

7. CONCLUSION AND RECOMMENDATIONS

A decade after the Inquiry into Corporate Responsibility and Triple Bottom Line reporting, the time is ripe for the Government to revisit the issue. The present emphasis on self-regulation leaves social and environmental matters peripheral to business and banking strategies. Although banking supervision has become stricter after the global financial crisis, banks are still allowed to take a voluntary approach to social and environmental issues. Consequently, the market power of banks to inspire sustainable enterprise is not fully leveraged, while their actions continue to contribute to social and environmental detriment. Perversely, focus on corporate social and environmental voluntarism has created a governance gap that allows for unsustainable behaviour to be obscured by symbolic efforts.

Yet it should not merely be the existence of mandatory regulation that prompts responsible behaviour by banks and companies, but the dynamics following from the interplay of organisational culture, industry standards, institutional settings, and public scrutiny. The pursuit of self-regulation aimed at aligning incentives, counteracting information asymmetry, and establishing appropriate levels of risk is only fruitful if associated principles or standards are clearly formulated, broadly mandated, actively monitored, and effectively integrated into corporate governance – a system which at all times should reflect the requirements of public law and authority, as well as civil society.

In order for social and environmental responsibilities to become a core part of business and banking operations, some crucial elements need to be considered.

Further aligning the incentives of banks with community interests is greatly served by expanding the duties of directors to take into account social and environmental elements. Defining disclosure requirements and enshrining these in corporate governance systems would help to harmonise standards, increase comparability and enhance transparency, while reducing information asymmetry and the occurrence of moral hazards. Finally, corporate risk assessments should be based on the precautionary principle: if a proposed activity has a suspected risk of causing harm to society or the environment, and there is no consensus that this activity is not harmful, the burden of proof that it is *not* harmful should fall on the prospective financiers of this activity.

Most importantly, the Government should more actively fulfil its duty as the guardian of public interest. The neoliberal doctrine has convinced successive governments that the role of the state in governing business ought to be as small as possible.

The crux of the matter is more complex, as we have seen, and there is good reason to expand the role of the state to rebalance governance responsibilities. This issue is not limited to the topics covered in this report, but is part of a larger contemporary struggle. It is with good reason that the most often voiced unease about the **Trans-Pacific Partnership** agreement concerns the proposed investor–state arbitration, which would enable multinationals to sue governments outside of national legal frameworks to get taxpayer compensation for loss of expected future profits due to government actions.¹³⁴ This example illustrates what is at the heart of the issue: unbalanced governance arrangements that unjustly favour the interests of companies over state authority and community welfare.

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Appendix A

Agricultural Bank of China
Allied Irish Banks
Australia & New Zealand Banking Group
Banco Santander
Bank of America
Bank of China
Barclays PLC
BNP Paribas
China Construction Bank Corporation
Citigroup Inc
Commonwealth Bank of Australia
Credit Agricole Group
Deutsche Bank
Groupe BPCE
HSBC Holdings
Industrial & Commercial Bank of China
Japan Post Bank
JPMorgan Chase &Co
Lloyds Banking Group
Mitsubishi UFJ Financial Group
Mizuho Financial Group
National Australia Bank
Royal Bank of Canada
Royal Bank of Scotland Group
Societe Generale
Sumitomo Mitsui Financial Group
Toronto-Dominion Bank
US Bancorp
Wells Fargo
Westpac Banking Corp

Appendix B

Voluntary Disclosures

Sustainability Report
Type of Sustainability Report (Stand-alone)
Type of Sustainability Report (Integrated)
Global Reporting Initiative
Independently checked
Application level
Transparency of environmental performance
Quantitative environmental management targets
Carbon Disclosure Project
ISO 26000

Responsible Finance

Microcredit
Climate products
Socially responsible investing
Dow Jones Sustainability Group Index
FTSE4Good
Environmental policy
Environmental risk management
Screening of specific sectors
Equator Principles

Stakeholder Engagement

Identifies stakeholders
Explains methods of engagement
Community involvement
Sponsoring
Training and education
Diversity and opportunities
Feedback from employees
Global Compact
UNEP Finance Initiative

Corporate Governance

Board committee
Senior management committee
Code of Conduct
Remuneration incorporates non-financial measures
Safety performance (OHS)
Environmental performance
Customer satisfaction
Employee satisfaction
Community

Glossary

Application Levels: A matrix that outlines the level at which companies have applied the GRI in their performance reporting.

Basel Committee on Banking Supervision: A body concerned with the prudential regulation of banks. The membership consists of 28 central banks.

Climate Products: Financial products that offer customers the opportunity to invest in organisations and projects that have a neutral or beneficial effect on carbon emissions.

Equator Principles: A standard developed by the United Nations for assessing environmental and social risks in projects.

External Assurance: A process where an independent organisation reviews and verifies a company's reporting in relation to the GRI.

Fiduciary Duties: The responsibility a company director holds to act in the best interests of the company, predominantly defined in corporate law.

Financial Sector: Part of the economy that is primarily concerned with the transfer of money and financial products including borrowing and lending.

Financial Stability Board: An international body that monitors the stability of the global financial system. Membership consists of countries and organisations.

Global Reporting Initiative (GRI): Guidelines and indicators that streamline how to report on a range of matters including environmental, social and governance issues.

International Monetary Fund: An international organisation that aims to promote and facilitate international trade. It currently has 188 member nations.

Information asymmetry: A situation where one party in a (financial) transaction has superior knowledge to the other party.

Integrated Reporting: Incorporating environmental, social, governance, and financial performance disclosures into a single document.

ISO26000: Voluntary guidelines on the socially responsible behaviour of companies and other organisations.

Microcredit: Small loans typically given to people, organisations or communities experiencing poverty or significant hardship.

Moral Hazards: A situation where one party in a (financial) transaction bears an uneven amount of risk compared to another party, which the latter party exploits.

Market Capitalisation: The aggregated market value of shares issued by a publicly listed company.

NGOs: Non-Government Organisations exist outside government and business sectors. They generally have a social, political or environmental cause.

Shareholder Primacy: The practice of giving priority to shareholder interests ahead of other stakeholders of companies.

Social License to Operate: Refers to the level of public approval for a company and its operations.

Socially Responsible Investing (SRI): Investing in companies or activities that are considered ethical or sustainable.

Sustainability indices: Indices that measure the performance of publicly listed companies based on long-term economic, environmental and social criteria.

Trans-Pacific Partnership: A proposed trade agreement between the USA, Japan, Malaysia, Singapore, New Zealand, Canada, Chile, Brunei, Mexico, Peru and Vietnam.

Triple Bottom Line: A reporting concept where financial, social and environmental aspects are all taken into account when assessing an organisation's performance.

United Nations Global Compact (UNGC): A voluntary initiative that organisations can choose to participate in to improve corporate social and environmental performance.

United Nations Environment Programme Finance Initiative (UNEP-FI): A body that calls on financial institutions to consider social and environmental impact of operations.

