as a result?

**Mr Kessell**—Not really. The only thing we do a direct assessment of is our Wesfarmers arts program, which is a half a million dollar a year program focused in Western Australia. We survey audiences and other people about that. But we have never attempted to cost-benefit analyse this. In fact, one of the disappointing things about this is that there is such limited stakeholder feedback. I would get for this report, I would say, about a dozen. There is a feedback form on the back which you rip off—it is paid for et cetera. I might get 12 of those a year. It is on our website and we get a few thousand hits on it every year, but we are not sure what they are for. We have now made interactive response available on the website. I have never even received anything back from an environmental NGO, for instance, on this, which I assumed I would at least be interrogated about from time to time. I am told this is not unusual; I am told that other companies have a similar very low feedback response. But it does make you wonder who is reading it and whether they are taking much notice of it or is it just that that cliché ‘the great silent majority’ is out there. So it is very hard to measure, and sometimes you wonder why you do it.

**Senator MURRAY**—How many responses do you get to your financial report, in comparison?

**Mr Kessell**—There is a difference in the circulation. Every shareholder obviously gets a financial report. We only print about 6½ thousand of these.

**Senator MURRAY**—But if you put that little ‘answer me’ tag on your financial report, would you get the same response?

**Mr Kessell**—I do not know. It is a good question.

**Senator MURRAY**—It would be worth asking. You could easily do it and compare the two.

**Mr Kessell**—Yes. It is a very limited response. I think I have had one substantive response in all the years. That was from AMP Henderson, AMP's sustainable investment fund. There was another from a regulator in Western Australia once, but there is a deathly silence most of the time.

**Senator MURRAY**—I bet if you put the same tag on your financial statements you would not get a different response.

**Mr Kessell**—No. I think people just do not bother reacting.

**CHAIRMAN**—Given the conglomerate nature of your business, what are some of the difficulties in aggregating information from across that diverse range, and does it impose a significant cost burden on Wesfarmers?

**Mr Kessell**—A few years ago we established a template that we stick to. We have certain headings all the way through. It is not perfect, but we say to the business units: 'You will report under these headings.' All of them do except our insurance business, which reports in a more limited format because it really is a bunch of office jockeys not doing much else—they are nice people, but pretty useless when it comes to these things. Because we have this standard template they have now got used to the idea. It took a few years to get the business units disciplined to do it; it now works reasonably smoothly. We bear the costs internally. With printing, getting it verified et cetera it costs us about \$150,000 a year to produce this report, but that in no way tries to cost the very expensive time that I put in or the time from the business unit authors.

Yes, it presents difficulties. We have had to educate our business units to do this. Bunnings, for instance, never used to record the power or the water they used. That is why I say it improves performance, because they now do those things. Our industrial and safety business, a strange group of things—Blackwoods is the biggest of those companies—never even thought about recording any data on a whole lot of things. Gradually we break them in and bring them into the fold. There have been some difficulties in doing that, simply because of their ability to provide data. We are constantly pushing them to improve that. This year there will be an improvement with the stakeholder inquiry that will involve six external and four internal stakeholder interviews for each of the business units. When I say business units, I break our energy division, for instance, down to a couple of coalmines, and so on. That will address what I think is a bit of a deficiency in the report at the moment.

**CHAIRMAN**—I take it that Wesfarmers takes the view that the Corporations Law is expansive rather than restricting in terms of directors' duties, in relation to directors being able to take account of interests other than shareholders.

**Mr Kessell**—Yes. Like the professor, I am not a lawyer, but I can say that we believe that the obligation of directors is to the company, not even to shareholders, and that the obligation of directors is to see that the company does well. If the company does well, then shareholders do well. We therefore say that, because they have to have regard to the interests of the company, they have to have regard to a whole range of stakeholders other than shareholders. We enumerate some of them in the definition here. Obviously we talk about our employees, and we talk about customers, suppliers and the community generally. We say that unless in a broad sense directors are doing that, the company of which they are directors will not necessarily prosper.



So we believe it is quite broad enough. I think it would be nightmarish for anyone to define stakeholders in any meaningful, workable way. People might say that that is a very laissez faire approach, and I guess it allows some people to slip through and do horrible and nasty things. But the difficulty, in practical terms, of trying to prescribe who are stakeholders at any given time or on any given issue is horrendous, and it would not work. But we do say that directors are responsible to the company, not even shareholders.

**Senator WONG**—I think there would be a broad range of views on the committee, but some of the things you said are the sorts of things we would wholeheartedly agree with: that this is essentially part of your core business activities, that it is part of your risk-management strategy et cetera. That is not necessarily how a lot of companies might construe it.

**Mr Kessell**—No. I agree with you.

**Senator WONG**—To start with, I am interested in tracking back a bit. What really led to the view that you should at least report on staff and report in a coherent fashion? What drove that? Was it an intention to drive some sort of cultural change? As you are in corporate affairs, which is the part that runs that, do you know if it was a PR exercise? I am not trying to dismiss it, but I am asking what really engendered the drive to do it?

**Mr Kessell**—I did cover that a bit earlier. We sensed that there was growing public interest in non-financial activities, so we thought it was wise and sensible to get in ahead of regulation. We thought it would help our reputation, perhaps enhance our attractiveness as an employer and show that we are prepared to be accountable. We thought that it would lead to better business performance because they had the spotlight on them and therefore they knew. It is a huge world of difference. If you are doing something in a safety sense or an environmental sense, you do it, which is different from having to tell the world about it every year, having some internal and external auditors saying, ‘Show me the documents and things that prove you did it,’ and having to confess to your deaths and disasters that occur from time to time. It was really a part of a very broad package, which initially responded to a change in public attitudes, that started us down the track.

**Senator WONG**—Was there something in particular that your company or one of the groups within the corporate group experienced?

**Mr Kessell**—No, there was not. There was just a view that I had back in 1998. I got the support of the then managing director to introduce this because it seemed to be a sensible and smart business thing to do, apart from the fact that the company has always prided itself on social responsibility. It started in 1914 as a farmers co-op. It went all through that.

**Senator WONG**—It has a different sort of community history, hasn't it?

**Mr Kessell**—Yes, it has. Even though we sold the farm a couple of years ago to AWB Ltd—

**Senator WONG**—We won't go there!

**Mr Kessell**—No.

**Senator WONG**—The word we dare not speak!

**Mr Kessell**—That is right. It was easy to do it because it was part and parcel of the way the company had grown up. There was a culture and tradition that, when you were providing goods and services in rural communities around Western Australia, you were part of the community. Even though, after public listing in 1984, we started to pick up odd things like coalmines and started to develop the retail hardware business, it was an easy transition to saying, ‘Since we sort of do this and it’s an important part of our culture, why don’t we report on it?’

**Senator WONG**—What I really want to get to is this: what did you want to get out of reporting? You talked about—and you mentioned this in the list of things that you outlined—essentially making people pay attention within their business units to some of these key objectives. You also talked about the education process of the various business units. Obviously that would provide some consistency for your company in terms of whether or not you are meeting certain objectives. To what extent has it been effective in changing any culture?

**Mr Kessell**—I cannot give you numbers, but it has been very effective because it has led to practical change. Things like, as I said earlier, Bunnings now focusing very much on the energy and water they use. We have always had safety performance as a group wide indicator related to remuneration, but it just puts a lot more focus and pressure on people if these things are being reported. In here, every year there is a five-year graph of how your safety has gone. We think it has been overall a very healthy internal thing that has enhanced performance, and we think it has enhanced our reputation. We think it gives us good standing with socially responsible investment funds, as minimally important as they now are.

**Senator WONG**—There are a couple of other things. The reporting is only one part of the process. Obviously, you must go through an internal process to determine how you are going to measure this and the things against which you will measure it. Things like accidents et cetera are fairly self-evident, but surely there is a discussion that you might have internally about, for example, your decision as to which community groups, charities and benevolent institutions you might engage with and your views around the treatment of employees in certain areas and environmental outcomes. How do you develop those principles? Are they developed from the top down essentially?

**Mr Kessell**—I suppose all this does is report on what we have in place in terms of policies that cover all those areas.

**Senator WONG**—How do you develop the policies?

**Mr Kessell**—I do not know how the policies originally developed. What this does is help refine some of those policies. Let me give you safety as an example. We have always reported lost time injury frequency rate as our standard safety indicator. As a result of this process, I have taken the issue up with my fellow members of the executive committee. Are we measuring the right things in terms of safety? Is LTIFR, which is pretty standard, the best thing to measure? Should our standard indicator be all accidents or a variation on those things? That is a direct result of discussion flowing from this. It will change, I believe. I think what we will do is keep LTIFR but we will include things like all accidents. Some businesses get to a zero LTIFR; how do you improve on that? It does provoke things like that.

For instance, take greenhouse gases. We now aggregate our greenhouse gas emissions for the group. I refer briefly to the fact that a couple of years ago we commissioned ACIL Consulting to do an assessment of the group, and they did various scenarios about what impact a carbon tax or other measures, if they were ever introduced, might have on the group. As a result of that, the board agreed that any new proposed acquisition—we are in the business of acquiring things—had to consider, and this might seem pretty basic, the impact on our greenhouse emissions profiles. So I do think it has been an important tool or factor in getting people to review policies.

You mentioned community contributions. We have a central community contributions pot that Wesfarmers Ltd administers, and that is my responsibility also. Each of the business units do their own thing in that respect. Each Bunnings store has a budget that they can allocate to the local cricket team, guides or something. It is diverse and we encourage a lot of individual behaviour within that diversity.

**Senator WONG**—How do stakeholders impact on the objectives? Is there a process for that or is it more ad hoc?

**Mr Kessell**—A process for what?

**Senator WONG**—For example, did you take into account the views of or consult with any particular groups around water usage or greenhouse gas emissions?

**Mr Kessell**—No. For greenhouse gas emissions I have engaged and met a couple of times with a group called BT Governance. They did ask us some things but we had already taken the action that we took there. They were particularly interested in that. In water, CSBP, our chemical and fertiliser business here in Western Australia, had an ongoing active relationship with the Water Corporation in Western Australia and they were trying to do things there. Bunnings, through paintbrush recycling and things like that, has been working with a couple of EPAs. A lot of things are happening anyway.

**Senator WONG**—There is one last thing. Do you link any of these objectives to your executive remuneration packages?

**Mr Kessell**—The only one we link is safety and that is for the managing director of Wesfarmers Ltd, the managing directors of these various businesses I have been telling you about and some of the people who report to them. It is part of the achievement of safety targets. We have a target of 50 per cent reduction in lost time injury frequency rate every year. That affects a part of their remuneration. We have not yet attempted to build in any broader sustainability aspects into remuneration. It is something we have considered but have not done anything about yet.

**Senator WONG**—Finally, on the facilitation of this way of thinking, you made it quite clear in your opening statement that this is something that should be done voluntarily. I appreciate that that is a position that has been put to us quite commonly. From my perspective, if we are thinking of ways in which you might encourage corporations who have not turned their minds to these issues as much as we would perhaps like, how do you facilitate that? How do you get someone saying to us, ‘We’ve got to think of the best interests of the company, which essentially means taking a long-term view’?

**Mr Kessell**—Taking a long-term view—that is exactly right. How do you do that?

**Senator WONG**—How does government encourage that?

**Mr Kessell**—I guess I do not know, and that is what the problem is. If you could do it by legislating, perhaps you could include some broad, encouraging statements. But, honestly, I do not know how you do that. To us it is second nature. I was recently asked to go and speak on the federal government's Energy Efficiency Opportunities Scheme. We put ourselves forward as a trial company in that. I went to a group of about 50 people in Perth at the request of the Department of Industry, Tourism and Resources and spoke to them about why we reported and how—

**Senator WONG**—Did they say, 'You're mad'?

**Mr Kessell**—I think some of them looked strangely at me, but that is probably because of some of the silly things I said. But I do not say that that process is going to be too crash hot, quite frankly—I think it might be a bit of a nightmare. But the idea of reporting—which I admit is easier for bigger companies because of resources et cetera—just seems to make so much sense to be in the game. I am not saying this seriously but perhaps I see a competitive advantage if we choose to do it and keep doing it, and you do not require everybody else to do it. But that is not really the point. We think it should come as second nature for business to engage in this sort of thing. It is good business sense. My main concern about making it mandatory is about how you would do it. I know you have the GRI, but I look at the GRI and stacks of it are totally irrelevant, especially in our case. So I just wonder how you would ever get a suitable, single bottom line reporting indicator.

**Senator MURRAY**—I received a copy of this and I went through it. It is in too much detail for me to have read it page by page, but my overall impression was a very warm and strong one. I looked at this with a business eye as well as a social eye, and I think your company is to be complimented on it. In politics we often use the phrase 'unintended consequences' when we do something and something that we did not expect results, and in politics it is frequently used negatively although in fact it can be used positively. Throughout much of your discussion you have indicated that there have been some unintended consequences which have been very positive. For instance, by setting up this process I would assume you are far better equipped to deal with the energy price increase because you have had the data dating back to 1998, which you otherwise would not have had, and which enabled you to react to reduce your energy usage under the high energy costs. That, to me, is a positive example.

You also indicated it gives you a tool for critical analysis. For instance, with coal, you can now compare your operations with those of other companies and establish benchmarks, efficiency comparisons, ratios and so on. I want to ask how you have translated that into your internal analytical functions through the audit process. Does your internal audit group and your board audit committee now comprise or include persons who are competent in this area as well as in the traditional accounting and finance area?

**Mr Kessell**—Certainly the audit committee does. One of the directors on that is Charles Macek who has, in fact, chaired a couple of institutions that are very interested in this area, but I would say that he would be the only one who would have a strong interest and an expertise. As

far as an internal audit is concerned, I do not think there is anyone. We have our external auditors for this report, of course, who are up to date, in the Snowy Mountains Engineering Corporation, and that is their business. Our internal auditors audited our processes for this, but they do not have any particular influence on the outcome, other than to tell us if they thought our processes were faulty.

**Senator MURRAY**—I sit on the Joint Committee of Public Accounts and Audit, and the Auditor-General reports to us. There are two forms of audit that we watch: one is the financial statements audit and the other is a performance audit, which is in fact risk management orientated. The private sectors in fact lagged the public sector in performance audits, but effective performance audits do require skills other than those traditionally of the accounting world. Would you think that to advance this process more to the benefit of a company you need to ensure that internal audit functions as well as your audit committee, as you outlined, need to reflect this broader approach and not be purely finance orientated?

**Mr Kessell**—I really had not thought about that. We are still traditionally a financially internally audited company and a financially externally audited company. It is an interesting thought. I honestly have not considered how we could bring that in. All I know is that the managing directors, the general managers and lower down the line in each of these business units are now very conscious of all these aspects of performance, but it has not been translated into any formal process. Adherence to and accepted of this as an important document is really strong through the group, but there is no formalised structure about it, I guess. That is something that is worth thinking about.

**Senator MURRAY**—In your reaction to the question from Senator Penny Wong, you described the federal initiative that you are involved with—

**Mr Kessell**—Yes—the EEO.

**Senator MURRAY**—yes—and your reaction indicated that you had the feeling that they were groping towards something and it was not properly shaped as well as it could be. That may be because we are all at a stage of development where we do not quite understand our destination.

**Mr Kessell**—Exactly.

**Senator MURRAY**—If you were to advise this committee as to what sort of recommendation the committee should make to facilitate the better economic use of non-economic material, do you have a view or an idea of where we go with these sorts of things?

**Mr Kessell**—I think it would be as basic as this: I would point to the number of top, highly regarded, successful Australian companies that already indulge in this. They would not be doing it unless they thought it was worth doing. That is terribly simplistic, I know, but it is a fact of life that if you look at the Australian companies that are seriously engaged in this process I think you would find that essentially they were very successful. One does not necessarily mean that without that they would not be, but I just think that the examples are there—it is something that has been taken up seriously by successful companies—and that it would be encouragement more than mandatory requirements that would get people interested enough to do it.

I do not know what sort of sweeteners you could use to attract them. Take the EEO thing we were talking about. I feel sympathy for the bureaucrats. The federal government had a policy before the 2004 election. I have seen how those bureaucrats have tried to put that policy into practice. They are doing their darnedest to get there but it looks as though it could be a very complicated process which they are still trying to work out. All that is doing is trying to measure energy use and asking companies to identify opportunities to reduce energy use. That is one thing which I think they are finding particularly difficult to put into practical terms. I think in this amoebic thing that is corporate responsibility or corporate social responsibility—whatever you want to call it—it is so hard to get people even to agree on a common definition. I just think that you cannot do other than point to examples of companies using it, say why they are using it and make the strong recommendation that companies with any brains pick it up. That is a very general answer.

**Senator MURRAY**—My last question is this. Given that this formal process—I suspect that informally it occurred before—of analysis, data collection and reporting for your company commenced in 1998, which is eight years ago, are you telling us that, from a point of view of the leadership of the company, from the supervisors all the way up to the directors, this is now internalised and the company heart is in it, that this is something they believe is good for the company to do?

**Mr Kessell**—Yes. It is now part of the culture of the company that we do this. That has taken some years. For instance, Bunnings stayed out of the report for two years. One of the reasons for that was that it was going through this extraordinary roll-out of hardware stores—it is still doing an extraordinary roll-out of hardware stores—and the business pressures on that particular business unit kept it out of the report for the first two years. Now it is fully integrated into the report. I have no hesitation in saying that it is now totally a part of the culture of the company, right from the managing director of Wesfarmers, through his managing directors into the general managers and down to supervisors, who are asked to provide the data to go into this report. It is part of the way of doing business.

**Senator MURRAY**—There are three main things that governments and parliaments do. I would describe those as legislative, regulatory and facilitatory. If this is happening already—the academic world is very interested, leading companies are very interested and industries such as mining and resources are very interested—do we need to consider more in our report than just facilitation? Would we need to look at any regulation or legislation, in your view?

**Mr Kessell**—I just do not know. If you can come up with a model that you think is practical, enforceable and workable then good luck. That would be terrific. But I cannot see how you could translate that into a legislative or regulatory approach. I think the subject is too broad. Just talking about stakeholders, who are stakeholders? We have had enormous difficulty identifying stakeholders in Wesfarmers simply because every Bunnings store has a group of stakeholders, and there are a couple of hundred of those across Australia and New Zealand. It is easy in the case of a coal mine at Collie in Western Australia or at Curragh in the Bowen Basin of Queensland. You have an immediate community there. You know who your stakeholders are, let alone your suppliers and your customers; that is easy. But when you take more broadly based companies, and Bunnings is the classic example for us, their main stakeholders are obviously their 20,000 employees and their hundreds of thousands of customers. But to say that the board of Wesfarmers had to take into account the interests of those hundreds of thousands of customers

and the things they do when making a decision to acquire or divest or to adopt this or not adopt that would be a nightmare.

**CHAIRMAN**—There are no further questions. Thank you, Mr Kessell, for appearing before the committee. Your contribution has been valuable.

[3.46 pm]

**COHEN, Ms Allison, Executive Officer, Indigenous Affairs and Land Access, Chamber of Minerals and Energy, Western Australia**

**SERMON, Ms Robyn, Manager, Rio Tinto Western Australia Future Fund**

**CHAIRMAN**—Welcome. We do not have a written submission from the chamber or from Rio. I therefore invite you to individually or collectively make an opening submission, at the conclusion of which I am sure we will have some questions.

**Ms Cohen**—We have some written material from Rio Tinto which is hot off the press which we would like to circulate first and foremost. Thanks for the opportunity.

**CHAIRMAN**—Are you seeking to table that as a supplementary or late submission?

**Ms Sermon**—Yes.

**CHAIRMAN**—There being no objection, it is so ordered.

**Ms Cohen**—For those of you who are not aware, the Chamber of Minerals and Energy in WA is a representative industry association of about 90 per cent of the minerals and energy activity that takes place in this state. Last Friday night, unfortunately, BHP Billiton had to pull out. They were going to provide some case study material on the environmental aspects of corporate responsibility. I will provide a few introductory statements and Robyn will talk a bit more about some of the programs that Rio Tinto runs in this area.

Corporate responsibility is a strong focus for the minerals and energy industry in WA. Many of our member companies do many programs across the state. Some of them do that within a framework provided by our national body, the Minerals Council of Australia. The title of that framework is Enduring Value. It provides a framework for incorporating sustainable development in business operations, and many companies are framing their activities around that initiative and the principles within that document and also reporting along those lines.

Our member companies do activities in the area of corporate responsibility not because they are legally required to or because there is regulation but because they have the triple bottom line at the forefront of their minds. They do it for other reasons, like social licence to operate and to minimise risk. Accessing capital is a big driver at the moment. The chamber aims to provide today some case studies about some of the programs that our member companies are doing, and Rio Tinto have kindly agreed to talk about theirs. The variety and number of programs that member companies across the state are doing in the area of corporate responsibility are unbelievable. They tend not to promote themselves. I am not sure of the reasons for that.

Some of them include after-school programs for children in Port Hedland, run by BHP-Billiton Iron Ore. Woodside drive an oil and gas traineeship program for Indigenous students and about six other oil and gas companies are working with them on that program. Our national



organisation, the Minerals Council of Australia, has run for many years a sustainable development conference. Last year's conference, which was held in Alice Springs, had a strong focus on social responsibility. This year's conference will be held in Perth. The Rio Tinto Western Australia Future Fund was established to support programs that can contribute to the future development of Western Australia.

**Ms Sermon**—I will be talking specifically about the WA future fund but I want to put it in the context of Rio Tinto's broader approach, which may or may not be of more interest but, as I said, I will be speaking on a narrow area. To put it into context, the Chairman of Rio Tinto, Paul Skinner, gave a speech last year in which we spoke about the business of the business being sustainable business, which echoed the previous person's comments that unless we look at all of CSR and incorporate sustainable development into the way we do business we will not be in business forever. That is very much ingrained in all of our policies. Rio Tinto's central policy is the way that we work. It covers a range of areas from corporate governance to transparency, our communities' employment environment, human rights, land access, occupational health, political involvement, safety and sustainable development. There are policies on all of those. All of the sites and all employees of Rio Tinto are inducted, using this booklet that I have here, into this way of thinking. The three elements of our CSR approach are economic, social and environmental.

Today I will talk very briefly about—and I am happy to answer as many questions as I can on—our community approach. The WA future fund is part of what is called the Business with Communities program. I have tabled a report on that program, which is a Rio Tinto wide approach in Australia. The approach started about 10 years ago. It is only one of our ways of approaching communities.

To give you an idea of it very quickly, each of our community areas have what is called a five-year plan around their community relations policy. Such five-year plans involve compulsory elements such as baseline assessment, with community consultation about what the community expects. Sometimes we bring in external people to speak to community host workshops about what are the community's expectations of the company, how we are going to measure those, ongoing involvement with the community, what kinds of procedures we are going to have for consultation in the community, what kinds of community assistance programs we are going to have, how they will be governed, how we are going to look at cultural heritage, what guidelines will be in place when we look at that and the numerous other ways of doing it.

The Business with Communities program was something slightly different in that we were looking at a way of actually going into partnership with organisations at a national, state and local level in order to address community problems. I will give you an example concerning the WA future fund. In 2001 we conducted 90 face-to-face interviews with opinion leaders from government and non-government organisations in WA and asked them what their expectations of a company in WA like Rio Tinto were. It came out very strongly that they were supportive of Rio Tinto's community activities on the ground near their sites and strongly supported our continuing to have programs in those areas. But they also said that a company like Rio Tinto had a larger role to play. They talked about their vision for WA and about Rio Tinto helping to shape that vision. I am sure you are aware that Rio Tinto has numerous operations in WA, including Argyle Diamonds, Dampier Salt and its iron ore division, which covers Robe and Hamersley plus Hi Smelt. We have numerous different business units there. So the fund was actually set up in

response to that community consultation. It is governed by a board, half of whose members are senior Rio Tinto people—in fact, the most senior Rio Tinto people in this state are on that board—and half are community representatives ranging from Fred Chaney to Kerry Sanderson, Tony Howarth and Janet Holmes a Court. They represent the community on that board.

As I said, the future fund was set up in 2001. We have since done 34 partnerships, ranging from Scitech, which delivers kids' science programs throughout the state—they reach about 100,000 kids a year—down to a small project like Kojunup Working, which was a community development model in the town of Kojunup, where we do not have any operations. They developed a model for smaller communities, looking at rural decline and how they could turn that around in their areas. That model has now been transferred to 12 other small communities. So the board looks for programs that are sustainable in their own outcomes, that may be innovative, that are a bit different, that need that seed funding to get off the ground and that have long-term outcomes for the community. Very briefly, that is the approach of the future fund.

In terms of the Business with Communities program, Rio has nine national partnerships and eight trusts and funds. They are on very similar lines to the future fund, operating throughout Australia. Only this year we celebrated our 10th year of the Business with Committees program. When we looked at it, even internally in the organisation we were quite astounded at the reach and variety of programs that we were involved with. It is not just a cheque writing exercise; it really is about building capacity within those community organisations. We use our expertise to help them do their business planning, we help them with risk assessments and our environmental staff get involved with reviewing their environmental programs. Likewise, our recent biodiversity strategy, which was pulled together at an international level, involved all of our partners coming together for numerous workshops to tell the company about what the community expectations were in this area. I could keep talking for hours, but I am happy to answer some questions.

**CHAIRMAN**—What proportion of Chamber Of Minerals and Energy members would currently prepare sustainability or corporate responsibility reports?

**Ms Cohen**—About 90 per cent of the minerals and energy sector in WA are members of the chamber, and probably about 70 per cent of those are also members of the Minerals Council of Australia. If you are a member of the Minerals Council of Australia you are a signatory to their enduring value framework, which has reporting requirements around sustainable development, and to the nine principles they have. It is in its infancy. This year the focus of the Minerals Council of Australia's conference is on how to put that into practice within your business. I think the Minerals Council of Australia is looking at having a more standardised process of reporting, but I would say it is only in its infancy.

**CHAIRMAN**—Have either, in your case, your member companies or—in your case, Ms Sermon—Rio, identified any cost reductions or new business opportunities that have arisen out of your approach to corporate responsibility?

**Ms Cohen**—One of the big issues for the industry in WA at the moment is the skills shortage. In the Kimberley—and Robyn can probably talk about Argyle Diamond mines—40 per cent of the local community are Aboriginal. To get them into work programs you need to take a different kind of approach from what you would take ordinarily. If a company invests in a program to get

the local community more work-ready, the cost benefit is there in having a ready workforce in your local community.

**Ms Sermon**—There are a couple of things. Measuring the outcomes of any of our programs—whether it is through this or our environmental initiatives—is very difficult because we are looking at long-term programs. Our Polly Farmer Foundation looks at getting Indigenous students additional assistance to get university or training places. We are starting to get some very early results from those programs. Scitech is another one of our partnerships, where we are looking at encouraging rural and regional students to take an interest in science. It could be 20 years before we actually get some kind of outcome from a program like that. The way we do it through our funds and trusts is that we take a bit of a leap of faith: that by investing the money now we will get benefits later on. But if you look through the Business with Committee program, the programs are very much where the business and the community intersect.

**Senator WONG**—I presume that is not the primary motivation for participating in this way?

**Ms Sermon**—The motivation is about making a sustainable—

**Senator WONG**—I think the context of Senator Chapman's question was cost reductions and new business opportunities.

**Ms Sermon**—I would not say it is the main motivation at all. Certainly, it would be really nice for us to be able to start adding those figures up because the practitioners that work particularly in this area strongly believe that there will be cost reductions to the business in the long term.

**Senator MURRAY**—It seems to me that what you are moving to distinguish between is corporate philanthropy and corporate responsibility. To me, corporate philanthropy is extraneous—it is a goodness-of-heart sort of exercise—whereas corporate responsibility is integral to business results. For instance, increasing the number of Indigenous employees in an area where a lot of Indigenous people live, which would improve the relationships of the corporation in that area, is a corporate responsibility action, whereas starting to educate preschool children, for instance, would be a corporate philanthropy issue because it would not have an immediate effect on the business bottom line. Do you look at things in that sense?

**Ms Sermon**—Absolutely. The Business with Communities program was actually moving away from a philanthropic approach towards a more CSR approach. I do not think we have made any excuses or apologies for that. While we still have numerous donations and sponsorship committees, things on various sites at various levels and a relationship with the Royal Flying Doctor Service which is very philanthropic as well, this program was far more targeted. There are philanthropic outcomes from it, but I think that the intention is about building more sustainable communities, not just where we operate. The WA future fund, and the Aboriginal Foundation which is another one based out of Melbourne, look at it from a national or state level instead.

**Senator WONG**—Would you agree that perhaps one of the reasons why the resources sector more generally has tried to address this issue is related to where you have come from? I have to be honest, from the perspective of this committee: which are the two sectors about which the

community, 15 years ago, might have said, 'No, they're not very good'? Banks and mining companies would probably have had the most bad press, and yet it seems to me that they are probably two sectors that inconsistently, in terms of the players—some people have done it better than others—have actually tried to address that. Let us be brutally honest about it.

**Ms Cohen**—They are fair comments. I think the industry has realised its impact on the environment and the community, so there has been a recognition of that. I think industry has recognised the business case for doing this. Probably above all, and this is a huge focus for companies, are the relationships the industry has with people on the ground. If you do not have that then you have nothing. That is part of the WA future fund, the Business with Communities program and all the other things. The driver is to have good relationships with the people on the ground.

**Senator WONG**—Regarding mining companies which have a particular relationship with government because they need an additional licence to operate—not just as a company but also in order to mine—to what extent do you think that the inherent legal or regulatory requirement has altered the way in which they might view their responsibilities to the community?

**Ms Cohen**—They are probably two separate things. There is legislation and regulation guiding the standard licence to operate, but companies of their own accord have realised that, unless they change the way they do business to adopt a social licence to operate, they will not be in business because they will not get the capital and—perhaps this is where the legislative framework comes in—they will not get an easy road through that legislative process.

**Senator WONG**—Senator Murray or Senator Chapman asked earlier about to what extent capital markets are interested in this and you made the comment, 'If we don't do this, we won't get the capital.' Why do you say that?

**Ms Cohen**—That is not my area of expertise, but the view is that you need to operate responsibly in order to get access to capital.

**Senator MURRAY**—Is it a risk management thing? As a mining company, isn't there a liability—that if you emit noxious fumes, if you fail to restore the land, if you do not abide by environmental considerations, if the water supply or aquifers are detrimentally affected, and so on, you could be sued later on? Isn't there the sense that the capital markets will say, 'Are you protecting us from risk resulting from your activities?'

**Ms Cohen**—I think the capital markets will say that, but in practice it is otherwise. For example, if you disturb an Aboriginal heritage site in this state, it is not going to cost you very much. So it is other things that make companies want to—

**Senator WONG**—But that might be sufficient for a political problem—

**Ms Cohen**—That is right.

**Senator WONG**—for you next time.

**Ms Cohen**—Yes, that is correct.

**Senator WONG**—That is what I am saying. You have a slightly different position with mining companies because ultimately state governments are able to exercise some influence on your activity, in a different way than perhaps a services company.

**Ms Cohen**—Yes. In this state a major revamp of the project approvals process has taken place and the state has appointed a coordinator for that—Brendan Hammond, who used to be the MD of Argyle Diamonds and has done a lot in this area. The focus there is very much on not regulatory requirements but an expectation that companies will be doing things in the space of corporate social responsibility.

**Senator WONG**—Is this connected with the sustainability strategy that we have heard about?

**Ms Cohen**—The sustainability strategy has been around for a couple of years. This is just a new development—mid to late last year—but they are all linked, obviously. In fact, that person reports directly to the Premier, and the sustainability strategy sits within that.

**CHAIRMAN**—Do you have a view on what role the Commonwealth government should play in promoting or encouraging corporate responsibility?

**Ms Cohen**—I think Senator Murray's comments about the facilitative role are on the—

**Senator WONG**—Right on the money?

**Ms Cohen**—Yes.

**CHAIRMAN**—Do you believe that the current Corporations Law is sufficiently expansive for directors to take stakeholders other than shareholders into account?

**Ms Cohen**—I am not in a position to answer that. It is not my area of expertise, sorry.

**Ms Sermon**—It certainly is not my area of expertise either. Interestingly enough, coming back to the Business with Communities approach, our most senior people are on those external committees overseeing those things now. That is quite a standard approach now within the company. It is not about external affairs people running the CSR program; it is about the senior management running it.

**Senator MURRAY**—Are you saying it is integral to the culture?

**Ms Sermon**—Yes, absolutely; I do honestly believe that. I still think it is growing. It has changed. I have been in this area for 10 years and I have seen it come on in leaps and bounds and I still think it has a long way to go. In fact, when we are forming partnerships with external organisations, we sometimes struggle with their understanding of our motives and their understanding of partnerships and the CSR approach, because their organisations, particularly if they are very small community organisations, have not caught up with the change in momentum there either.

**CHAIRMAN**—As there are no further questions, on behalf of the committee, Ms Cohen and Ms Sermon, thank you very much for your appearance and your evidence before the committee and for your assistance with our inquiry.

**Senator MURRAY**—Can I just add that, as both of you represent substantial organisations, if something comes to mind as a result of this interaction and you want to send it on to us, we can receive it as an additional submission or something of that sort.

**CHAIRMAN**—Thank you.

**Committee adjourned at 4.08 pm**