The Governance of Corporate Sustainability: Empirical Insights into the Development, Leadership and Implementation of Responsible Business Strategy

Introduction

Internationally the drive to advance corporate sustainability has gathered pace in recent years. As the effort to enhance sustainability moves from the margins to the mainstream of corporate activity, the skills, knowledge and sophistication involved in leading corporate sustainability initiatives has developed. The work of defining sustainable business models, rethinking strategic direction, restructuring core business processes, and integrating reporting to contribute to environmental and social sustainability has progressed. However progress has proved uneven regionally, nationally and sectorally. Doubts still remain prevalent about the extent of commitments to sustainability, and the practical impact of these commitments. This article focuses upon Australia, an economy with a mixed record of achievement in corporate sustainability, and examines the structures and processes employed to deliver sustainability.

Most large companies in Australia are now engaged in some form of voluntary strategy in relation to corporate social responsibility (CSR) or sustainability. The Australian Council for Superannuation Investors found in 2011 that 83% of the ASX 200 provided some level of reporting on corporate responsibility, ranging from basic to best practice (ACSI 2012). There is a wide literature on the reasons why companies might take this approach including legal, economic and political factors. This article explores the next stage of the debate – once a company has decided to take a responsible approach to business, how does it implement and institutionalise corporate responsibility in a practical sense? We investigate the structures and processes that are being used to develop, lead and implement corporate responsibility strategies in large Australian companies. In other words, we explore the interface between corporate governance and corporate responsibility – how existing and novel corporate governance mechanisms are being used to direct and control corporate responsibility strategy from the boardroom to the factory floor. As Kolk (2008) comments, we are no longer looking simply at the 'ethics of corporation governance' but at the 'governance of ethics'.

The governance of corporate responsibility remains a relatively unexplored field in terms of empirical investigation (Lindgreen et al 2008:252; Russel et al, 2007; Runhaar and Lafferty, 2008; Kolk and Pinkse, 2010:18). As yet there is little published academic research in this area although it is a field of emerging interest (Baumann and Scherer 2010; Schemberra, 2012; Hansen and

Reichwald, 2009, Morgan et al, 2009; Aras and Crowther, 2008, Kolk, 2008; Kolk and Pinkse, 2010). Our research contributes to the literature by providing empirical insights into the process of embedding corporate responsibility in corporate governance systems in large Australian companies. Our evidence supports and develops emerging process-theory on the implementation of CSR (Yuan et al, 2011) as well as the literature on change management for CSR (Dunphy et al 2007). It provides evidence supporting a more stakeholder-orientated view of the corporations (Benn 2012). This work is also of practical relevance to corporations, regulators and policy-makers in determining how to formalise and institutionalise the structures and processes surrounding corporate responsibility strategy.

We take a broad view of the meaning of corporate responsibility using this term interchangeably with corporate sustainability and CSR which, at its simplest, is a commitment to operating in an economically, socially and environmentally sustainable manner. Morgan et al state: “The responsible firm, whether under the label of citizenship, social responsibility or sustainability aims to minimize harms and maximise benefits in its relationships with stakeholders” (2009:41). The Australian Parliamentary Joint Committee Report commented that the terms ‘corporate responsibility’, 'corporate social responsibility (CSR)', 'corporate social transparency', 'triple bottom line', 'corporate sustainability' and 'social and environmental responsibility' are all used to refer to broadly the same concept (2006:13). Of course, each of these concepts has different followers and comes from different traditions. Kleine and von Hauff view corporate sustainability as a “sustainability driven, sub-concept of CSR” (2009:520). While different emphases and understandings are often attached to each of these conceptions of corporate responsibility, the plethora of definitions and interpretations appear to be finding some common ground in practice. The UN’s adoption of the environmental, social and governance (ESG) acronym has become influential, since it explicitly links governance to social and environmental responsibility (Clarke 2007:271).

Famously debated in 1932 by Berle and Dodd in the *Harvard Law Review*, there has been a resurgence of interest in corporate responsibility in the last two decades and a growing expectation that companies should take action and report on their efforts to be more responsible. Perhaps more importantly, there has been a huge change in corporate practice in the area of corporate reporting. Professional services firm KPMG has monitored the number of companies publishing information on corporate responsibility since 1993. Using a sample made up of the 100 largest companies in each of 34 countries, reporting on corporate social responsibility has gone from 12% in 1993 to 64% in 2011. Looking at the 250 largest global companies there has been an increase in corporate social

responsibility reporting from 35% in 1999 to 95% in 2011 (KPMG 2011). This is a striking change in reporting and yet little is known about whether it reflects equally striking changes within corporations.

The cross-disciplinary nature of the topic of corporate responsibility together with the lack of agreement over terminology does not assist the advancement of research in the field (Lindgreen et al 2008). Studies dealing with corporate responsibility come from a huge range of perspectives and cover a broad spectrum of issues. For example, accounting scholars tend to look at theories of non-financial reporting and auditing issues (Grey et al 1995 Berthelot et al, 2003; Nitkin and Brooks, 1998); lawyers look at the scope of directors' duties and regulatory mechanisms (Redmond, 2012; McBarnett et al 2007; Gill, 2008) whereas management scholars examine organisational theories (Benn, 2012; Matten and Crane, 2005; McWilliams and Siegel, 2001; Garriga and Mele, 2004). These studies can come from a background of concern for the environment (Halme and Huse, 1997; Russo and Harrison; 2005; Jose and Lee, 2007), social justice (Aguilera et al, 2007; Deakin and Wittaker, 2007) or economic success (McWilliams and Siegal, 2000; Orlitsky et al, 2003).

Recently Taneja et al (2011) conducted a wide review of research activity in the area of corporate responsibility. Although they placed special emphasis on the business management literature, their framework is capable of incorporating research done in other disciplines. They categorised papers according to their focus area and identified the following broad areas of research activity:

1. Meanings, definitions and models of CSR;
2. Factors driving CSR initiatives;
3. CSR in action;
4. Impact of CSR on stakeholders and financial performance;
5. Measurement of CSR performance.

This is a helpful conceptual categorisation capable of incorporating cross-disciplinary perspectives. Garriga and Mele's important paper 'mapping the territory' of CSR theory would fit into Taneja et al's first category as it is focused on theories and models of CSR. Category two would include the large body of management research examining the business case for CSR as well as much of the legal scholarship on the effect of regulatory mechanisms. The empirical research presented in this paper falls into the third category as it provides description and discussion of CSR in action. The fourth category would include studies examining the impact of CSR strategy on financial performance, environmental performance or on corporate reputation. Finally, it is clear that most accounting research would fall into the last category concerning measurement of CSR performance.

Of course the categories are not mutually exclusive and research within each category is maturing from exploratory studies to theory development, albeit with ongoing introduction of novel concepts which some would argue hinder progress (Kakabadse et al 2005; de Bakker et al 2005; Taneja et al 2011). There are several strands of literature relevant to this paper which examine 'CSR in action' whilst also contributing to theory development. First is the body of work which examines the development of corporate responsibility over time, often in the context of change management (Doppelt 2003; Visser 2011; Dunphy et al 2007). Both Dunphy et al's 'sustainability phase model' and Visser's 'ages and stages of CSR' permit comparisons between organisations in terms of their progression towards social and environmental sustainability. Over time companies tend to move from being defensive or non-responsive in relation to CSR to realising that it can be of practical assistance in increasing regulatory compliance and resource efficiency. The more progressive stages of corporate sustainability involve strategic proactivity and transformation into a truly sustaining corporation. This view of corporate responsibility as requiring action on the strategic and operational fronts has been termed 'next generation' corporate citizenship which, "takes a firm beyond compliance to mitigating potential risks and looking for opportunities in the relationship between business and society" (Morgan et al 2009:41). The last stage of both Dunphy et al and Visser's models involve companies reinventing their strategies to tackle the root causes of current unsustainability. This may be through innovative business models, revolutionary processes and products or lobbying for progressive government policies (Visser 2011:19). The practicalities of moving from strategic responsibility to systemic responsibility may sometimes involve significant issues depending on the nature of the company's core operations:

> "Corporate social responsibility is not only about the programmes to reduce emissions or to invest in a local school – it is about how the company resolves the dilemmas around its core product or service" (Baker, 2011: xvii)

Also looking at corporate responsibility from a change-management point of view, Doppelt has explored how the governance and leadership of an organisation can transform organisational culture and overcome resistance to change (2010:96). He has found that changes in governance structures and processes can provide much greater overall leverage for transformation to sustainability than implementation of specific sustainability initiatives. For example, installing better smokestacks or improving the sorting of waste are important steps towards sustainability but are not effective levers of change.

Another strand of 'CSR in action' literature builds on earlier descriptive work by putting forward process models for the integration of CSR into core business strategy (Castka et al 2004; Kleine and

von Hauff, 2009; Yuan et al 2011). Castka et al (2004) put forward a process-based management system which has as its key, "the transformation of stakeholders' expectations into the operations of the organisations with continual monitoring of the impact". Kleine and von Hauff introduce an integrative sustainability triangle which deals also with horizontal integration of CSR across different departments of an organisation. Yuan et al take a comparative approach to CSR integration, identifying seven different ways by which organisations integrate CSR into their business, from embedding CSR into core business processes (patching) to simply removing practices that are detrimental to CSR (trimming). Yuan et al's seven patterns show some similarity to Dunphy et al's phases of sustainabililty because progression is possible from one pattern to another as CSR moves from the periphery to the core of an organisation's business. Our research, supports and develops this emerging process- theory, by confirming some of the mechanisms companies are using to embed and institutionalise CSR.

Corporate Responsibility and Stakeholder Theory

In integrating corporate governance and corporate responsibility, this paper puts forward empirical evidence supporting a stakeholder orientated view of the corporation. Kakabadse et al (2005) explain how the stakeholder literature is intertwined with literature on corporate responsibility even though the two concepts developed separately and have different emphases. When we discuss a stakeholder view of the corporation we do not suggest that sound business objectives ought to be compromised in the wake of social goals, rather that organisations must try to achieve their own objectives (e.g., profitability) while at the same time satisfying in a fair way the legitimate claims of their stakeholders (Kakabadse et al 2005). This is sometimes termed an enlightened shareholder view of the firm but at times in reality amounts to a dynamic balancing act based on a company's circumstances as they change over time. Our proposition is that by putting in place governance structures and processes for CSR, companies are better able to take all stakeholders' interests into account in their decision-making and monitor and report on progress towards greater corporate sustainability.

Important context to the issue of corporate responsibility is that still today in many countries much of what companies do under this heading is voluntary, though legal and regulatory initiatives continue to be introduced. Both the strategic purpose and objectives of the corporation and reporting on the achievement of these objectives remain tenuous and contested in terms of the law in many jurisdictions (Stout 2012; Clarke 2013; Clarke and Monkhouse 1995). While northern European countries in recent decades have built on their social-democratic traditions and have evolved strong stakeholder orientations based on the understanding that other groups in addition to

shareholders have claims on the company's assets and earnings, and make a contribution to the company's capital, Anglo-Saxon jurisdictions in recent times have not formally embraced the stakeholder concept in anything other than a very narrow sense (Karmel 1993), though there is a significant stakeholder tradition to be rediscovered (Phillips and Freeman 2010). In the US, 'constituency statutes' were enacted into the corporations law of more than forty states from the 1980s onwards as a device to help protect companies faced with hostile predatory takeovers which were fuelled by junk bonds during the aggressive takeover era of the 1980s (takeovers in which all interests were often ignored other than those of the acquirer, as indeed in the process of privatisation of state assets wider stakeholder interests have often been neglected (Clarke 1993). Though often portrayed as 'stakeholder statutes' designed to protect wider corporate interests than simply shareholders (reviving the Berle and Dodd debate half a century earlier), most of the statutes were concerned largely with what directors could do in the event of a takeover (Keay 2013:190). The statutes in Arizona and Idaho went further and did require directors to consider the long-term interests of the company, while the Connecticut statute went furthest in a stakeholder direction, empowering directors to consider stakeholder interests where control of the company was at issue:

> "(A) director of a corporation shall consider, in determining what he reasonably believes to be in the best interests of the corporation... (3) the interests of the corporation's employees, customers, creditors and suppliers, and (4) community and social considerations including those of any community in which any office or other facility of the corporation is located" (Conn 2005; Keay 2013:189).

In the UK, *The Modern Company Law Review* and the ensuing 2006 *Companies Act* represented a major effort to focus directors minds on their long term duty to have regard to the interests of a wider group of stakeholders, and in s.172(1) explained the duty as:

> "A director of a company must act in a way that he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to –
>
> (a) The likely consequences of any decision in the long term
> (b) the interests of the company's employees
> (c) the need to foster the company's business relationships with suppliers, customers and others
> (d) the impact of the company's operations on the community and the environment

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly between the members of the company."

However there is little evidence at this stage that this restatement of directors duties has in itself made a material difference to board decision-making in the UK (Keay 2010).

In Australia corporate law is even more narrowly focused and states simply that company directors and officers must exercise their powers and discharge their duties "in good faith and in the best interests of the corporation". As the corporation is an intangible legal creation, the ongoing debate is whether it should be personified narrowly as the owners of the corporation (the shareholders) or more widely to encompass the interests of all stakeholders (to include employees, customers, the local community etc). There have been no court cases in Australia that clarify this issue definitively, and therefore the phrase is still open to subjective interpretation (Redmond, 2012: 324; Clarke 2013). Two formal inquiries were conducted in 2005/2006 looking at whether there was a need for law reform to support directors in considering stakeholders other than shareholders. These two inquiries, one by the Corporations and Markets Advisory Committee (CAMAC Report) and one by the Parliamentary Joint Committee on Corporations and Financial Services (PJC Report), both concluded that there was no need to change the law.

Both inquiries supported a flexible interpretation of the corporation that would permit directors to take into account stakeholders' interests without forcing them to do so. Taking action to reduce damage to the environment or to treat employees equitably (to the extent this is over and above what is required by environmental or employment law) is therefore an optional choice for companies, motivated by a desire to improve corporate reputation and long term sustainability. The argument against expanding directors' duties to expressly include all stakeholders was one widely expressed against reform, that it would leave directors accountable to no-one and struggling to determine priorities amidst conflicting interests. The CAMAC Report concluded:

> "The Committee does not support the revision of the Corporations Act in the manner referred to in these questions. The established formulation of directors' duties allows directors sufficient flexibility to take relevant interests and broader community considerations into account. Changes of a kind proposed from time to time do not provide meaningful clarification for directors, yet risk obscuring their accountability"

In short, in Australia directors are permitted to take different stakeholder interests into account but only to the point that this can be argued to be good for long-term shareholder wealth. As Marshall

and Ramsay state, "the extension of duties of directors has not been attended by the extension of rights for stakeholders" (2009:16). This situation has been termed an enlightened view of shareholder primacy, such that, although the ultimate long-term aim of a corporation is to increase shareholder value, this involves taking into account the interests of other stakeholders – for a firm to be successful it helps if employees are motivated, communities supportive and customers loyal.

In countries with corporate governance systems based on Anglo-American law, shareholders have commonly been seen as the owners of a company and their interests have taken priority, though in fact the legal and practical basis for this is open to question (Stout 2012; Clarke 2013; Weinstein 2012). Other legal traditions, particularly in continental Europe and Japan have given more rights to employees and creditors and less to shareholders. In the 1990s it was thought that the globalisation of financial systems might be causing convergence of corporate governance systems towards the Anglo-American model because it was based on stock market principles (Guillen 2000). However, the evidence presented in this paper suggests any convergence would more likely be toward the hybrid model suggested by the OECD in 1998. What we seem to be seeing, through the lens of corporate responsibility is an emerging trend towards a more stakeholder orientated view of the corporation in Anglo-American countries, certainly in the United Kingdom and Australia. This paper therefore contributes to corporate governance theory by providing evidence that supports a stakeholder view of the corporation. As Donaldson and Preston explain, stakeholder theory can be used to both describe and explain corporate behaviour (1995:70). The scope of corporate governance in effect has broadened such that it no longer involves only accountability to shareholders but to a wider group of stakeholders interested in both the financial and the non-financial aspects of a company's activities.

IMPLEMENTATION OF CORPORATE RESPONSIBILITY

The huge body of literature on corporate responsibility includes much on why companies should voluntarily adopt a responsible approach to business but very little on how this might be achieved in practice (Baumann and Scherer 2010; Schembera 2012:6; Lindgreen et al, 2008; Yuan et al, 2011:76). This is partly because of the difficulty in defining corporate responsibility in a practical sense - its meaning can be very different depending on a company's size, industry and location. Ultimately, every company has to develop a CSR strategy tailored to both internal and external contingencies which will be unique to the company concerned:

> "It is important to reemphasize that corporate sustainability is fundamentally a complex problem and there are no approaches that universally apply. Corporations are faced with

differing stakeholder demands, continually shifting priorities, and a multitude of alternatives to address their sustainability challenges" (Searcy, 2012:250).

However with the development, and widespread voluntary uptake, of international standards and frameworks for corporate responsibility, such as the United Nations Global Compact (UNGC) and the Global Reporting Intiative (GRI), research into effective implementation is becoming more and more important (Baumann and Scherer, 2010, Schembera, 2012, Maon et al, 2008). These instruments provide broad principles and reporting frameworks but leave it up to the companies to decide how to implement these principles. The Global Reporting Initiative (GRI) has been adopted world-wide as a means of integrated reporting. Together with many other international, national and private sector initiatives the knowledge and practice of sustainability and corporate social responsibility has gained global significance (Table 1). However the proliferating range of sustainability standards and initiatives themselves poses challenges even for corporations committed to performing well:

"The current CSR landscape is complex and multi-faceted. There are now literally hundreds of private initiatives, often with their own code or set of standards and principles which offer guidance on social and environmental issues. Their focus, membership, usage, and structures vary widely. In the main, they share a desire to help enhance the contribution that business organisations can make to improvement of social and environmental conditions, including labour and other human rights. Since existing instruments evolve and new ones are emerging, a comprehensive yet accessible listing is almost impossible. In this complex universe there are two foremost international instruments relevant to CSR – the ILO Declaration and the OECD Guidelines – and one important international CSR initiative – the UN Global Compact (UNGC) – which have either been developed and formally agreed by governments or received high-level recognition by governments at an international level. Indeed, the standards and principles set out in the ILO Declaration, the OECD Guidelines and the UNGC are universal and derive directly from international normative frameworks. The ILO Declaration and the OECD Guidelines provide detailed recommendations on responsible business conduct, while helping businesses and stakeholders distinguish between the responsibility of enterprises and that of the state. The UNGC provides a high profile means for mobilising and encouraging enterprises to integrate CSR into their daily operations" (OECD 2009:237).

Table 1 Categories of Instruments and Initiatives Relevant to Sustainability by Issues Covered

Integrative work on combining the strengths of the central international CSR and sustainability initiatives and making frameworks more compatible and coherent is being progressed (Global Compact/GRI (2007). Paul Hohnen, a former Australian diplomat living in Amsterdam, participated in the development of the ISO 26000 standard, contributed to the updated OECD Guidelines, and was a Strategy Director of the GRI, and has helped provide useful integrative tools (GRI 2011a; 2011b). Sustainability is receiving considerably increased attention internationally, and the material link with economic, social and environmental benefits is becoming increasingly appreciated.

Nevertheless there is a need for better understanding of exactly what companies are doing in the absence of clear practical guidance. Are these frameworks simply being used as window dressing or are they motivating real change? Is there a need for the Australian government to take a more active role in guiding corporate practice? In examining the response of managers to shareholder activism, David et al concluded that their results were "consistent with other research which indicates managers may opt for symbolic, rather than substantive, responses to external pressures" (2007:98). For example, when it comes to environmental performance, Berrone and Gomez Meja point out that it might be easier for a company to set up a board environment committee than to actually reduce or eliminate toxic emissions (2009:120). Whitehouse is also sceptical, pointing out the obvious gap between the seemingly enthusiastic adoption of CSR by companies and the ambiguous nature of the concept:

> "This ability to implement policies founded upon a concept that remains ambiguous raises a number of questions regarding the definition employed by those who profess a commitment to CSR, why they have chosen to implement CSR policies, how they develop those policies and their value in terms of reducing the adverse impact of corporate activity." (2006:280)

Interest and expertise in the Australian corporate sector has developed, yet there are grounds to believe this country has not been at the forefront of appreciating or realizing the benefits of sustainability, "although CSR is clearly being adopted by a greater number of Australian companies, they continue to adopt practices that are short-term and philanthropic in nature rather than integrating sustainability into their business strategies and organisational practices" (Andersen and Landau 2006:3).

The 2012 survey of the ASX 200 companies by the Australian Council of Superannuation Investors (ACSI) revealed mixed performance: 36 companies were considered to be 'best practice' reporters on sustainability;

- almost half (49%) of ASX200 companies were rated as either *No Reporting* (34 companies) or *Basic* (64 companies)
- the majority of ASX 200 companies are yet to provide sufficient reporting on their performance against sustainability risks, indicating that they do not fully appreciate the materiality of these factors (ACSI:2012:6).

While leading corporations in Australia have demonstrated a greater interest in achieving higher standards of performance in corporate social responsibility and sustainability with regard to international frameworks (for example the big four Australian banks have all signed up for the Global Reporting Initiative), there remains much work to be done in embedding sustainability business strategies and practices. Traditionally the focus of corporate performance measures have almost entirely been concerned with economic and financial performance and it was possible to consider social and environmental impact as 'externalities.' Today there is a growing realisation that social and environmental impact must be internalised as part of business performance. Both investors and corporations are becoming aware of the importance of environmental, social and governance (ESG) factors in the estimation of corporate value:

> "ESG factors can have long-term consequences on a company's financial performance, either for better or for worse. ESG factors are now at the core of business. However, the depth and breadth of ESG factors are not fully valued by investors and company management. Companies believe that mainstream asset managers currently under or overvalue the long-term intrinsic value of companies because they fail to routinely integrate ESG factors into their investment analysis and decision-making" (UNEP FI/WBCSD 2010:7).

The task of integrating sustainability in the business models of financial institutions is an important objective: "Sustainability should not be a separate policy but integrated in the entity's strategy and business model" (FEE 2011:5). For sustainable business models to succeed a rethinking of strategic direction, implementation, core business processes and integrated reporting is necessary (Figure 1). The resulting performance requires a more balanced sense of transparency and stewardship. "Progress towards corporate environmental sustainability is a deliberative process which relates to human decision making and capabilities. Similarly, corporate social responsibility relates to the capability or capacity of managers to look strategically at the organisation's long term future in the local and global communities" (Benn and Dunphy 2011:96).

Figure 1 Building a Sustainable Business

One of the aims of this research is to inform this debate by providing a snapshot of the structures and processes being used by a sample of fifty large Australian companies to implement corporate responsibility.

Methodology

This paper builds upon research done by the authors for Catalyst, an Austrlian non-profit organisation concerned with civil rights. This work, published as a report entitled *Steering Sustainability* (2011) took twelve large Australian companies as case studies and assessed their communication, commitment, leadership and implementation of corporate responsibility. This paper presents research that builds on this initial work and develops it in two ways: firstly, to improve validity, we expanded the sample to fifty large Australian listed companies (the ASX 50 as at 29 June 2012, see Table 2); secondly, to improve reliability, we refined the assessment criteria to reduce possible subjectivity.

Table 2: Sample Companies

The methodology uses a form of content analysis, whereby each company's annual report, website and any sustainability report (as available end-September 2012) were reviewed against a set of objective criteria. Content analysis is commonly used in corporate responsibility research (Grey et al, 1995; Taneja et al, 2011) and has been defined as:

> "a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity" (Abbott and Monson, 1979)

This type of methodology has been used recently by Baumann and Scherer (2010) to examine the implementation of the United Nations Global Compact in five Swiss companies; and by Morgan et al (2009) to examine the embeddedness of corporate citizenship in twenty-five Fortune 500 companies. Kolk reviewed Fortune Global 250 companies in 2004/05 using a similar set of indicators. Our work builds on and supports these empirical studies.

The most important part of designing a process of content analysis is in deciding upon the coding categories. Generally, researchers are guided by existing theory and the hypotheses they wish to

test. The design of the research presented in this paper was assisted greatly by the preceding project, which acted as a pilot study and permitted us to take a pragmatic approach of narrowing and refining our categories based on the corporate information available, so that they would better stand the test of reliability (Epstein and King 2002). This process involved removing any categories that involved judgments such as 'poor, average or good' and reducing them to 'yes or no' indicators. Although this makes analysis of the 'quality' of corporate reporting much more difficult, it makes the methodology more robust and the results ought to be replicable. Table 3 shows the assessment criteria used for our content analysis. As with Baumann and Scherer (2010) we identify 'commitment', 'structures and procedures' (e.g. board committees) and 'interaction' (stakeholder engagement) as factors crucial to successful organisational CSR implementation. Morgan et al (2009)reviewed a wider range of indicators but included disclosure of stakeholder engagement mechanisms and dedicated board oversight committees in their 'emerging citizenship responsibilities' category.

Table 3: Assessment criteria

There are two major limitations inherent in this methodology, which must be taken into account in assessing our findings. Firstly, we relied only on published information. Companies may have structures and processes in place that they do not comment on in their formal reports, and thus we may present a less favourable view of the company than is actually the case. Yet sustainability interests the general public, and how a company communicates publicly is an integral part of its approach. For the purposes of this study we judged each company on its description and explanation of what it is doing, rather than what may be happening in practice. It is also possible that in reviewing the large amount of material available, we missed information relevant to a particular topic. However, as the research team was experienced in reviewing this type of information it is likely that any information overlooked would also be overlooked by other stakeholders.

Secondly, we used a qualitative methodology which relied partly on the researchers' judgment. We attempted to reduce the potential for subjectivity by assessing each company against clear indicators and providing justification for our assessments in written summaries. Two researchers reviewed the material available and categorisation was agreed upon by both to reduce any individual bias (Denzin, 1975).

Findings

COMMUNICATION

Despite a range of different approaches to sustainability across the companies reviewed, we found a clear trend towards increased 'mainstreaming' of sustainability and signs of its integration into core business strategy. Reflecting this increased integration, 36 out of 50 companies had integrated sustainability information within their annual report and 27 had a substantial stand-alone sustainability report. Only one company (News Corporation Ltd) had no formal reporting on sustainability although there was a section of the company's website dedicated to the company's 'global energy initiative'.

Reporting

Our findings support the conclusions of KPMG (2011) that integrated reporting is the next step in the development of corporate reporting. In their 2008 survey KPMG found that only 4% of the 250 largest global companies had experimented with some form of integrated reporting whereas in 2011 the percentage had risen to 26%. Our findings also support KPMG's view that, although companies are attempting to integrate their reporting, in the majority of cases this involves a dedicated section in the annual report rather than truly combined performance reporting, suggesting that integrated reporting is still in an 'experimental stage' (KPMG, 2011:24). We followed KPMG's approach of taking a broad view of integrated reporting classing a report as integrated if it included sustainability information. As KPMG comment, many companies only go as far as including a dedicated section on sustainability and it is less common to find companies that have taken the extra step of weaving corporate responsibility information throughout the directors' report.

The status of integrated reporting as the next stage of reporting is confirmed by the establishment in 2010 of the International Integrated Reporting Committee (IIRC) which is leading the development of a globally accepted integrated reporting framework. The Committee states that:

> "An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term."

Table 4 Integrated Reporting

The prototype integrated reporting framework encourages companies to report in relation to a broad range of 'capitals' or resources used and created by the organisation. These include the traditional focus: financial capital but also - manufactured capital, human capital, intellectual capital, natural capital and relationship (or social) capital (IIRC, 2012: 11). The IIRC see the integrated report as a concise document that may be supplemented by separate sustainability reports and financial statements (Table 4). Thus our assessment criteria (integrated, stand alone or several reports) were not mutually exclusive and we saw a broad range of approaches towards overall reporting. . For example, Commonwealth Bank Australia and Westpac Banking Corporation published both an integrated report as well as a stand-alone sustainability report. National Australia Bank, Telstra, Orica and Oil Search, in addition to publishing an integrated report, produced several stand-alone sustainability reports each providing additional information on a particular aspect of sustainability – people, community environment etc. Rio Tinto's main sustainability report was integrated and it had not published an individual group sustainability report, but had produced several individual reports for specific sites and projects.

Thus the traditional annual report still exists, as do the comprehensive stand-alone sustainability reports that became popular ten years ago. All companies now have a highly develop website, some of which simply provide electronic copies of the published reports, others present information that may summarise or supplement what is in the formal publication. Sometimes this made it difficult for us to assess the scope of the information available because several sources had to be reviewed: perhaps an annual report, an annual review, reports dedicated to specific aspects of sustainability (e.g. people, environment or a specific location) as well as website information. Some companies had two corporate websites, one consumer-focused and one shareholder-focused. This is potentially confusing for a stakeholder interested in sustainability issues, especially if sustainability is dealt with differently on the two websites.

These examples illustrate the various issues faced by companies in communicating their efforts towards sustainability, namely (1) how much information should be disclosed (2) through what medium; and (3) whether it should be targeted towards particular stakeholders. Targeted reporting (for example Qantas' data book for investors, or Woolworths' consumer website's sustainability information) may not be the best approach, on the basis that many interested readers will not fall neatly into any one category. Although the IIRC framework may assist in defining the content of integrated reports there will still be additional information that needs to be arranged and presented in a clear fashion – stakeholders are in danger of being overwhelmed by annual reviews, financial statements, sustainability reports, GRI indexes and a wealth of other information some of which is

audited, some of which is assured and some of which is simply marketing material. In 2008, Kolk concluded that it was unclear how reporting on sustainability governance might best be reported. Certainly, companies are still experimenting with different communication approaches, each of which has its advantages and disadvantages.

Stakeholder engagement

Although formal reporting through the annual report and sustainability report is a vital component of communication from a company to its stakeholders, there are many other methods of communication that a company can use to both provide information and seek feedback. The Global Reporting Initiative (Guidelines 4.14 to 4.17) recommends that companies disclose: a list of stakeholders with whom they engage; the basis for identification and selection of those stakeholders; their approaches to engaging with stakeholders including their methods and frequency of engagement; and also: "Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting" (Guideline 4.17). Of the 28 companies in our sample using the GRI framework, 22 reported against all of GRI guidelines 4.14 to 4.17, and five companies reported against some of these guidelines.

Before any company can engage with stakeholders it must first define and identify who is included in this term. A broad definition of stakeholder includes any group or individual that can affect or is affected by the corporation (Freeman, 1984). This is commonly thought to include shareholders, employees, customers, suppliers, local communities and those representing the environment, meaning a broad range of engagement methods will be necessary:

> "Given the varied set of organisational stakeholders, engagement practices may exist in many areas of organisational activity including public relations, customer service, supplier relations, management accounting and human resource management." (Greenwood, 2007:318)

Like corporate responsibility, academic understandings of stakeholder engagement tend to vary depending on the context or background from which research stems. Greenwood (2007:319) lists at least 20 different perspectives found in the literature including: risk management, knowledge appropriation, human resource management, legitimisation, participation and trust-building. Her point is that engagement in itself does not amount to responsibility unless the corporation actually acts on what they find and "balances the interests of legitimate stakeholders in a manner in keeping with justifiable moral principles" (Greenwood, 2007:322).

Of the 50 companies reviewed in our research, 43 identified their stakeholders and, of these, 32 explained the methods used to engage with stakeholders. Reporting on stakeholder engagement ranged from a brief sentence, “we… will continue to engage with stakeholders, improve our performance and drive for a sustainable future" (CSL Limited), to detailed tables clearly describing the use of engagement methods such as: customer focus groups, investor briefings and input into government policy-making. A wide range of stakeholders were identified including, for example, the investment community, shareholders, customers, media, business partners, employees, contractors, local and indigenous communities, industry associations, suppliers, governments and regulators, NGOs, community-based organisations and labour unions (BHP Billiton). Engagement methods described included: letters, email, websites, webcasts, internal employee groups, annual general meetings, bi-annual investor briefings, meetings with key industry groups, meetings with government representatives and initiatives with non-government organisations (Wesfarmers).

There was a correlation between those companies claiming to report to a high level against the GRI and the amount of information provided on stakeholder engagement. We found that the companies claiming to report to application level A+ all set out clearly and comprehensively the methods of stakeholder engagement used and the topics discussed.

One of the limitations of this research is that we cannot know if this interaction actually occurs on a regular basis. Using in-depth case studies as a methodology, Baumann and Scherer found that “external stakeholders are not integrated on a regular but on a case-by-case basis and most of the time interaction takes place in a situation of crisis” (2012:30). This supports Mitchell et al’s 1997 model of stakeholder salience which argues that stakeholder theory must account for power and urgency as well as legitimacy. It also supports Greenwood’s theory that stakeholder engagement and management do not equate to corporate responsibility, rather are a process that may, or may not lead to corporate responsibility (2007).

COMMITMENT

On the basis that corporate responsibility in Australia is still essentially voluntary we chose to evaluate corporate commitment, by looking at which voluntary reporting frameworks and benchmarks companies were choosing to apply. The Global Reporting Initiative (GRI) is the primary international standard for sustainability reporting and this was confirmed in our sample. Of the 50 companies 31 used GRI indicators in their reporting. Of these, 28 provided a GRI index, a reference table which enables the reader to see which guidelines the company has disclosed against, and where to find those disclosures. These indexes make it possible for an interested reader to find

comparable information across different companies. It must be emphasised that the GRI only provides a reporting framework designed to encourage companies to report across a broad range of topic areas: GRI A, B or C ratings refer only to 'application levels', that is, the extent of reporting (the number of guidelines disclosed against). They do not reflect an assessment of the quality or accuracy of the reporting. When an application level has been checked by the GRI, this again refers only to the extent of reporting and is not a check of quality. Use of a plus (+) signal indicates that external assurance was used for the report, although this is often only for limited aspects of it. Studies have found that when companies state that they have reported against a guideline they do not always provide all of the information suggested by the guideline (Banarra, 2011). Of the 50 companies in our sample, 15 stated that they reported at an A level, 8 companies at B level and 5 at C level. Three companies did not specify their GRI application level whereas 21 had used external assurance to confirm their application level. In their survey of ASX 200 companies, the Australian Council for Superannuation Investors found that 38 companies structured their sustainability reporting to the GRI, meaning that they used a GRI index and declared an application level (ACSI 2012:5). They found a strong correlation between size and use of the GRI, with 52% of the ASX 50 structuring their reporting in accordance with the GRI as compared to only 5% of the ASX 200 (ACSI, 2012).

The GRI recommends that companies disclose their involvement in 'externally developed economic, environmental and social charters, principles or other initiatives' and that their disclosures: "differentiate between non-binding, voluntary initiatives and those with which the organization has an obligation to comply" (Guideline 4.12). Of the 28 companies in our sample producing a GRI Index, 24 stated that they reported against guideline 4.12. Importantly, this requires companies to distinguish between compliance with voluntary and mandatory initiatives. In our reviews we noted several companies that did not make this clear. For example, many companies mentioned Australian government initiatives such as the Energy Efficiency Opportunities scheme, the National Greenhouse and Energy Reporting system and the National Pollutant Inventory. These initiatives have been implemented by law, meaning that companies falling within their remit must comply or face potential penalties. We noted a handful of statements where companies mentioned these initiatives in a way that could potentially mislead the reader into believing that their involvement was voluntary.

We looked for evidence of voluntary commitment by companies to three well-established initiatives: the United Nations Global Compact, the Carbon Disclosure Project and the London Benchmarking Group. The Global Compact comprises ten broad principles in the areas of human rights, labour, the environment and anti-corruption which companies can voluntarily commit to uphold. It is expected

that companies will provide a ‘communication on progress’ (COP) to demonstrate their implementation of the principles. The Carbon Disclosure Project and London Benchmarking Group are more like the GRI in their format: they provide a framework for reporting : the aim is to offer a methodology for measuring and disclosing information so it can then be meaningfully compared and benchmarked across different companies. The Carbon Disclosure Project provides methods for measuring not only greenhouse gas emissions but also water management and climate change strategies. The London Benchmarking Group develops methodologies that enable benchmarking of the value of community investment.

Figure 2 Commitment to CSR Initiatives

A positive finding was that 43 out of 50 companies stated they were voluntary members of the Carbon Disclosure Project which means that they produce and publish a report on their greenhouse gas emissions every year. On the social side, only 16 of the 50 companies stated that they used the London Benchmarking Group framework to measure community contributions. Twelve of 50 companies had signed up to the UN Global Compact (Figure 2).

Leadership

Several companies explicitly stated that they had a new strategy or method of reporting for 2010/11, demonstrating the timely nature of this research. There is definitely an increasing awareness of the expectation that sustainability ought to be managed more formally. However, the type of information in the sections on sustainability governance varied greatly both in quality and quantity. Some focused on the business case for sustainability and the strategic business drivers. Others focused on the company’s chosen priority areas, or a unifying code of conduct. Some discussed organisational structures such as board or management committees. There is a clear need for more research to better guide companies as to what it means to provide good governance and leadership for corporate responsibility. Some companies simply stated in their corporate responsibility section that they practiced good corporate governance demonstrating that they did not understand the emerging concept of governance of corporate responsibility. However, the more progressive companies appear to be putting in place procedures and frameworks to ensure sustainability is embedded across their organisation. This is what we mean by governance of corporate responsibility – it is not simply a matter of a responsible company having corporate governance systems in place but that they have specific systems for sustainability governance. Kolk’s research, conducted in 2004, found these sorts of structures and systems just starting to emerge in some of the world’s largest companies, particularly those in Japan and Europe (2008:17).

It does now seem that this practice of embedding sustainability governance is becoming more widespread. Of the ASX 50 companies, 22 disclosed that they had a board committee dedicated to sustainability, six had a dedicated senior executive committee, three reported they had a dedicated network of managers; and this left nineteen with no formal dedicated sustainability committee, even though many of these did have other structures and processes in place for managing their sustainability strategies (see Figure 3)

Figure 3 Sustainability Leadership Committees

The names of the dedicated board committees varied – twelve actually included the word sustainability in their title; eleven were called health, safety and environment committees or similar; and three had corporate responsibility in the title. These labels were not mutually exclusive, for example, AGL Energy's 'Safety, Sustainability and CSR Committee' would fall into all of these categories.

The decision as to whether a company had a 'dedicated' sustainability committee was not always easy to make. For example, on the borderline was IAG and its 'nomination, remuneration and sustainability committee' which perhaps covered rather too many other important functions to be truly 'dedicated'. Another committee difficult to place was Dexus Property's 'risk management and sustainability' committee which, despite having sustainability in the title, appeared to have a role much like any other risk committee. As a comparison, ANZ specifically stated that its nomination committee had responsibility for sustainability without putting this word in the title; Westpac had recently disbanded its sustainability committee to give responsibility to the full board; and Westfield gave a full description of reporting lines for the individuals responsible for Australian sustainability strategy without actually having a committee.

Our decision was to base our categorisation on the committee titles rather than make potentially subjective judgments about the real role of committees based on the limited information in published reports. We use committees as one indicator of the use of governance mechanisms to lead sustainability. A full understanding of how companies lead, monitor and implement their strategies requires more in-depth qualitative analysis. Our use of form rather than substance was justified further on the basis that, companies' descriptions of the role of their board committees, where provided, demonstrated a wide spectrum of functions covered by these committees.

At the bottom of the spectrum were three companies that gave no explanation of the role of the committee, thus we could only categorise based on the committee title (Origin, QR National and Crown). For seven companies, it was clear from the role description of the committee that it was primarily a compliance committee and perhaps not concerned with overall sustainability strategy. This suggests that these companies are still in Dunphy et al's compliance phase of sustainability – that the board role is primarily monitoring rather than strategy-setting. Compliance with health and safety legislation has long been a priority in the mining and oil and gas industries, particularly at board level as directors can be personally responsible. Thus, health and safety committees are not a new phenomenon but are perhaps being re-branded to include a broader range of issues. Yuan et al (2011) include this 'relabelling' phenomenon as one of their seven patterns of CSR integration. They recognise that in some cases, this can represent a convenient way to put forward a more positive image of the firm without any real changes in substance (Yuan et al, 2011:84). Moving up the spectrum there were four similar health, safety and environment committees where broader sustainability issues had been expressly added on to their compliance mandate (BHP, Coca Cola, GPT, Qantas, IAG). This was sometimes only evident because more information had been given about the actions of the committee during the year. Lastly, we placed seven companies at the top of the scale in terms of having a board committee with a focus on overall sustainability strategy and broad policy issues, even if compliance also featured in their list of responsibilities. These companies might be said to have reached Dunphy et al's strategic proactivity stage of sustainability. This is a significant development considering that Kakabadse and Kakabadse (2007) in interviews with 42 board members (albeit from only four companies) found that "one strongly held perspective of UK and US participants is that CSR has no place in boardroom discussions". This was in contrast to French and German board directors who considered CSR crucial as a strategy for stakeholder engagement (Kakabadse and Kakabadse 2007:196).

Interestingly, all of the six companies in our sample with executive (rather than board) committees dedicated to sustainability would also fall at the top of the spectrum. These companies were ANZ, NAB, Telstra, Brambles, Macquarie and Amcor and their executive committees were described in terms of having a strategy-focus, some explained reporting lines and co-ordinated implementation processes for sustainability across the organisation – these appeared as the most advanced sustainability leadership bodies. Further research exploring company motivations in setting up committees would be valuable, particularly why some decided to have a committee at management rather than board level and the consequences this may have in terms of stakeholder representation.

Companies describing a committee or network for sustainability below senior executive level also appeared advanced in their thinking. These committees comprise representatives from different business units or locations who meet regularly to improve awareness and ensure consistency in the implementation of sustainability strategies across a large organisation (Westfield, CSL, Mirvac). Case-study research would be valuable to assess whether these committees represent a bottom-up process of sustainability strategy-development or are simply concerned with implementation of specific initiatives.

The GRI guidelines include a recommendation that companies disclose information on governance of sustainability. G3.1 Guideline 4.9 recommends the disclosure of:

> "Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles. Include frequency with which the highest governance body assesses sustainability performance."

Of the 28 companies in our sample that produced a GRI index, 24 stated that they reported against this principle.

Implementation

Although some company leaders appear to be making progress towards defining and developing a more strategic approach to sustainability, to have any real effect their strategies must be put into action consistently throughout the organisation. One of the barriers faced by many companies is that they lack the frameworks through which to implement, measure and monitor a comprehensive approach. The realisation of corporate sustainability remains challenging, particularly horizontal integration of different topics (Kleine and von Hauf, 2009:521; Yuan et al; 2011: 76).

According to Lindgreen et al, implementation is the next big challenge:

> "Specifically, practitioners lack guidance on various … sustainability… implementation issues including architecture; management; building and maintenance; repositioning; communication; and performance measures" (2009:252).

As part of our pilot study we reviewed companies' disclosures for information on how they implement their sustainability strategies. We found wide variation in the amount and type of information provided. Some companies, such as Orica, offered significant detail on the policies,

standards and management systems used to implement sustainability practices across the company (and yet in practice had experienced several serious emissions failures in recent years). Others, such as BHP referred to the existence of such policies, for example, 'HSEC group level documents', without giving detail of their content. Foster's Group (no longer listed) had a somewhat different approach, referring less to processes and more to the human resources aspects of implementation, for example, the development of business unit leaders for sustainability and employee training.

Companies' disclosures illustrate the broad range of issues that can fall within the concept of sustainability and the impossibility of trying to provide generic guidance for the practical implementation of sustainability. Instead of focusing on exactly how sustainability is implemented we decided to examine the incentives in place for implementation of sustainability. On the basis that each company had set a sustainability strategy and communicated it to managers we looked to see if they had taken the next step of incorporating this strategy into its remuneration scheme. We reviewed each company's remuneration report to find out if executive remuneration was tied to non-financial performance indicators. . Berrone and Gomez Meja (2008:961) note that "the academic community has largely neglected the link between social issues and managerial pay" and this is still the case despite widespread belief that short term compensation schemes contributed to the 2008 global financial crisis (Klettner 2012; Clarke 2010).

GRI Guideline 4.5 suggests that companies should disclose the linkage between senior executive's remuneration and the organisation's performance, and expressly states that this should include social and environmental performance. We found that 24 of the 28 companies publishing a GRI index stated that they had reported against this guideline.

Overall, we found that a significant 94% of our sample, or 47 of the 50 companies stated that they incorporated non-financial performance in their remuneration schemes, usually in the short-term incentive (STI) plan. However, it was often unclear as to what the non-financial indicators were, and the proportion of remuneration dependent on them. In many cases, it seems likely that the percentage of total remuneration dependent on these factors may be a very small component of total remuneration and therefore unlikely to be a significant motivator for employees. This was also noted in Adams and Frost's study:

> "Occupational, health and safety targets are now built into the employee share plan based on the organisation meeting specific targets. Specific aspects of social and environmental performance are also built into the performance evaluation of the relevant managers,

> although the impact may be limited since profit remains the predominant determinant of the bonus." (2008:297)

Targets influencing executive bonus packages tend to direct attention. Longitudinal research into this phenomenon would be interesting as it seems likely that this is a relatively new development and companies are still grappling with how to measure non-financial performance. Morgan et al in their 2009 study of 25 Fortune 500 companies across five industry sectors found 'brief to no disclosure' on 'employee compensation linked to corporate responsibility goals and targets' across all sectors, commenting:

> "there is scant evidence in this sample that firms are linking citizenship into their performance appraisal and compensation systems. Interestingly, many feel that this is the missing component of the citizenship integration puzzle. Over 60 percent of respondents of an Ethical Corporation Magazine (2003) survey, for example, believe that management compensation linked to citizenship performance is among the top three strategies to more effective management of corporate citizenship" (2009:45).

In their interviews conducted in 2003-2004 Adams and Frost found companies just starting to use balanced scorecards in assessing executive remuneration - one British company had "…moved away from assessing managers' performance against financial KPIs and adopted a companywide balanced scorecard which has sixteen measures on it, three of the four quadrants of which relate to non-financial issues. Performance against these measures is linked to their remuneration" (2008:295). We found many companies using this approach, particularly in service industries.

Across the 47 companies who stated that they linked non-financial performance to executive remuneration there was a wide range in the level of detail on how this was done. For example, QBE Insurance states, "Our remuneration framework is designed to drive the achievement and outperformance of financial and non-financial targets", without giving further explanation. Oilsearch explains that short-term incentive plan hurdles are based on:

> "Corporate performance against operational metrics which include: safety; production; costs; increases in hydrocarbon reserves under development; and Transformational metrics which include: acquisition of new hydrocarbon resources and progress towards commercialisation of 3C gas reserves."

Here we have no idea how the single mention of safety is balanced against the multiple mentions of an array of potentially conflicting production focused metrics, or how much of short-term incentive

is dependent upon it. It is important to note that non-financial indicators do not necessarily equate directly to corporate sustainability indicators and can include measures such as production volumes. As Fortescue metals points out in relation to their short-term incentive scheme, “Of the performance objectives listed above, Cost per tonne shipped and Relative TSR would be considered “financial” and tonnes shipped, safety and target percentage of reserves mined would be considered “non-financial” objectives.”

Thirty two companies, that is a 64%, gave specific information on the weighting of non-financial performance indicators and the amount of remuneration at stake. This ranged from a possible 60% of STI at AGL to 10% at Iluka (plus potential sustainability-related individual objectives). It was common for the percentage to vary depending on each individual’s role and their capacity to influence relevant non-financial measures. Sometimes non-financial indicators made up an unspecified proportion of the ‘individual objectives’ for each executive.

In terms of the type of non-financial indicators used to measure sustainability performance, we chose to assess companies in terms of their inclusion of five areas: safety, employee engagement, customer satisfaction, environment; and community. Of these, the three most common areas of corporate sustainability to be linked to executive remuneration were occupational health and safety, employee satisfaction and customer service with environment and community being less common (see Figure 4). There were of course other sustainability issues linked to remuneration, Sonic Healthcare focused on culture, risk management and external reputation.

Figure 4: Types of sustainability performance indicators linked to executive remuneration

Twenty six companies included occupational health and safety as a non-financial performance indicator. Unsurprisingly, this was often a focus for mining or industrial companies. For example, Rio Tinto explains that:

> “Health and safety key performance indicators (measured in relation to all injury frequency rate (AIFR), Significant Potential Incidents (SPI) and Semi Quantitative Risk Assessment (SQRA)), comprise 17.5 per cent of the short-term incentive plan for executives. The extent of the impact of a fatality on the STIP score for all executives is based on an assessment by the Committee of the impact of leadership, individual behaviour and systems in the incident. For some executives, where relevant, an additional proportion of their individual objectives under the STIP are linked to safety objectives.”

Westpac explains that 10% of STI is linked to safety which is measured in terms of the Lost Time Injury Frequency Rate (LTIFR). The company states that "the health and safety of our employees continues to be a priority for us and our LTIFR improved by 25% this year, outperforming our target".

AGL's remuneration report goes into impressive detail and demonstrates the detailed measuring and target-setting that is required to include these issues in remuneration schemes:

> "99% of all specific safety action plans for 2011/12 were completed. However in terms of lagging indicators the Lost Time Injury Frequency Rate for 2011/12 was 4.2 compared to 2.1 for 2010/11 and the Total Injury Frequency Rate (TIFR) for 2011/12 was 6.6 compared to 5.0 for 2010/11. These results were not in line with our safety targets of 100% completion of our safety action plans and TIFR target of 4.0. Short-term incentive plan payments were adjusted downwards accordingly."

Almost as common was linking remuneration to customer service: twenty-four companies gauged customer satisfaction. For example, a performance indicator at Suncorp was to "improve external confidence in the Suncorp Group and achievement of target customer satisfaction". ANZ explain that their aim in this category is "to achieve top quartile customer satisfaction scores in each business based on external surveys".

There were also 25 companies describing a link between employee satisfaction and executive remuneration. The most common measure used was an employee engagement survey however some companies went further. For example, Stockland set and disclosed numerical targets for reducing employee-initiated turnover; increasing employee engagement; and increasing women in management roles. It then disclosed its progress in relation to each target.

Only eight companies used environmental impact as a performance indicator and it was often difficult to see how this was measured, for example Woolworths stated that STI was based on a measure that includes "Enhancing Woolworths' public image and reputation in community involvement, government relations, environmental sustainability and regulatory compliance". Iluka was more precise referring to "level two and above environmental incidents" as presumably impacting negatively on remuneration. Only three of the 50 companies linked executive remuneration to community issues. In all cases this was a weak link with community matters included within a bundle of other indicators.

Clearly more guidance is required on how these disclosures should be framed and the level of detail required. A statement confirming linkage between a performance measure and remuneration is not

very helpful unless the nature and extent of that link is explained. Our findings highlight an important area for further research: to identify the extent to which sustainability performance influences total remuneration. Such research would assist boards, shareholders and stakeholders in the development of more meaningful incentive and disclosure systems.

Conclusions

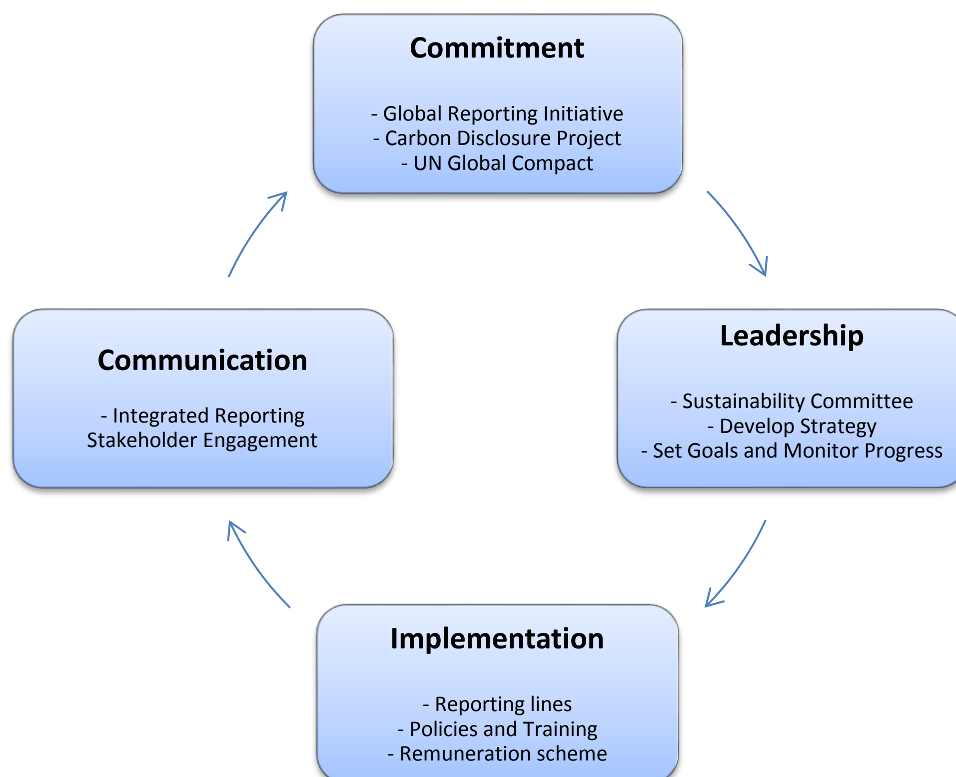
The research presented in this paper provides a snapshot of some of the practices currently being employed in large Australian companies to govern and manage their sustainability strategies. This information can be used to better understand the state of play of corporate responsibility and can inform the debate on whether stronger regulation would be of value in this area. The research provides empirical evidence of developing norms in the area of corporate sustainability and the influence of international soft law on corporate behaviour. It contributes to corporate governance theory by providing evidence that supports a shift towards a stakeholder or 'social entity conception' of the corporation (Blair 2004). We suggest that by putting in place governance structures and processes for CSR, companies are better able to take stakeholders' interests into account in their strategy development and to monitor and report on progress towards greater corporate sustainability.

The company reports reviewed in this research suggest that significant progress is being made by large listed Australian companies towards integrating sustainability into core business operations. It would appear that many large Australian companies are entering Dunphy et al's sustainability phase of strategic proactivity although a degree of caution must remain when basing conclusions on voluntary reporting. As described by Yuan et al some CSR activities may only comprise relabeling of existing activities or the addition of peripheral practices. Only in-depth case study research is likely to reveal whether companies are truly embedding CSR within their core business strategy. Nevertheless, our findings with regard to the inclusion of non-financial indicators in executive's short term incentive payments do suggest a form of integration not seen before.

Figure 5 sets out a process model based on our findings which suggests corporate responsibility can and should be developed and implemented via a cyclical process of commitment, leadership, implementation and engagement. First there needs to be commitment at a senior level to embrace a strategy of sustainability and to measure and monitor progress against clear goals. Ideally, this should include use of international or industry frameworks that permit benchmarking and comparison across companies. We found evidence of leadership structures being put in place to ensure that board and senior management are involved in sustainability strategy development and

held accountable for its implementation. Of equal importance, senior executives are starting to be incentivised (albeit to varying extents) to monitor and ensure implementation of aspects of corporate responsibility strategy through financial rewards. There is evidence of a willingness to engage and communicate clearly the results of these strategies to interested stakeholders. Overall there appears to be a developing acceptance amongst large corporations that efforts towards improved corporate sustainability are not only expected but are of value to the business. It could be suggested that this is evidence of a managerial shift away from a strict shareholder primacy understanding of the corporation towards a more stakeholder-orientated view, albeit in very market constrained circumstances.

Figure 5: Process model for implementation of corporate responsibility



In a practical sense, this research is timely, demonstrating advances in sustainability practices in leading Australian companies, but also revealing areas where there is room for improvement. Some years ago companies were congratulated for simply producing a sustainability report, even one of dubious quality. Now, companies must take extra steps to differentiate themselves; to permit themselves to be benchmarked; and to demonstrate the actual implementation of sustainability rather than just good intentions. Corporate responsibility is not a static element of the organisation.

Good practice has come about in large part because of action by various stakeholders and regulators, or because companies have received bad publicity from some neglect of their corporate responsibility. This means that the practices of companies may improve or deteriorate depending on the level of volatility in their industry sector, the direction and calibre of their leadership and/or the degree of government intervention. Indeed, the latest ACSI survey of sustainability reporting concludes that improvements over the last five years have only been minor (ACSI, 2012). We still do not fully understand the causes and incentives behind companies' sustainability strategies and thus in circumstances where action is voluntary the situation is far from stable:

> "More research is needed to explore to what extent CSR efforts are initiated as a result of outside pressures, formal top down strategy setting, grass roots initiatives from employees or middle managers, or other sources, and what kinds of catalysts are most effective in creating culture and systems change" (Van Velsor, 2006:5).

Our conclusion is that, if we wish to encourage and continue the trend towards corporate sustainability there is a need for regulatory guidance on the governance of sustainability to improve both practice and reporting in this area. Even though both the CAMAC and PJC reports rejected law reform they did suggest further research and monitoring of the situation. Perhaps the time is now ripe for further review on the basis that, "gaps in the Australian law on directors' duties result in poor guidance to directors on their proper response to social expectation and stakeholder claim, discourage corporate social responsibility initiatives and deny directors the clarity of protection from liability that they are entitled to expect" (Redmond, 2012: 339).

Despite more measuring of sustainability performance, the voluntary nature of disclosure still results in a tendency to report only the favourable numbers, with companies withholding any information they think might reflect badly on the organisation (Adams and Frost, 2008:297). This means that we still need to retain a level of scepticism when reading sustainability reports. True corporate accountability for sustainability may require tougher regulation or laws to ensure both good and bad information is revealed, or at least a statement by the chief executive officer that disclosure is 'true and fair' akin to that required for financial reporting (though the veracity of much financial reporting also remains a subject of some contention). Certainly, this is an area where guidance and recommendations can lead to more consistent and comparable disclosures, as demonstrated by the Global Reporting Initiative.

In Australia, generic guidance could most easily be achieved through amending the Australian Securities Exchange's Corporate Governance Principles. Formal incorporation of some of the

guidelines already included in the GRI would help to generalise good practice: to help Australian companies understand how they can integrate sustainability governance into their existing corporate governance systems; and to improve communication of these efforts to interested stakeholders. The approach taken on this issue could be similar to the recent amendments to the ASX Corporate Governance Principles regarding disclosure of diversity policies and the relationship between risk and remuneration. Guidance could comprise recommendations suggesting that companies:

- set up a board or senior management committee with responsibility for guiding and monitoring the development of sustainability strategy and its implementation;
- publish their policy on corporate responsibility to include: the business case; strategic drivers; the framework for monitoring and implementation; and methods for receiving input from stakeholders;
- disclose the relationship between remuneration policy and sustainability performance; and
- require designated senior executives to declare sustainability reporting as presenting a 'true and fair' view.

No governance process can be entirely failsafe. As we conducted this research, several of the companies in the sample received negative publicity for various reasons, for example, chemical giant, Orica was very slow to alert the public about a serious spill from a major plant; and a dispute between the airline, Qantas, and its workforce escalated to national significance following the grounding of its aircraft. Despite these events, the value of good governance and leadership is well-proven for providing the structures and processes needed to guide a company through the intense pressures of the business cycle. As sustainability becomes more integrated into business strategy it must also be integrated into existing corporate governance systems:

> "corporate governance is gradually becoming a framework for ensuring the public interest in business as well as structuring the procedures by which a company demonstrates its good citizenship and commitment to various constituencies." (Gill, 2008: 455)

Our results show some limited support at least for the emerging theory of corporate citizenship as a process of implementing a social contract between the organisation and the community in which it operates. (Garriga and Mele, 2004:56; Donaldson and Dunfee, 2000). A combination of good governance, strategic management and stakeholder engagement is required if a company is to find

this balance most effectively, not only for the long-term sustainability of its operations but also for its ongoing legitimacy within the community.

While on balance the results of this survey are reassuring regarding the widespread gradual movement of businesses to become better corporate citizens, there are countervailing indications of the fundamental orientations of companies changing little. For example in Australia the big four banks (WestPac, ANZ, CBA and NAB) have distinguished themselves at the forefront of the corporate social responsibility movement, yet consistently flag record increases in profitability (sometimes enhanced by large scale redundancies of staff), while not restraining interest rates for their customers. More worrying still is the increasing evidence emerging that leading US corporations are amassing huge cash fortunes in overseas tax havens, rather than repatriate these and face US corporate taxes. This irresponsibility is occurring at a time when US employment is weak, and government debt is escalating, and question fundamentally the corporate citizenship of the entities in question.

The study described in this paper has more focused concerns: to provide a snapshot of the corporate responsibility practices of fifty Australian companies as well as an insight into likely future trends. This study contributes to the increasing body of knowledge of corporate responsibility implementation in large, economically influential organisations. It also shows how corporate responsibility remains a work-in-progress; and an ongoing challenge for companies to implement well and credibly. More research is needed to explore the options surrounding implementation systems for sustainability, particularly how to incorporate non-financial performance indicators into remuneration policy. Companies also need more guidance on how to lead and govern sustainability, including how to integrate this with existing corporate governance systems.

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