



WORKING WITH



Disclosures on stakeholder engagement
Reporting Trilogy – Research on sustainability reporting in Australia Part 1

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Foreword

This report is the first of three in a series of research projects carried out by ACCA Australia/NZ, in collaboration with Net Balance Foundation Limited, investigating trends in certain selected areas of sustainability reporting and disclosures in Australia. The three topics are: stakeholder engagement, climate change and human capital management.

The aim of this trilogy of research projects is to delve deeper into 3 key areas of sustainability reporting by analysing the level and quality of disclosures by large Australian corporates. Stakeholder engagement (the theme of this particular report) has for a long time been recognised as extremely important for corporations, helping to manage (social and environmental) risks, improve reputation, identify new business opportunities by gauging customer/consumer needs and concerns, boost employee morale and input into business strategy and policy. This report summarises the findings of the research, identifying any trends, outlining strengths and weaknesses and making recommendations for the future.

The two research papers on climate change disclosures and human capital management disclosures will be published later in 2007.

Who is a stakeholder?

Businesses are now sitting up and noticing their stakeholders: but who are these influential and often powerful groups? And, what is their agenda? A stakeholder is someone who has a 'stake' in the business, not necessarily financial. One of the important stakeholder groups is employees. Another is shareholders. Others may include, in no particular order of importance, partners, suppliers, regulators, community, non-government organisations, the media and customers. Stakeholder theory uses the levels of influence and interest of a stakeholder to determine their level of importance.

Businesses, particularly those with multi-stakeholders, are confronted with a continuous need to identify, manage, respond to and keep pace with stakeholders, and their varying needs and demands. Often, businesses find it a challenge to keep their stakeholders engaged so that when confrontational issues do arise stakeholders are better informed.

One of the more fundamental questions about the notion of sustainability within a business context is whether directors have a fiduciary duty to take into account interests of those parties other than investors, and taking the extreme view, are they in fact in breach of fiduciary duty by doing so.

However, reputational damage caused by stakeholders is known to bury businesses in the vortex of quick sand before they manage to comprehend a solution, or indeed even understand what went wrong.

An organisation's reporting of its social and environmental performance is increasingly being regarded as a key form of stakeholder engagement, and the most accepted formal way of communicating sustainability and non-financial information to stakeholders and shareholders.

Methodology

This report summarises the findings of research carried out by an independent analyst on the largest 50 companies in Australia (at the time of the project start date, which was early October 2006) using the Australian Securities Exchange (ASX) Top 50 (by market capitalisation) index. The research was based on a series of “Yes/No” criteria developed by UK based charity “The Environment Council”, whose purpose is to pioneer the use of more collaborative and interactive techniques to co-create or inform decision-making in the sustainability arena. Criteria they were assessed against were split into five different sections, as follows:

- **Stakeholder identification**, which considered whether reporters define and identify their key (and “second-tier”) stakeholders, explain how they engage with them and disclose the level of perceived interest of these stakeholders
- **Evidence of engagement**, which focussed on disclosure of evidence, or case studies, as to how companies engage with stakeholders, why they engaged, what the outcomes or impacts of dialogue were (for example, policy and strategy development) and whether engagement was included in the assurance process/statement
- **Targets and metrics**, which examined whether the reporter disclosed any targets relating to engagement with stakeholders (either future, or performance against past objectives) and whether any metrics were used to explain performance. Training in stakeholder engagement was also assessed.

- **Integration of engagement programmes**, which assessed the level to which stakeholder dialogue was integrated into the organisation as part of an official programme (with senior responsibility and future plans etc) as opposed to a one-off, “add-on” procedure. It also looked at the range of dialogue methods covered in the report
- **Use of engagement results in report development**, which considered if the reporting organisation disclosed whether feedback from stakeholder engagement processes was used in developing the content and style of the report. It also looked at whether the reporter disclosed particular comments/concerns/queries raised by stakeholder during this engagement.
- **Opportunities for feedback**, which looked at the way in which the report invited feedback from stakeholders, (by email, phone, webform, or to a particular member of staff) and whether there was an explanation of how the feedback would be used.

Information used in the analysis included hard copy sustainability/CSR/social and environmental reports, web-based reports and any social and environmental information included in the annual report and accounts.

Ten of the fifty report analyses were checked by a secondary researcher for any inconsistencies and for moderation purposes.

1	Alumnia	26	Mirvac Group
2	Amcor Ltd	27	National Australia Bank
3	AMP Limited	28	Newcrest Mining Limited
4	ANZ Banking Group LTD	29	Orica Ltd
5	Aristocrat Leisure Limited	30	Origin Energy Ltd
6	Australian Gas Light Company	31	Promina Group Limited
7	AXA Asia Pacific Holdings Ltd	32	Publishing & Broadcasting Limited
8	BHP Billiton Ltd	33	Qantas Airways Ltd
9	Bluescope Steel Limited	34	QBE Insurance Group Limited
10	Boral	35	Rinker
11	Brambles Industries Ltd	36	Rio Tinto Ltd
12	Centro Properties Ltd	37	Santos Limited
13	Coles Myer Ltd	38	St George Bank Ltd
14	Commonwealth Bank Of Australia	39	Stockland
15	CSL Ltd	40	Suncorp-Metway Ltd
16	Fairfax (John) Holdings Limited	41	Tabcorp Holdings Limited
17	Fosters Group	42	Telecom Corporation Of NZ Ltd
18	GPT Group	43	Telstra Corporation Limited.
19	Insurance Australia Group (IAG)	44	Toll Holdings Limited
20	James Hardie Industries N.V.	45	Transurban Group
21	Lend Lease Corporation Ltd	46	Wesfarmers LTD
22	Macquarie Airports	47	Westfield Group
23	Macquarie Bank Limited	48	Westpac Banking Corporation
24	Macquarie Goodman Group	49	Woodside Petroleum Limited
25	Macquarie Infrastructure Group	50	Woolworths Ltd

Table 1 – the ASX Top 50 Companies used in the analysis

Results

OVERALL

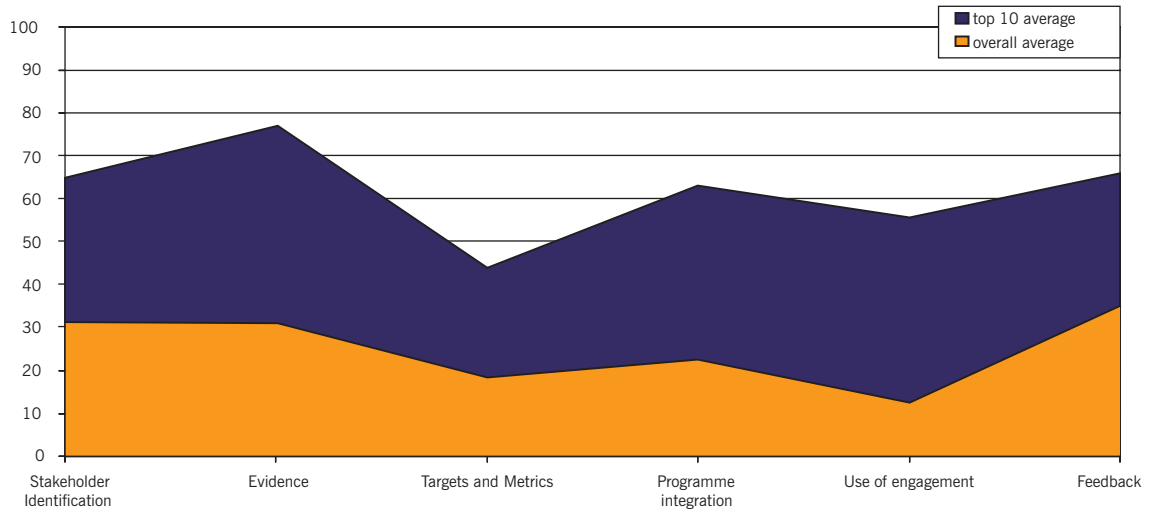
There is a large variation in performance of the companies included in this research, with a top score of 97% overall (BHP Billiton Ltd) and a low score of 0% (Aristocrat Leisure Ltd). The average score of all 50 companies was 25%, showing that there is much progress to be made in many of the reports considered in the analysis. The same was true of the individual criteria sections – scores ranged from the maximum 100% right down to 0%. (See table 2 for the top scoring companies in each criteria group.) This is not to say, however, that stakeholder engagement is not taking place at these organisations, just that efforts go largely unnoticed by readers due to the lack of disclosure on engagement mechanisms and results.

Criteria Group	Top scoring company	Score	Average score of all 50 companies
Stakeholder identification	BHP Billiton Ltd National Australia Bank	100%	31%
Evidence of engagement	BHP Billiton Ltd National Australia Bank	100%	31%
Targets and metrics	BHP Billiton Ltd Boral	80%	18%
Integration of engagement programmes	BHP Billiton Ltd	100%	22%
Use of engagement results in report development	BHP Billiton Ltd	100%	13%
Opportunities for feedback	BHP Billiton Ltd	100%	35%

Table 2: top scoring companies in each criteria group

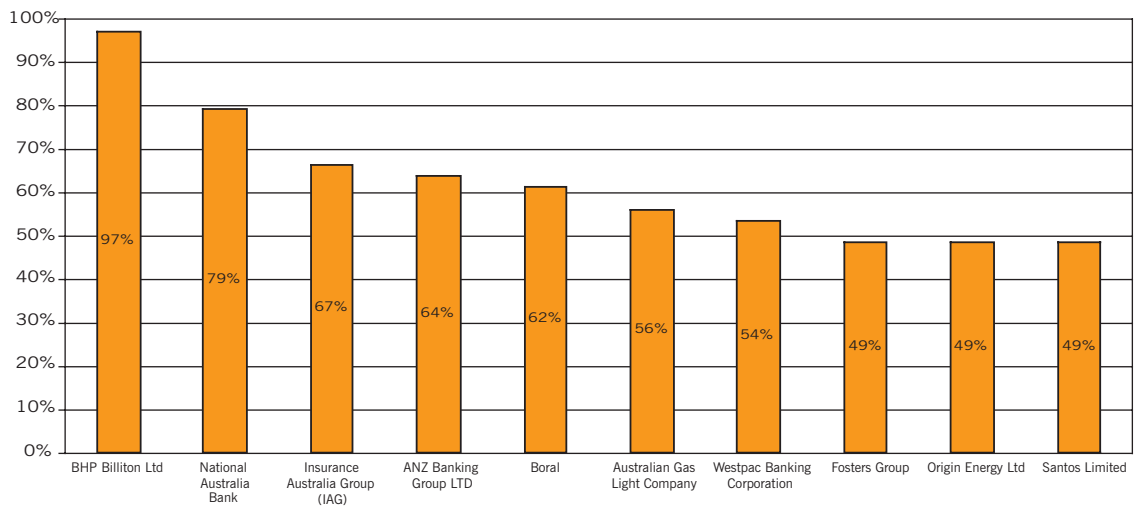
Results

Average percentage score of the 50 companies in each criteria group, compared with the top 10 companies



In Australia, the top 10 companies' (based on overall percentage score) ranged from 97% (BHP Billiton Ltd) down to 49% (Santos Ltd) and only two companies scored over 75%.

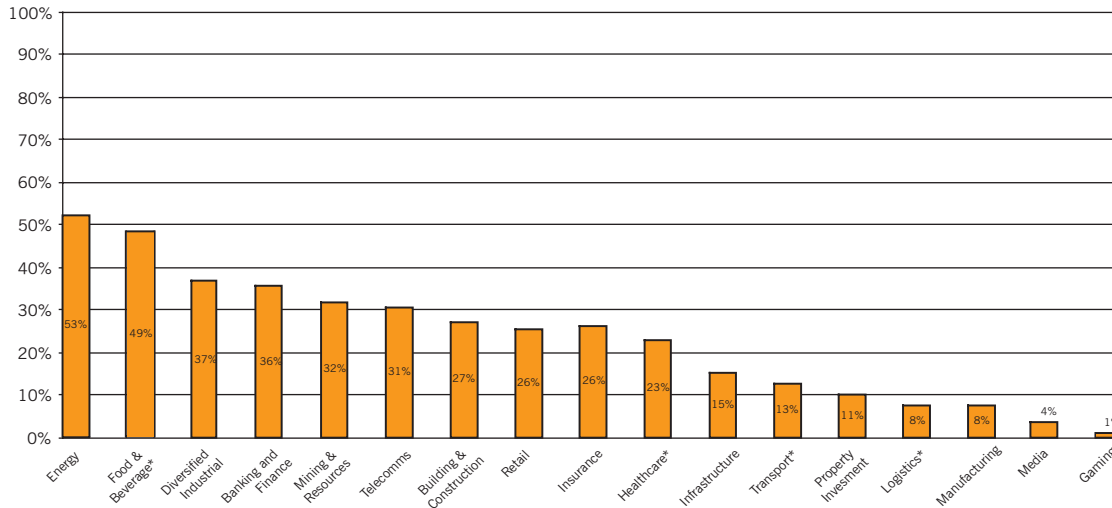
Top 10 performing Australian companies



These top scoring companies were from a variety of different sectors including Mining & Resources, Banking and Finance, Insurance, Building and Construction and Energy. There was therefore no particular sector that was leading in these top companies. Energy was the highest scoring sector overall in the analysis with 53%.

Chart showing overall performance in the different sectors

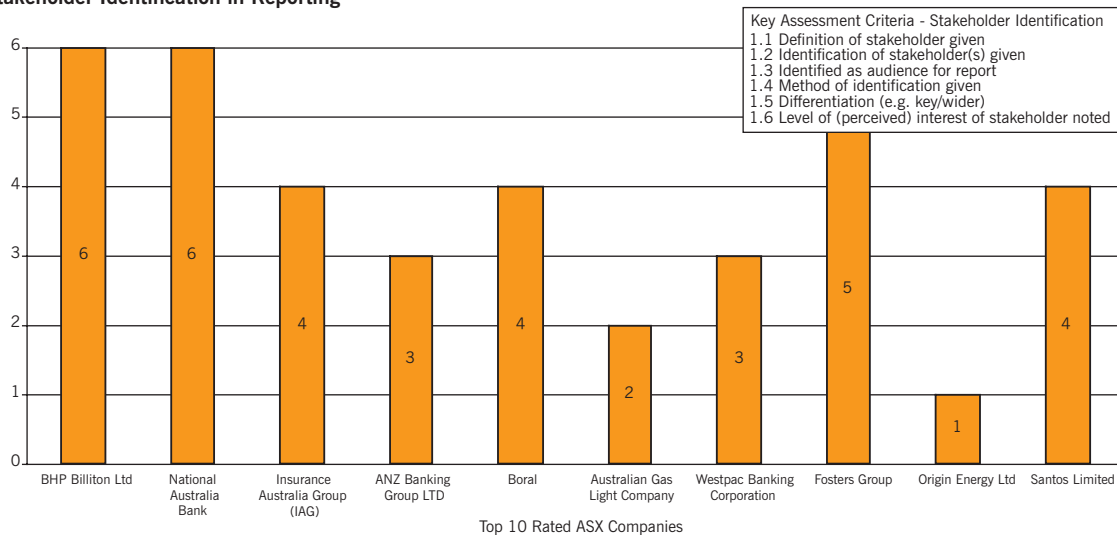
* only one company in this sector



CRITERIA GROUP RESULTS

Stakeholder identification

Stakeholder Identification in Reporting



40 of the 50 companies included in the analysis went some way towards fulfilling these criteria. Performance within these 40 companies was, however, varied. BHP Billiton Ltd and National Australia Bank were the only two companies to score the maximum 100%, many others only fulfilled one or two of the individual criteria. Whilst 27 companies identified their stakeholders, only 15 explained the differentiation between key and wider groups. The overall performance of the 50 companies in this criteria group was 31%.

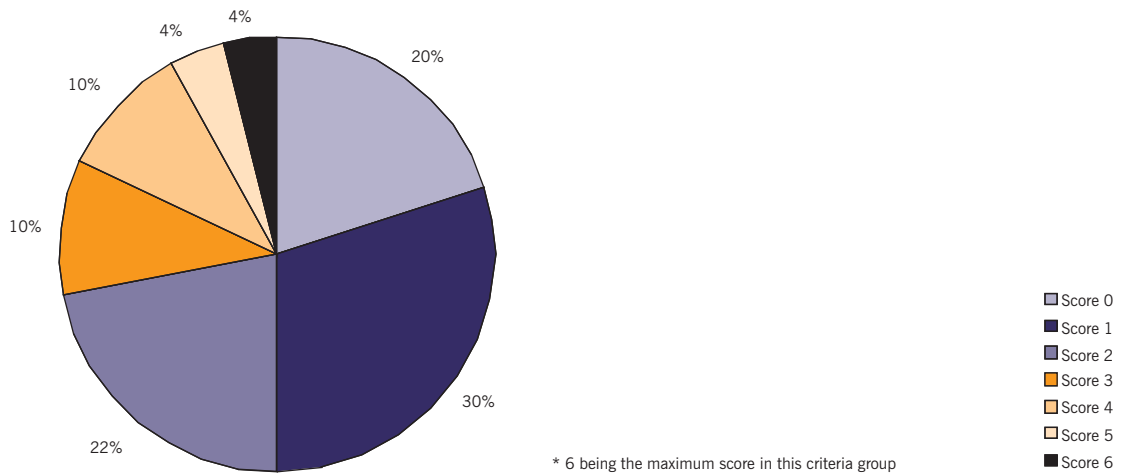
BEST PRACTICE CASE STUDY

BHP Billiton Ltd – score 100%

BHP’s report clearly identifies and defines each of its stakeholder groups, including employees, contractors, local communities, shareholders, customers, investors, partners, unions, NGOs, governments and the media. As well as identifying them, a detailed description of the engagement mechanisms with each is also given, including links to specific case studies. BHP was also one of the few reporters in the study that explained the perceived level of interest of stakeholders in the report and its content:

“Interaction with all our stakeholders is a critical element in our ability to learn and evolve our approach, and each year we conduct formal dialogue sessions with a broad range of stakeholders on topics of strong interest for a broad cross-section of stakeholders. In 2006 the sessions focused on biodiversity and uranium and provided not only useful feedback on our approach but an opportunity to tap into ideas and to test concepts.”

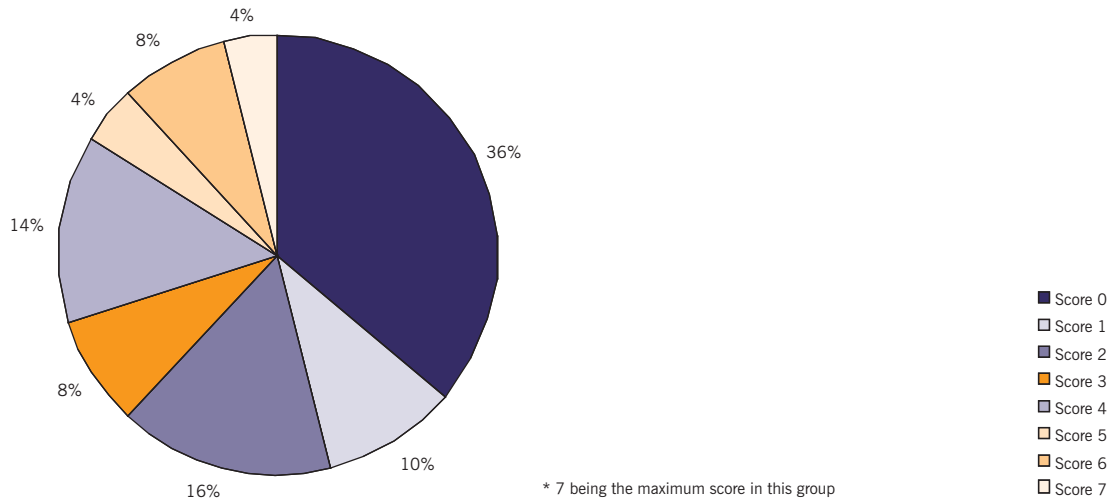
Percentage of companies that score 0-6* in the Stakeholder Identification criteria group



Evidence

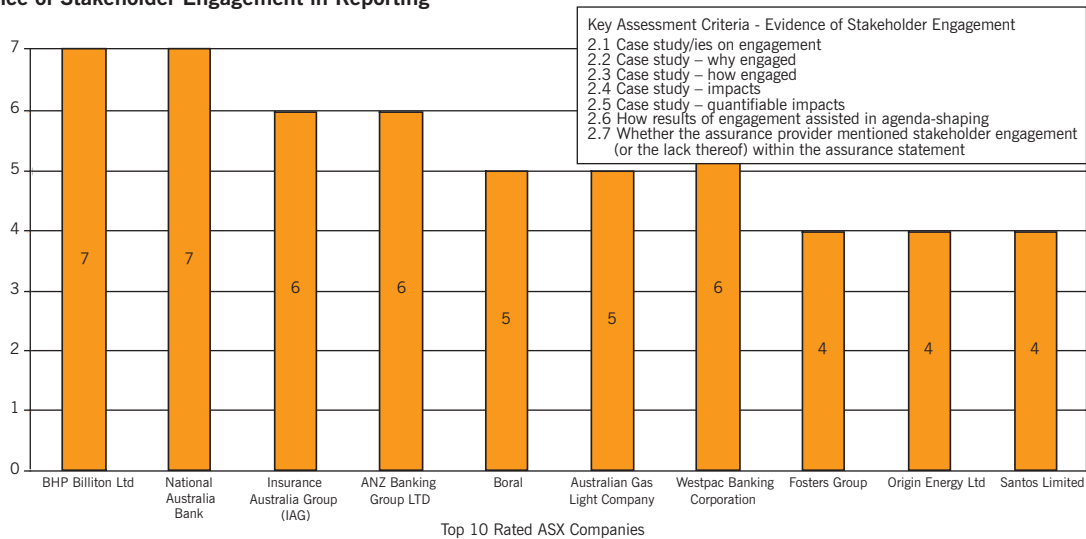
Eighteen companies from the sample of 50 did not provide any evidence of engaging with stakeholders. Only two companies – BHP Billiton Ltd and National Australia Bank scored the maximum, showing they disclosed in detail their methods of engagement, any outcomes of dialogue and also included engagement with stakeholders and responsiveness in the external assurance process.

Percentage of companies that score 0-7* in Evidence criteria group



Performance of remaining companies, as for the previous criteria group, varied. Only 9 companies, for example, explained how the results of dialogue were going to be used to develop strategy and policy, whereas 21 companies gave an explanation as to why they engaged with their stakeholders in the first place. The average score of all companies was 31%.

Evidence of Stakeholder Engagement in Reporting



BEST PRACTICE CASE STUDY

National Australia Bank – score 100%

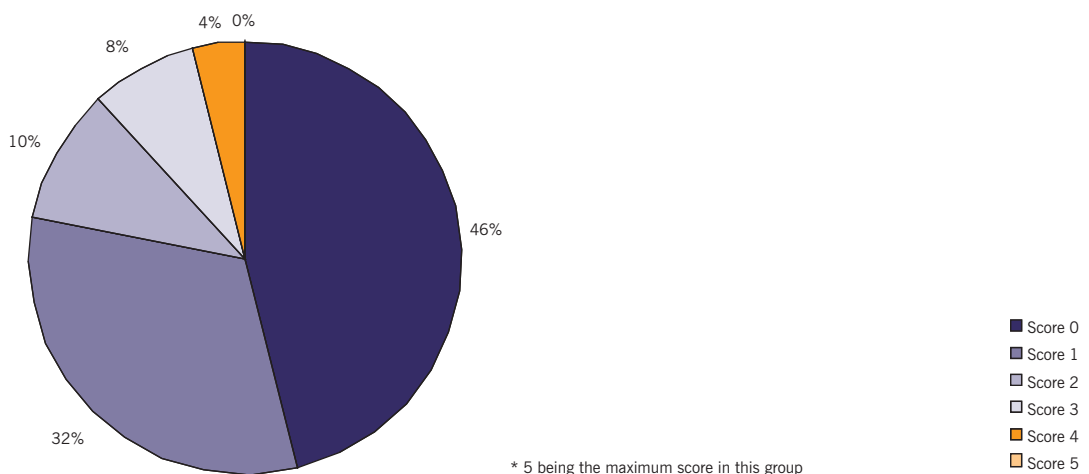
NAB has included several case studies in its report explaining how the company engages with its stakeholders, including employee surveys, an external stakeholder forum, workshops and meetings with institutional investors. NAB is one of the few companies in the survey to explain how the results of stakeholder dialogue have been used to develop internal policies and processes. This is an essential element of engagement, ensuring that views and concerns are being responded to, risks identified and mitigated and employee morale maintained:

“Further cultural change activities focused on embedding our Corporate Principles included a series of senior leadership workshops in Australia, New Zealand and the UK. These workshops, held in early 2005, were forums for open discussion that resulted in 470 of our managers across the Group making personal commitments in regard to how they would demonstrate the principles in action. These commitments were then communicated to other staff in team meetings.”

NAB’s assurance provider, for the first time in 2006, has also assessed the how the organisation has used the results of dialogue to identify opportunities for further improvement.

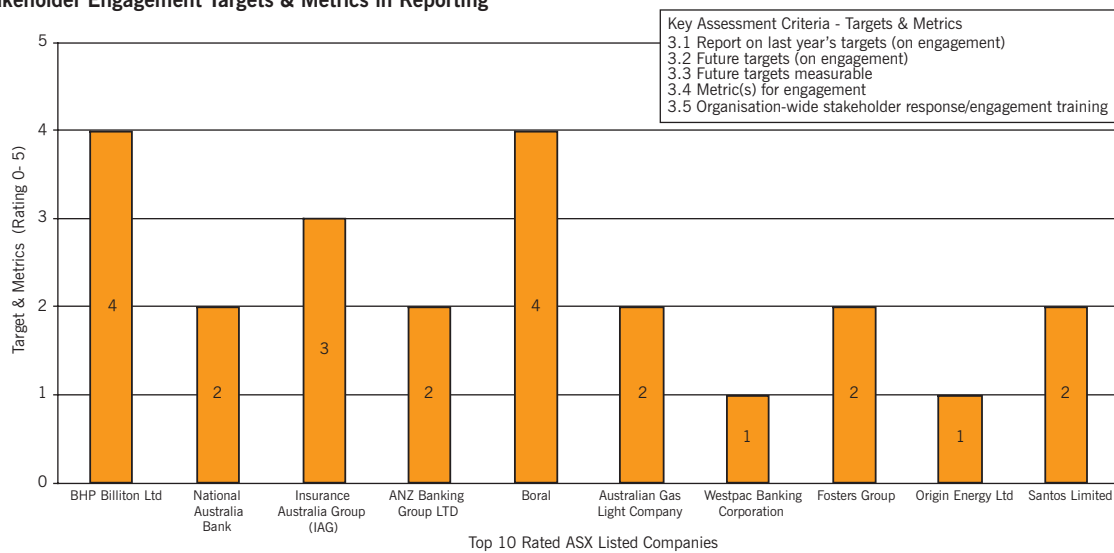
Targets & Metrics

Percentage of companies that score 0-5* in Targets and Metrics criteria group



Perhaps not surprisingly, due to the complexity of target and metric setting, performance was second lowest in this criteria group. Twenty-seven of the 50 companies included stakeholder engagement targets or metrics in some way in their reporting, but none of these 27 disclosed information on any employee training programmes on the subject. Eight companies disclosed future targets and explained performance against previous goals related to dialogue (although these weren't the same 8 companies for both). The average score of all companies was just 18% and BHP Billiton Ltd and Boral were the highest scoring companies with 80%.

Stakeholder Engagement Targets & Metrics in Reporting



BEST PRACTICE CASE STUDY

Boral – score 80%

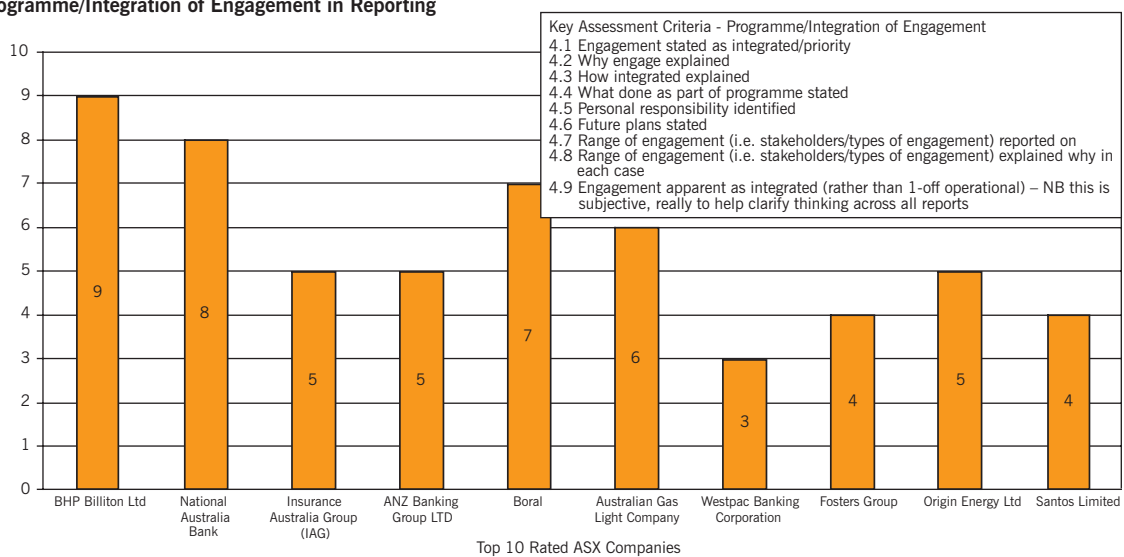
Boral includes, in its report, a quantitative chart detailing its performance from 2001 to the present day in sustainability, including stakeholder engagement, as well as the “score” that it strives to achieve in 2007. As well as this quantitative measure of its performance, the report also includes more qualitative objectives for the company’s stakeholder engagement processes, for example:

- Continue to implement stakeholder engagement plans at high risk or strategic quarry sites, including community consultation where appropriate
- Undertake stakeholder risk assessments for all businesses, prioritising sites that require development of stakeholder engagement plans

Programme/integration of engagement

Twenty-six of the 50 companies went some way in explaining how stakeholder engagement was integrated into operations and processes as part of an official programme. The top scorer (and only company to score the maximum 100%) was BHP Billiton Ltd, closely followed by NAB with a score of 89%. Only 5 companies explained in their report that stakeholder engagement was considered a priority in their operations and processes and even less – 2 companies – explicitly stated that there was someone with particular responsibility for stakeholder engagement. The average score of all companies was 22%.

Programme/Integration of Engagement in Reporting



BEST PRACTICE CASE STUDY

BHP Billiton Ltd – score 100%

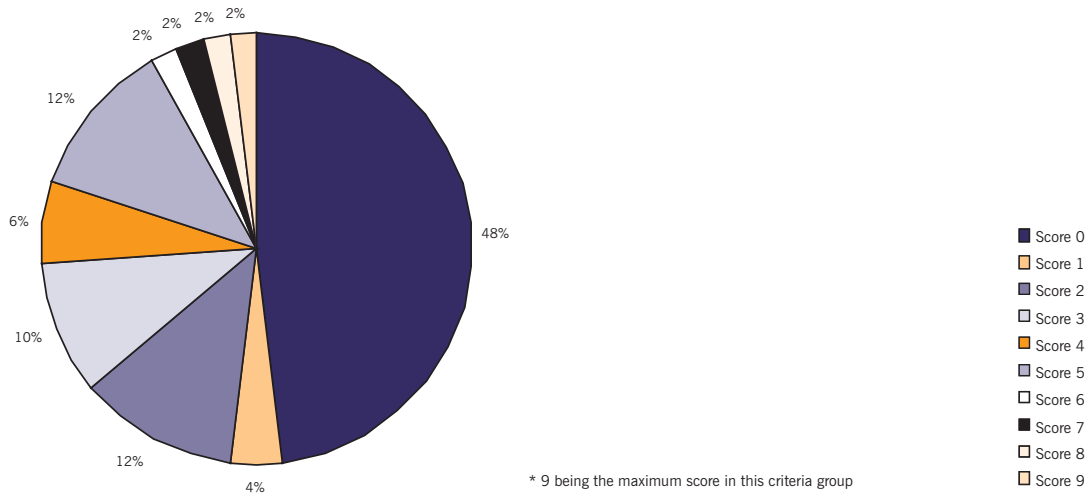
BHP indicates in its sustainability report that stakeholder engagement is not a one-off event, but a programme that is firmly embedded into business strategy and operations. Its sustainable development policy has a specific clause relating to engagement with stakeholders –

“Wherever we operate we will develop...systems...that drive continual improvement and ensure we:

- *engage regularly, openly and honestly with people affected by our operations, and take their views and concerns into account in our decision-making”*

– as has its HSEC Management Standards. This latter document is 28 pages long, and contains an entire section on communication, consultation and participation and is communicated to all employees. The report also states that 98% of sites that require a community relations plan have operational or regional plans in place already and a total of 81 sites have a formal stakeholder consultation process in place. This all indicates that the company takes engagement seriously and has integrated it into management processes, target setting and policy/procedures.

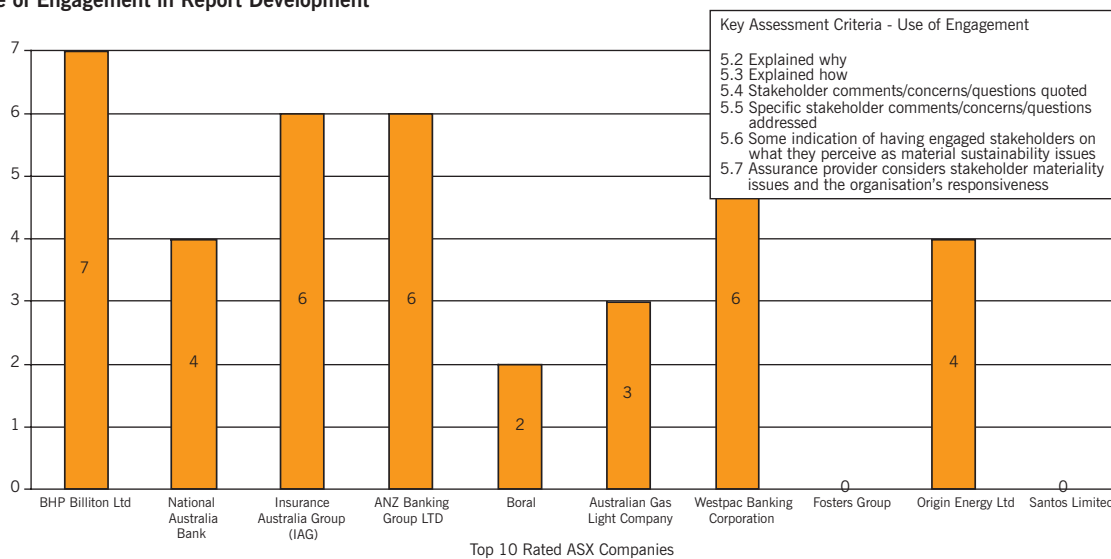
Percentage of companies that score 0-9* in the Integration of Engagement criteria group



Use of engagement in developing report

Just fourteen of the 50 companies reported in some way on how they used the results of stakeholder dialogue to shape the report, including individual comments or queries raised during this dialogue. The top scoring company was BHP Billiton with 100%, followed by three organisations in the financial sector – Insurance Australia Group, ANZ Banking Group and Westpac Banking Corporation with 86%. National Australia Bank is also in the top 10 scoring companies in this criteria group, indicating that the financial sector is keen to transparently disclose stakeholder opinions and queries. However, the overall score for all reports in this criteria group was just 13%, the lowest of all the criteria groups.

Use of Engagement in Report Development



BEST PRACTICE CASE STUDY

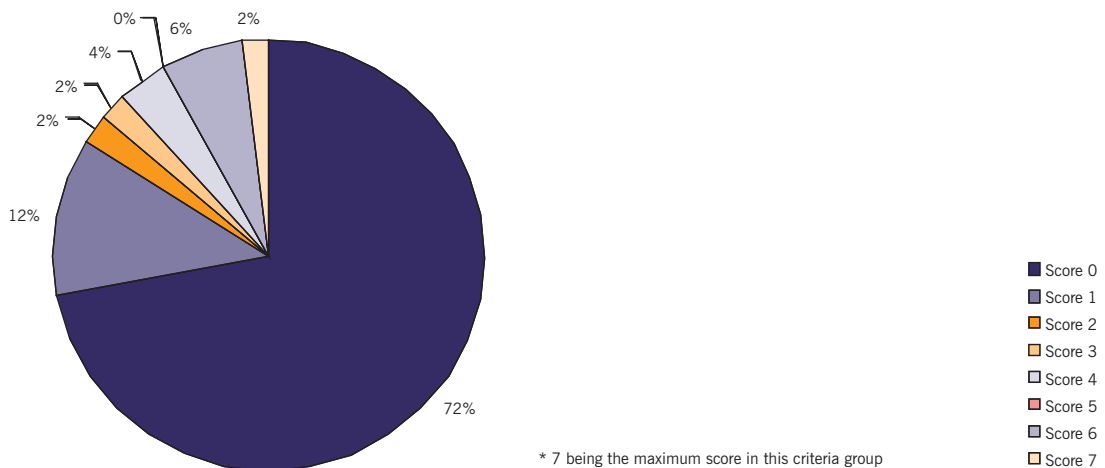
Westpac Banking Corporation – score 86%

The Westpac report clearly states that stakeholder dialogue is used to select key issues to include in future reports:

“We seek to stay on top of emerging trends and sensitive issues through effective and regular dialogue with stakeholders. We maintain continuing multilateral and bilateral dialogue around specific issues to determine social, environmental and financial priorities...The issues emerging this year included workforce demographics, postcode poverty, climate change...details on the range of issues and our response are included in both our half and full year Extended Performance Announcement”

All the issues highlighted by dialogue as being cause for concern or discussion are responded to in the report commentary. This shows that the company considers its stakeholders’ opinions as being key in deciding which are the material issues for the business and should therefore be reported upon. There are few companies in the analysis that make this link clear.

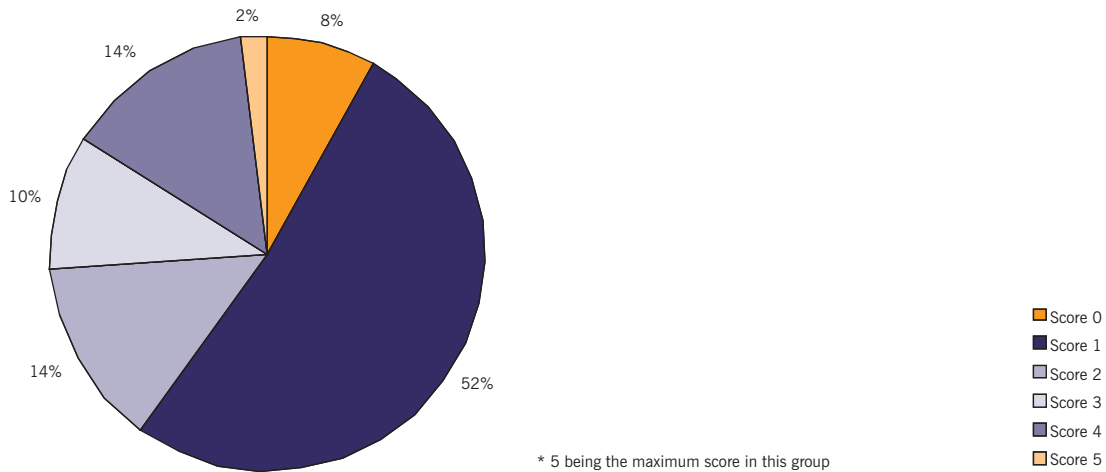
Percentage of companies scoring 0-7* etc in Use of Engagement criteria group



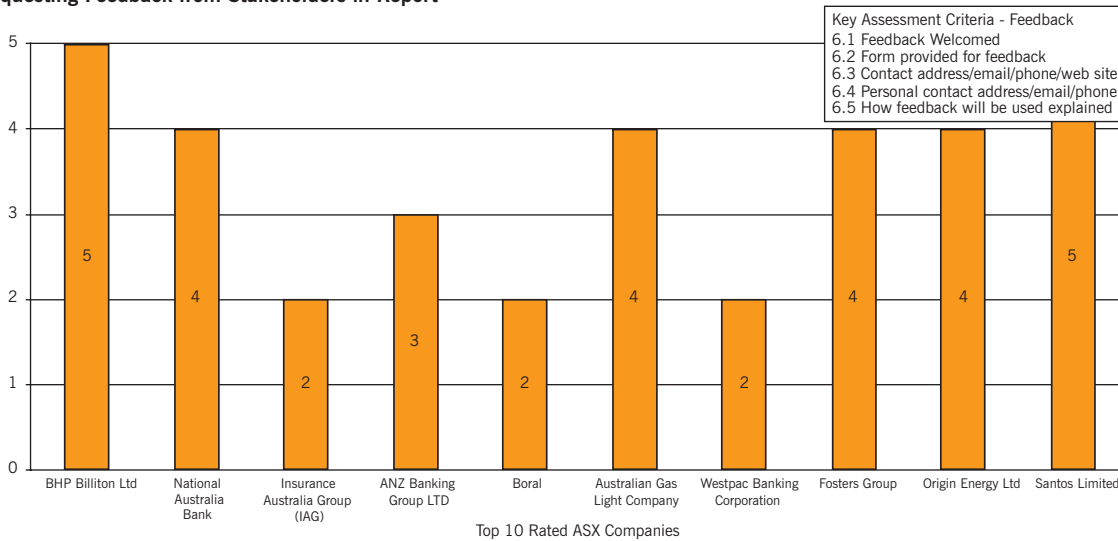
Feedback

The average score for this criteria group overall was 35% – the highest scoring group overall in the analysis. Eighteen of the 50 companies specifically invited feedback on their report (rather than just include a standard contact phone number and web address on the back cover) but, only 6 explained how this feedback would be used in future reporting processes, for example, selecting issues to include or report style. Eight companies specified a particular manager that readers could contact, rather than a generic email address or phone number.

Percentage of companies that score 0-5* in the Feedback criteria group



Requesting Feedback from Stakeholders in Report



BEST PRACTICE CASE STUDY

BHP Billiton – score 100%

BHP Billiton’s report provides readers with a number of different communication methods for feeding back on its contents. There is a named person – the Vice President of Sustainable Development and Community Relations – along with a postal address, phone and fax number and email address. There is a link to an on-line feedback mechanism. The report also states that comments on the content and useability of the report are “*appreciated as they are useful in preparing future Reports*”.

Recommendations for improving Stakeholder Engagement reporting of Australian companies

The following key recommendations are made from the analysis:

- Reports should clearly define and identify the organisation's stakeholders, including explaining the process by which they have been identified
- Organisations should give an overview of why and how they engage with each stakeholder group, giving case study examples. Explaining how this dialogue impacted on the organisation's processes also helps to put the engagement into context
- Targets and metrics on stakeholder engagement are currently rare in reporting. Reporting organisations should treat dialogue targets the same as any other environmental or social target, with explanations of past performance, with new qualitative and/or quantitative targets set when existing ones achieved
- Reporting on stakeholder engagement should make it clear that dialogue mechanisms are fully integrated into the business as part of an ongoing programme rather than an ad-hoc process.
- As well as using the results of dialogue to shape policies and procedures within the organisation, feedback should also be used to select material issues for inclusion in the report that stakeholders consider to be the most important.
- Reporting should inherently be linked to stakeholders through a feedback loop – a lack of engagement in developing corporate reports indicates that the audience may be forgotten in reporting. A number of feedback options – web, email, phone and post should be offered, with a particular, named member of staff as being responsible for sustainability.

Three critical factors need to be considered in developing a stakeholder engagement strategy

- Stakeholder enslavement and empowerment: The organisation should not be governed by stakeholder demands, but rather should empower stakeholders to help the organisation meet its objectives.
- Stakeholder fatigue – the extent of stakeholder dialogue in the current market, especially with NGOs, is leading to what is commonly known as stakeholder fatigue. It is therefore essential to gauge the level of consultation and engagement needed in developing the strategy, and to ensure that stakeholders are engaged on relevant issues to both the organisation and themselves.
- Stakeholder materiality – The AA1000 Assurance Standard (AccountAbility 2003) suggest that issues material to stakeholders should be considered and managed by organisations. Issues material to stakeholders have the potential to become material liabilities or assets to organisations.

Conclusions

- Overall, despite some high quality disclosures from a few companies, Australian reporting on stakeholder engagement has significant scope for improvement. This is demonstrated by an average overall score of just 25% across all 50 companies
- Areas of strengths identified in the analysis included the identification of stakeholder groups in reports and including an opportunity for feedback via phone, email or post.
- Areas of reporting that were particularly weak were disclosing targets and metrics on stakeholder engagement and explaining how the results of engagement were used in shaping policies, strategies and processes, as well as the report itself.
- The relatively low score across all 50 companies indicates that Australian reporters are not yet regarding stakeholder dialogue as a key way of minimising risks, enhancing reputation and accessing innovative ideas for new products and services.
- Stakeholder engagement should therefore be a pro-active mechanism to stay ahead in all these areas, rather than a reaction to, for example, a major incident
- Many of the companies in this study may be involved in stakeholder engagement as an organisation, but do not report on it. In order to operate transparently, the details and results of this dialogue should be disclosed in the main sustainability report as stakeholder engagement is seen by many to underpin the principles of accountability and responsibility.

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Appendix 1

ABOUT ACCA

The ACCA has, for many years, been considered a leader in sustainability related issues, including reporting, assurance, research and corporate governance. The Sustainability Reporting Awards (formally Environmental Reporting Awards) was set up initially in the UK over 15 years ago, designed to highlight and reward best practice approaches to reporting, increase awareness of key accountability and transparency issues and encourage the uptake of reporting. Since then, a number of national ACCA offices have set up their own awards schemes, including in Australia/NZ in 2003.

ABOUT NET BALANCE FOUNDATION

Net Balance Foundation Limited (www.netbalancefoundation.org) is a not-for-profit think-tank specifically set up to work with small to medium enterprises, research groups, industry groups, professional associations and other not-for-profit groups in the pursuit of sustainable business. The Foundation also undertakes research and consultancy projects on a not-for-profit basis, with the caveat that the research would be made publicly available for the public good. At Net Balance Foundation we believe that the fundamental purpose of business is to grow shareholder value by providing goods and services that reflect market and community needs at affordable prices, and reflecting actual value that incorporates environmental and social costs and benefits. We believe that this approach will contribute to stakeholder value creation in business, thereby reducing reputational risk and preserving the license to operate. More importantly, externalising such costs, we also believe, will only contribute to losing competitive advantage over the longer term. Net Balance Foundation draws its resources from Net Balance Management Group (www.netbalancemanagement.com), which is a niche sustainability advisory and assurance firm.

Appendix 2

COMPARISONS WITH OTHER STUDIES ON STAKEHOLDER ENGAGEMENT

ACCA UK research on stakeholder engagement

In 2004, as part of the Awards for Sustainability Reporting theme, the ACCA carried out research into the standard of UK companies' reporting on stakeholder engagement. This research was carried out in partnership with the Environment Council and all 84 entrants into the awards were included in the analysis: Some key results from the UK analysis, are as follows:

Criteria	UK (% of companies)	Australia (% of companies)
Identification of stakeholders	65%	56%
Differentiation between key and wider stakeholders	27%	34%
Inclusion of evidence of stakeholder engagement processes	80%	62%
Disclosure of forward looking targets relating to engagement	48%	16%
Explanation of how engagement is integrated into operations and processes	45%	52%
Statement that engagement is a priority	68%	10%
Use of engagement in developing report	35%	74%
Invitation of feedback on report	76%	36%
Provision of a feedback form	27%	18%

The Accountability Rating ®

The Accountability Rating ®¹, a study carried out by CSR consultancy csrnetwork™ and international think-tank AccountAbility, looks at the accountability of the 50 (formerly 100) largest companies in the world, by revenue as well as the ten largest companies in 5 industrial sectors. One area of this Rating focuses solely on stakeholder engagement, assessing the extent to which companies disclose information on their stakeholders and dialogue methods, responsiveness to stakeholder concerns and integration of dialogue results into decision making processes. According to this study, the UK was the highest scoring country, with an average of 45% which indicates not only that Australian companies have some way to go before achieving this standard, but that the UK is leading globally in this area. However, that is not to say that there is not still scope for improvement for even UK companies in the future.

1. See www.accountabilityrating.com

Appendix 3

G3 CRITERIA ON STAKEHOLDER ENGAGEMENT

In Section 2 of the G3 Guidelines, called “Standard Disclosures”, there is an entire section on stakeholder engagement, under the sub-section “Governance, Commitments and Engagement”. These criteria are as follows:

Stakeholder engagement

The following disclosure Items refer to general stakeholder engagement conducted by the organisation over the course of the reporting period. These disclosures are not limited to stakeholder engagement implemented for the purposes of preparing a sustainability report.

4.14 List of stakeholder groups engaged by the organisation.

Examples of stakeholder groups are:

- Communities;
- Civil society;
- Customers;
- Shareholders and providers of capital;
- Suppliers; and
- Employees, other workers, and their trade unions.

4.15 Basis for identification and selection of stakeholders with whom to engage.

This includes the organisation's process for defining its stakeholder groups, and for determining the groups with which to engage and not to engage.

4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.

This could include surveys, focus groups, community panels, corporate advisory panels, written communication, management/union structures, and other vehicles. The organisation should indicate whether any of the engagement was undertaken specifically as part of the report preparation process.

4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.

There is also a stakeholder inclusiveness principle under Section 1 – “Defining Report Content”. This outlines the importance of stakeholder engagement when selecting key material issues for inclusion in a sustainability report. For more information, consult the GRI website at www.globalreporting.org

Seven steps to better stakeholder reporting, ACCA UK (2004)

There is no 'right' way to report on stakeholder engagement – it depends on number of issues including how much of a strategic priority it is, the issues relevant to the sector and who the particular stakeholders are. However, there are certainly some important questions to ask if stakeholder engagement is to be explicitly addressed within a report:

1. Who is the audience for our report and how can they get involved?
2. How is our report relevant to them?
3. How is materiality determined, if not with our stakeholders?
4. Why do we engage with our stakeholders?
5. How do we engage with our stakeholders?
6. How do we measure or track the impacts of our engagement?
7. How is engagement integrated into our organisational practice and reporting?

**A study by the Association of Chartered Certified Accountants
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