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The business of acting responsibly

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Corporate responsibility is shaking off its fuzzy label and becoming a strategic imperative.

Story Melissa Wilkinson



As the climate change debate continues to snowball, business leaders around the world are quickly starting to see that paying lip service to the concept of corporate responsibility is going to cost them money.

The pressure on business to be responsible in regard to social and environmental issues has increased dramatically in the last 10 years. While there hasn't been one individual tipping point, the spate of corporate scandals involving companies such as Enron and James Hardie has been influential in putting the business sector and its role in society under the spotlight.

Corporate social responsibility (CSR) is based on the assumption that business has a duty of care to its stakeholders, including the community and the environment, in regard to all aspects of its operations. It goes beyond charity and philanthropic work, and demands that a company considers its impact on all stakeholders and the environment when making decisions.

The concept has definitely outgrown its historically warm and fuzzy treatment in companies' marketing collateral and annual reports. Acting responsibly is now regarded by many business leaders as a strategic imperative, which, if ignored, could ratchet up their risk profile and ultimately hurt their bottom line.

According to one global survey (Corporations and Markets Advisory Committee, Corporate Social Responsibility Discussion Paper, November 2005), only 54 per cent of executives in 2000 said that corporate responsibility was 'central' or 'important' to their corporate decision-making. By 2005, this figure had grown to 88 per cent.

Even the sceptics can't ignore the pace of change, degree of interest and amount of resources now applied to corporate responsibility strategies. There is no doubt that the pressure on companies to operate in an economically, socially and environmentally sustainable way is set to continue.

Right Thing To Do

David Trewin, manager of business partnerships at the Department of Environment and Conservation (NSW), says that more and more businesses believe that being responsible is simply the right thing to do.

"Many conservative business leaders are starting to see that their role has moved beyond the traditional functions of investor returns, employment and compliance. They can see that they have a role in creating a sustainable future—you can't do business in a world that is not functioning," says Trewin.

The convergence of peaking world oil prices, the drought and global warming have played a large role in raising awareness about the long-term sustainability of the planet. These three issues have been described as an unholy trinity which will alter our way of life and affect our long-term ability to prosper.

Previously dismissed by some CEOs, politicians and scientists as an alarmist sideshow, climate change in particular is now acknowledged as the biggest challenge facing the planet. This has significant implications for the development of CSR programs.

Even widely known climate change sceptic, Rupert Murdoch, CEO of News Corporation, has been converted and is now calling for business to act.

In a speech in Tokyo in November 2006, he stated that "it is now our responsibility to take the lead on this issue. Some of the assumptions about extreme weather, whether it be hurricanes or drought, may seem far-fetched to us today, but what is certain, is that temperatures have been rising and that we are not entirely sure of the consequences, and the planet deserves the benefit of the doubt."

Investment Returns

Global warming could indeed throw cold water on investment returns. A 700-page study for the British government by former World Bank chief economist Nicholas Stern says that climate change will have an enormous impact on the world economy and could represent the greatest and most serious market failure ever seen.

The report predicts that global warming could reduce global gross domestic product by up to 20 per cent and could be as expensive and destructive as a global war, estimated to cost up to \$9 trillion.

The Stern report also found that global temperatures are likely to increase by as much as five to six degrees. Even without sweeping regulatory reforms to control greenhouse gas emissions, this could lead to a permanent reduction in global per capita consumption of at least 5 per cent. Nick Rowley is a founding director of Sydney-based sustainability consultancy

Kinesis and former advisor to Prime Minister Tony Blair on sustainability and climate change issues. He says that even if the science is only half right about the forecast changes in climate and impact on the economy, corporate Australia is at risk.

"Businesses need to be ahead of the potential wave of government regulation such as carbon taxation. They need to start to examine how exposed their operations are in terms of their overall carbon performance.

Direct government regulation to reduce greenhouse gas emissions is already well under way in the United States and Europe.

"Strategies to address greenhouse gas initiatives are not just a nice thing to do. In the future, companies will probably need to be accountable for their performance, which will have implications for their corporate reputation and shareholder support," says Rowley.

The investment markets have seen this trend coming and some investors are already examining a company's CSR policies before making investment decisions. They increasingly want to know what strategies a company has in place to address the risks and opportunities associated with a warmer climate.

The Investor Group on Climate Change (IGCC) represents 16 Australian mainstream institutional investors and has nearly \$200 billion of funds under management.

The IGCC believes that climate change has the potential to affect future earnings, liabilities and general risk profiles of thousands of companies. In 2006, the IGCC and broker Goldman Sachs JBWere launched the first Australia and New Zealand Carbon Disclosure Project Report. Prepared by KPMG, the report examined how the top 150 Australian and New Zealand companies were addressing the risks and opportunities related to climate change (see key changes).

PricewaterhouseCoopers agrees that, at the big end of town, climate change and sustainability strategies will be important issues to companies over the next five years. Andrew Petersen, PwC Partner, Legal and Environmental Practice, says that industry is already thinking about how to maintain growth in a carbon constrained environment.

"At PwC, we've recently announced plans to be carbon neutral by July 2008. Strategies to be implemented include greater energy efficiency, more renewable energy, and an increase in use of video conferencing and other remote location work practices.

"Sustainable business practices and the effective utilisation of a company's resources make good business sense. It is also important to be able to manage, monitor and report on a company's footprint on the environment," says Petersen.

Climate Leadership Index- Australia & New Zealand*

SECTOR	COMPANY
Banks	ANZ Banking Group, National Australia Bank, Westpac
Construction materials	Boral
Energy	Origin Energy
Food and beverages	Goodman Fielder, Lion Nathan
Healthcare	DCA Group, Symbion Health
Hotels, restaurants and leisure	Tabcorp Holdings
Industrials	Transurban Group
Information technology	Computershare
Insurance	Insurance Australia Group
Metals and mining	BHP Billiton, Rio Tinto
Real estate investment trusts	GPT Group, Investa Property Group, Mirvac Group
Retailing	Warehouse Group
Telecommunication services	Telstra
Utilities	AGL
* Only top three companies included. Source: Carbon Disclosure Project Australia & New Zealand Report 2006, Investor Group for Climate Change.	

Saving Money

Addressing climate change and being a responsible corporate citizen is an opportunity to not only reduce a company's carbon emissions and look good, but also to make money.

The business case for being green is growing stronger every day, with initiatives to improve resource efficiency such as recycling and energy-saving programs already demonstrating clear economic benefits.

Pat North from project management company Moore Management Pty Ltd is working with energy management company Powersave Pty Ltd to introduce the latest lighting technology to reduce energy costs and lower carbon emissions.

"This new Fluoresave product is already being used around the world and we're currently in discussions with a number of major Australian organisations. The potential cost savings of between 25 to 30 per cent and the resulting reductions in carbon emissions are generating a lot of interest," says North.

More efficient business processes and new innovations are valuable outputs from an increased focus on sustainability.

Research suggests that 80 per cent of European business leaders believe that responsible business practices have allowed companies to invigorate creativity and identify new market opportunities (Centrica and Corporate Citizenship Company, Good Companies, Better Employees, July 2003).

Employer Branding

It is widely accepted that effective corporate responsibility practices deliver tangible benefits in relation to corporate reputation and employee morale.

In the current skills shortage, employer branding is seen as critical business tool. A survey of 5000 international managers revealed that 90 per cent said it was important for them to work for an organisation that behaves in a socially and environmentally responsible way (Andrew Wilson Ashridge, HR Leaders Forum Presentation, Meaningful Corporate Responsibility, September 2005).

In addition, research suggests that candidates from Generation X and Y want to work for responsible organisations, with three out of every five stating they want to work for a company whose values are consistent with their own (Environics' Global Campus Monitor survey of, 200 undergraduates across 20 countries, 2003). One company focused on developing a best practice approach to corporate responsibility is insurer Zurich Financial Services Australia.

Alice Cahill, corporate responsibility manager at Zurich says that, as a company, they are committed to corporate responsibility from the CEO down. "Successful CSR programs must have the support of the entire senior leadership team. The work that we are doing is starting to show results internally, with 89 per cent of staff reporting that Zurich's community program creates a company culture which staff are proud to be part of. Importantly, it has given staff a practical framework to connect with the community," says Cahill.

Everybody Counts

The Institute of Chartered Accountants is also active in the CSR space with the launch of the 'Everybody Counts' program in 2006. It provides all Institute staff with the opportunity to actively support and engage with its charity partners. Initiatives include workplace giving, volunteering or pro bono staff assistance to charities.

Pamela Lee, the Institute's manager of community care, says that the Institute partnered with the Australian Charities Fund to implement and launch the program.

"Once the program has been successfully implemented within the Institute, the next step will be to look at ways of rolling out the program to Institute members, particularly smaller accounting firms that are keen to get involved in the community and make a contribution," says Lee. Corporate responsibility has now morphed into individual responsibility. Simon Carter is the founding director of Catalyst, a not-for-profit organization creating a culture of philanthropy among professionals in Sydney. He says that employee interest in making a difference in the community and environment is rapidly spreading beyond the walls of the office.

"We're noticing a huge number of professionals who want to balance their work, social and family aspects of their lives with their contribution to the community.

They're joining Catalyst because it provides them with an opportunity to learn more about how they can use their professional and leadership skills in the social sector.

"Initiatives like the Benevolent Society's Sydney Leadership program are also in strong demand as they give people practical skills to initiate change in the community, the environment, and ultimately in their own organisations," says Carter.

KEY FINDINGS FROM THE IGCC REPORT

- > 94 per cent of respondents recognise the potential for climate change related issues to impact future earnings, liabilities or the company's general risk profile
- > 83 per cent of respondents recognise the physical risks associated with climate change (eg. drought, extreme weather events) that impact upon their business operations
- > 31 per cent have established clear internal accountabilities for climate change related issues
- > 9 per cent fully disclosed their emissions profile from owned and controlled entities (including third party verification)
- > 9 per cent have established formal greenhouse gas emission reduction targets with clearly articulated timelines
- > 9 per cent provided total energy costs and demonstrated a clear understanding of potential impact on profitability of changes in energy pricing.

Source: Carbon Disclosure Project Australia & New Zealand Report 2006, Investor Group for Climate Change.

FOR MORE INFORMATION:

- > igcc.org.au
- > charteredaccountants.com.au
- > catalystnetwork.com.au
- > bensoc.org.au
- > powersave.com.au