



Corporate social responsibility

Supplementary material to the Australian
Government Corporations and Markets Advisory
Committee

Brotherhood of St Laurence
February 2006

Introduction

The Brotherhood of St Laurence (BSL) is a Melbourne-based community organisation that has been working to reduce poverty in Australia since the 1930s. Our vision is ‘an Australia free of poverty’. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions at both national and local levels.

The BSL is actively involved in ethical business and corporate social responsibility (CSR) in its own commercial enterprises, with an emphasis on responsible supply chain management in China and Australia. This experience has been enhanced through ongoing research into CSR and active participation in several corporate stakeholder engagement processes, involving the ANZ Bank, AXA, Westpac and the National Australia Bank.

The BSL works closely with the Australian National Contact Point (Foreign Investment and Trade Policy Division, Treasury) to promote the OECD Guidelines for Multinational Enterprises and has presented at the OECD Roundtable on Corporate Social Responsibility in Paris (June 2002). The BSL’s Ethical Business Manager, Serena Lillywhite, is the Australian representative on the OECD WATCH Consultative Committee and in 2004 prepared a submission to the OECD Steering Committee as part of their review of the OECD Principles of Corporate Governance.

This submission to the Australian Government Corporations and Markets Advisory Committee should be read in conjunction with the BSL submission to the parallel inquiry by the Parliamentary Joint Committee on Corporations and Financial Services into corporate responsibility and triple bottom line reporting. This document raises additional matters that relate specifically to questions 3 and 4 of the CAMAC terms of reference. The two documents jointly form the BSL submission to this inquiry.

Q3 Should Australian companies be encouraged to adopt socially and environmentally responsible business practices and if so, how?

Australian companies have a responsibility to adopt socially and environmentally responsible business practices, and must be encouraged to implement these practices. This will:

- contribute to the positive impact that Australian companies can make to sustainable global trade and investment, particularly in developing countries, economies in transition, and countries in conflict or with weak governance
- ensure that not only *economic* development is planned, but also development that contributes to wealth creation benefits in the broadest sense, including sustainability, social inclusion, equality and human rights
- encourage greater implementation of international treaties, standards and mechanisms that form part of the global corporate governance framework (e.g. OECD Guidelines on Multinational Enterprises, ILO Declaration on Fundamental Rights at Work, UN Norms on the Responsibilities of Transnational Corporations and other Business Enterprises with regard to Human Rights, Rio Declaration on Environment and Development, and the Monterrey Declaration)
- encourage the development of instruments, mechanisms and business practices that provide adequate protection for the rights, interests and development needs of host governments, their citizens and their natural environment
- promote good governance and ethical business practices through enhanced transparency and accountability
- improve overall business practices and competitiveness.

Encouraging Australian companies to embrace ethical business practices, not only in Australia, but throughout their global production networks has proved difficult to date and has achieved only partial success. The current practice of voluntary corporate social responsibility (codes of conduct etc) has not provided adequate protection for workers, communities and the environment.

Voluntary mechanisms are useful in harnessing a company's initial commitment to CSR, but more needs to be done to ensure that commitments are implemented and business practices reflect not only the economic, but also the social and environmental, implications of business decisions. This could be supported by:

- promoting the OECD Guidelines for Multinational Enterprises to business, and timely and transparent handling of complaints brought before the National Contact Point (based in Treasury)
- targeting export finance and insurance schemes at those companies that can demonstrate ethical business practices that adhere to social, developmental, environmental, cultural and human rights standards
- broadening trade development and investment advice offered by Australia's trade commissioners to potential investors to include information about corporate social responsibility and compliance with local laws and international standards
- ensuring industry awards, corporate ratings and other mechanisms that identify companies as examples of 'best practice' give rigorous attention to evidence of a working CSR framework. This will foster an Australian corporate culture that values and rewards ethical business practices.
- encouraging industry associations to develop company membership criteria that includes ethical business practices and a functioning CSR framework
- including in free trade agreements and other bilateral investment mechanisms social and environmental clauses and recognition of human rights
- making reference to the OECD Guidelines for Multinational Enterprises in all relevant government policy documents

Q4 Should the Corporations Act require certain types of companies to report on the social and environmental impact of their activities?

The following comments relate to companies involved in international activity. It recommends reporting on activities both within Australia and abroad.

The Corporations Act must require all companies engaged in cross-border activity (listed and unlisted disclosing entities, multinational enterprises and small and medium-sized businesses) to file not only a financial and directors' report, but also a report that documents the social and environmental impact of the business activity and their decisions. These reports must include:

- accountability in accordance with best practice reporting systems, such as the Global Reporting Initiative
- disclosure of business systems and operations that provide evidence of compliance with the OECD Guidelines for Multinational Enterprises
- disclosure of all export finance, insurance and other credit subsidies and guarantees (to ensure these are being directed to enterprises that practice and promote ethical business)
- disclosure of the business operating systems, including all supply chains, subcontractors, licensing arrangements, agents and production networks (companies such as Nike and Levi's now do this)

- disclosure of all government-business contracts and business revenues
- disclosure of internal management systems and practices which evaluate and monitor the social (developmental, social and human rights) and environmental impact of their activities
- disclosure of external processes (such as community advisory committee's, stakeholder engagement panels, auditors and certification schemes) which evaluate and monitor the social (developmental, social and human rights) and environmental impact of their activities
- disclosure of dispute settlement mechanisms (including processes for staff and employees throughout supply chains to raise concerns) that uphold local laws and protect essential social and environmental rights from expropriation rules
- reporting business systems and evidence of a corporate culture that upholds human rights and protects public health, safety and the environment
- reporting how the business operation contributes to sustainable development and investment and guards against financial instability

Conclusion

This supplementary material and the BSL's submission to the parallel inquiry being conducted by the Parliamentary Joint Committee on Corporations and Financial Services draw attention to the international dimensions of CSR and the responsibilities companies have to meet social and environmental best practice, and offer some tangible steps towards implementation and reporting.

In particular, it suggests that any changes to the Corporations Act recognise the global dimensions of business, and the fact that most companies are operating in a range of jurisdictions. This adds to the complexity of CSR and warrants a range of responses considering business impact on all stakeholders—including local communities and supply chains. It suggests this is best achieved by developing and implementing systematic business processes and a corporate culture that values ethical practices. It calls for greater transparency and accountability, and confirms that organisational decision makers can play a key role in ensuring this. These responsibilities should be acknowledged in the Corporations Act and all companies involved in cross-border trade must broaden their reporting to encompass the social and environmental impact of their business activity.

It is recommended that the CAMAC give consideration to the OECD WATCH report *Five years on: A review of the OECD Guidelines and National Contact Points* available on the OECD WATCH website <www.oecdwatch.org>.

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