

REPORTING TRILOGY – RESEARCH ON REPORTING DISCLOSURES: PART 2

Disclosures on corporate governance

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This is the second report in the second trilogy of research projects¹ carried out by the Association of Chartered Certified Accountants Australia and New Zealand (ACCA), in collaboration with Net Balance Foundation Limited. The theme of this ongoing research is to analyse disclosures on specific areas of non-financial performance by the Australian Securities Exchange Top 50 companies (ASX Top 50).

This research report:

- analyses disclosures relating to corporate governance;
- highlights the strengths and weaknesses of Australian companies reporting on this issue;
- makes recommendations to improve future reporting regarding corporate governance and sustainability.

What is corporate governance?

Any definition of corporate governance needs to encompass fundamental values of transparency, accountability, fairness, and responsibility. ACCA defines three main purposes of corporate governance², which are:

- to ensure the board, as representatives of the organisation's owners, protects resources and allocates them to make planned progress towards the organisation's defined purpose;
- to ensure those governing and managing an organisation account appropriately to its stakeholders;
- to ensure shareholders and, where appropriate, other stakeholders, can and do hold boards to account.

Inherent in all three of these factors is the requirement to transparently disclose the corporate governance structure, processes and issues faced by the company. Organisations need to demonstrate their authentic commitment to these values in order to create and sustain the confidence of investors, stakeholders, and society as a whole³.

An ACCA policy paper⁴ published in 2008 contains ten principles which ACCA considers fundamental to all systems of corporate governance and risk management. These encourage organisations to structure their corporate governance to reflect fair and balanced management of the company and to remain responsive to changing market risks while also acknowledging, the important role that recognising opportunities plays. The principles are:

1. boards, shareholders and stakeholders share a common understanding of the purpose and scope of corporate governance;
2. boards lead by example;
3. boards appropriately empower executive management and committees;
4. boards ensure their strategy actively considers both risk and reward over time;
5. boards are balanced;
6. executive remuneration promotes organisational performance and is transparent;
7. the organisation's risk management and control is objectively challenged, independently of line management;
8. boards account to shareholders and, where appropriate, other stakeholders for their stewardship;
9. shareholders and other significant stakeholders hold boards to account;
10. corporate governance evolves and improves over time.

Why are corporate governance disclosures important?

The strength of an organisation's corporate governance systems and the quality of public disclosures are becoming increasingly important to business for a number of reasons. As sustainability becomes an ever more critical business issue, stakeholders are paying more attention to what is reported and how. The global financial crisis has sharpened the lens through which corporate governance structures are held to account and expectations around transparency are raising the bar for more comprehensive and proactive disclosures from forward-thinking organisations, as opposed to the release of corporate governance details or policies in a 'reactive' fashion. A distinction is growing between those that maintain ongoing communications as part of an integrated approach to corporate governance, and those that produce isolated or single issue-based communications, for example in response to legislation or as a risk management exercise. Organisations who see disclosing information on corporate governance as an opportunity to be transparent with stakeholders can potentially use reporting processes to drive improvements to their structures and processes internally (but good reporting doesn't necessarily lead to good governance, as has been demonstrated in the economic downturn).

How are the ASX Top 50 reporting corporate governance?

Standard components of corporate governance statements include disclosures regarding:

- the importance of good governance as part of the overall leadership of the organisation;
- the board of directors (roles and responsibilities, independence, composition, biographies of members, separation of powers);
- executive committees (remuneration, audit, governance, risk management and associated charters);
- codes of conduct and related policies (integrity and ethical behaviour, whistleblower, anti-corruption, risk management, transparency and continuous/market disclosure).

Whether these are adequate and appropriate indicators to report on the effectiveness of an organisation's approach to corporate governance is in doubt. Organisations may address these components in their corporate governance statements but disclosures may still fall short of upholding the fundamental values of transparency, accountability, fairness, and responsibility.

Despite global economic events shifting the spotlight onto how organisations are held to account for their actions, an incumbent attitude seems to remain that divides the management of information for many companies into 'things we have to disclose' and 'other'. At the same time, over-emphasis on transparency in the current reporting environment means organisations equate a transparent company report with sound corporate governance. The systems, processes and culture behind figures and protocols that have become embedded in the reporting calendar do not facilitate a proactive corporate governance environment. A snapshot of the environmental and social governance practices of the FTSE100 found a key driver for improved corporate social performance was continued shareholder and stakeholder pressure.⁵

When the discussion moves from compliance to seeing corporate governance and its disclosure as a competitive advantage, then real change can be effected.

1 The first three reports were *Disclosures on Stakeholder Engagement*, *Disclosures on Climate Change* and *Disclosures on Human Capital Management*. These were published in March 2007, May 2007 and January 2008 respectively. The second round of the trilogy commenced in August 2008 when *Anti-bribery and Corruption Reporting Disclosures* was published. The research reports are available online at <http://australia.accaglobal.com/australia/publicinterest/research> and <http://www.netbalancefoundation.org/research/>

2 ACCA's research report *Corporate Governance and Risk Management Agenda* which is available http://www.accaglobal.com/pubs/economy/analysis/acca/technical_papers/tech_2a.pdf

3 World Bank: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2005/12/14/000160016_20051214175649/Rendered/PDF/346690v20Corporate0governance0Rationale.pdf

4 See footnote 2.

5 FTSE100 snapshot: Trends in ESG performance – www.eiris.org

Research methodology

This report summarises the findings of research carried out by an independent analyst on the largest Australian companies (by market capitalisation) as recognised by the ASX Top 50 on 13 February 2009.

The 50 Australian companies are listed in Figure 1 below. The research on company disclosures was conducted between 16 February and 26 March 2009. Assessment of research findings was based on a series of criteria developed by Net Balance Foundation and ACCA. The criteria are broken down into eight main areas of performance, as discussed on page 7.

Figure 1 – ASX Top 50 companies as of 13 February 2009

Company	Sector
AGL Energy Limited	Utilities
Alumina Limited	Materials
Amcor Limited	Materials
AMP Limited	Financials
ASX Limited	Financials
Australia And New Zealand Banking Group Limited	Financials
AXA Asia Pacific Holdings Limited	Financials
BHP Billiton Limited	Materials
Bluescope Steel Limited	Materials
Brambles Limited	Industrials
Commonwealth Bank Of Australia Limited	Financials
Crown Limited	Consumer Discretionary
CSL Limited	Health Care
Fairfax Media Limited	Consumer Discretionary
Fortescue Metals Group Limited	Materials
Foster's Group Limited	Consumer Staples
Goodman Group Limited	Financials
GPT Group Limited	Financials
Incitec Pivot Limited	Materials
Insurance Australia Group Limited	Financials
Leighton Holdings Limited	Industrials
Lend Lease Corporation Limited	Financials
Lihir Gold Limited	Materials
Macquarie Airports Limited	Industrials
Macquarie Group Limited	Financials
Macquarie Infrastructure Group Limited	Industrials
National Australia Bank Limited	Financials
Newcrest Mining Limited	Materials
News Corporation Inc (Voting CDI)	Consumer Discretionary
Onesteel Limited	Materials
Orica Limited	Materials
Origin Energy Limited	Energy
OZ Minerals Limited	Materials
Qantas Airways Limited	Industrials
QBE Insurance Group Limited	Financials
Rio Tinto Limited	Materials
Santos Limited	Energy
Stockland Limited	Financials
Suncorp-Metway Limited	Financials
Tabcorp Holdings Limited	Consumer Discretionary
Telecom Corporation Of New Zealand Limited	Telecommunications Services
Telstra Corporation Limited	Telecommunications Services
Toll Holdings Limited	Industrials
Transurban Group Limited	Industrials
Wesfarmers Limited	Consumer Staples
Westfield Group Limited	Financials
Westpac Banking Corporation Limited	Financials
Woodside Petroleum Limited	Energy
Woolworths Limited	Consumer Staples
Worleyparsons Limited	Energy

Evaluation criteria indicators

The criteria for evaluating organisations covered eight key areas, guided by the ASX corporate governance principles and guidelines. The following list provides a summary of the criteria groups – more detail on each is included in the ‘criteria group results’ sections later in this report.

- **Mission and values** – statement of leadership, measurements in place and SRI policy;
- **Key relationships** – statement of relationships, communication practices;
- **Governance** – solid foundations for management and oversight – sustainability committee, senior executive performance evaluation;
- **Board structure** – size, composition, nomination committee;
- **Ethical decision-making** – code of conduct, bribery and corruption, facilitation payments, whistleblower policy;
- **Integrity** – board remuneration and audit committee;
- **Key impacts and risks** – policy and management;
- **Adherence to codes and guidelines** – such as OECD guidelines, GRI, AA100AS.

The following guidelines and principles were used in the overall development of the criteria and indicators:

1. ASX Corporate Governance Council: Corporate Governance Principles and Recommendations, 2nd Edition;
2. Global Reporting Initiative (GRI) G3 Guidelines;
3. Corporate Responsibility Index (CRI), 2007;
4. Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance, 2004;
5. International Standards of Accounting and Reporting (ISAR) Guidance on Good Practices in Corporate Governance Disclosure;
6. International Corporate Governance Network (ICGN) Statement on Global Corporate Governance Principles, 2005;
7. ACCA UK 2007 Sustainability Reporting Awards theme research on sustainability strategy and governance disclosures, with Tomorrow’s Company;
8. ACCA Corporate Governance and Risk Management Agenda paper, 2008.

Please refer to Appendix 3 for further information about these guidelines and principals.

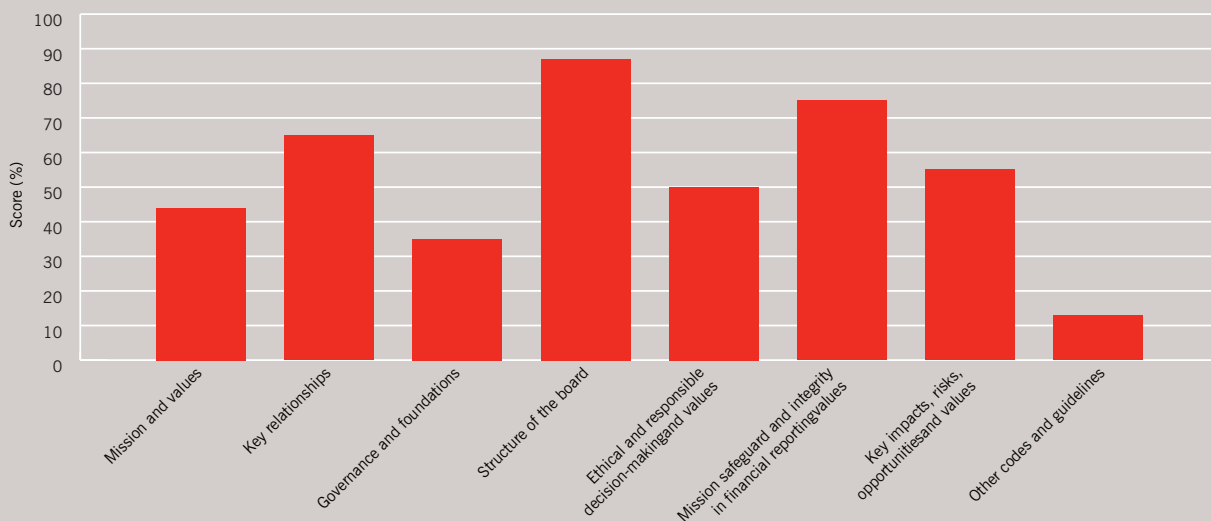
Many organisations still do not categorise corporate governance disclosures as a sustainability issue but tend to instead include it in annual reports. Information used in the analysis was sourced from publicly available hard copy and web-based sustainability, environmental and annual reports. Relevant information was included regardless of whether it was found in sustainability reports or on websites or annual reports. A total of 50 reports were analysed, of which ten sets of scores were verified for accuracy and transparency by a secondary researcher.

Research results

As in the previous ACCA trilogy studies, there is a large variation in performance of the companies in this study. The following summarises this performance:

- the overall scores against the total 27 criteria ranged from 30% to 77%, with disclosures from Australia New Zealand Bank (ANZ) achieving the highest of all 50;
- the average score of all 50 companies was 49%, which is the highest average score from the trilogy reporting series research to-date (prior to this report the anti-bribery and corruption disclosures had the highest average score of 41%);
- there is still significant progress to be made on overall corporate governance disclosures for many companies, as well as individual criteria groups, whose scores ranged from 0% to 100% (see Figure 2);
- the top ten scoring companies' average was 66% and their performance can be seen in Figure 3;
- overall percentage scores for criteria groups across all 50 companies ranged from 87% for 'Board structure' to just 13% for 'Adherence to codes and guidelines'.

Figure 2 – Average percentage in each criteria group for the ASX Top 50



Good practice case study – Orica

Orica's website includes several links to information on Orica's corporate governance related policies and practices, including guidance on best practice, compliance and controls. Issues covered:

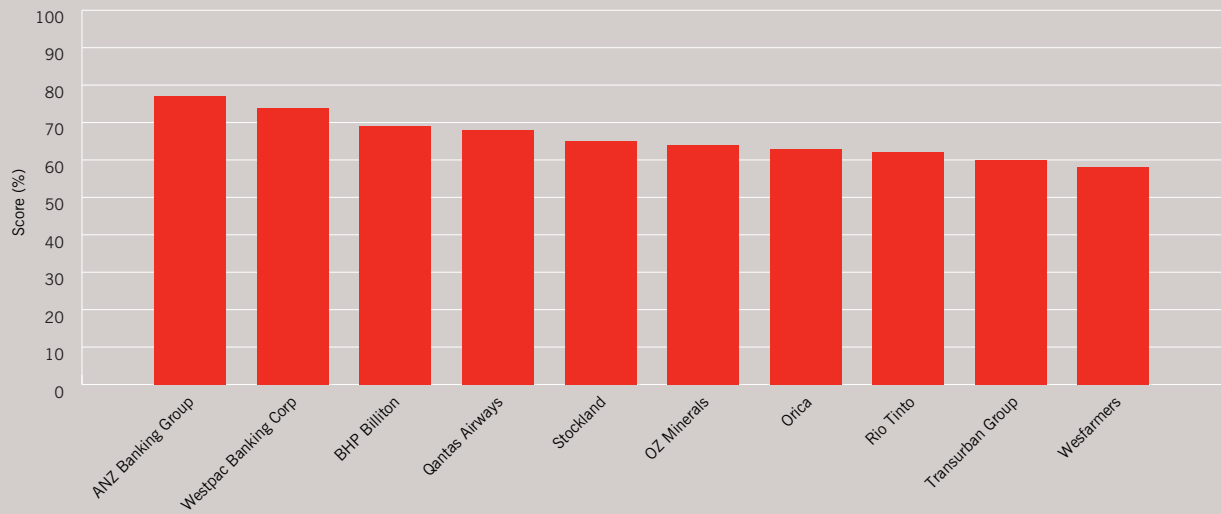
- Orica regularly reviews its Code of Conduct which includes detailed guidance for employees around organisational policies and expected behaviours. It includes examples where the guidance might be particularly applicable such as public disclosure of Orica price-sensitive information, equality in employment and treatment of colleagues and bribery, financial inducements and facilitation payments.
- A Safety Health and Environment Committee has stated responsibilities relating to management of sustainability

issues at Orica. More widely, safety, health and environment is a line management responsibility. Ownership and accountability for SH&E performance is embedded in the line at all levels.

- Directors, executives and employee performance are appraised against principles and behaviours that refer specifically to continual safety, health and environment improvements and meeting the needs of customers and community in an environmentally sustainable manner.
- A proportion of all Orica employee's remuneration, including senior management, is linked to key sustainability performance indicators such as fatalities.

www.orica.com.au

Figure 3 – Average scores for the top ten performing companies



These top ten scoring companies were from a variety of different industry sectors including Industrial, Financials, Consumer Goods, Telecommunications, Energy and Utilities.

The following table provides an overview of scores in each of the seven criteria groups:

	ASX Top 50 average % score	Top 10 average % score
Overall	49%	66%
Mission and values	44%	64%
Key relationships	69%	93%
Management and oversight	35%	58%
Board structure	87%	96%
Ethical decision making	52%	73%
Reporting integrity	75%	79%
Codes and guidelines	12%	31%

Criteria group results

1. Mission and values

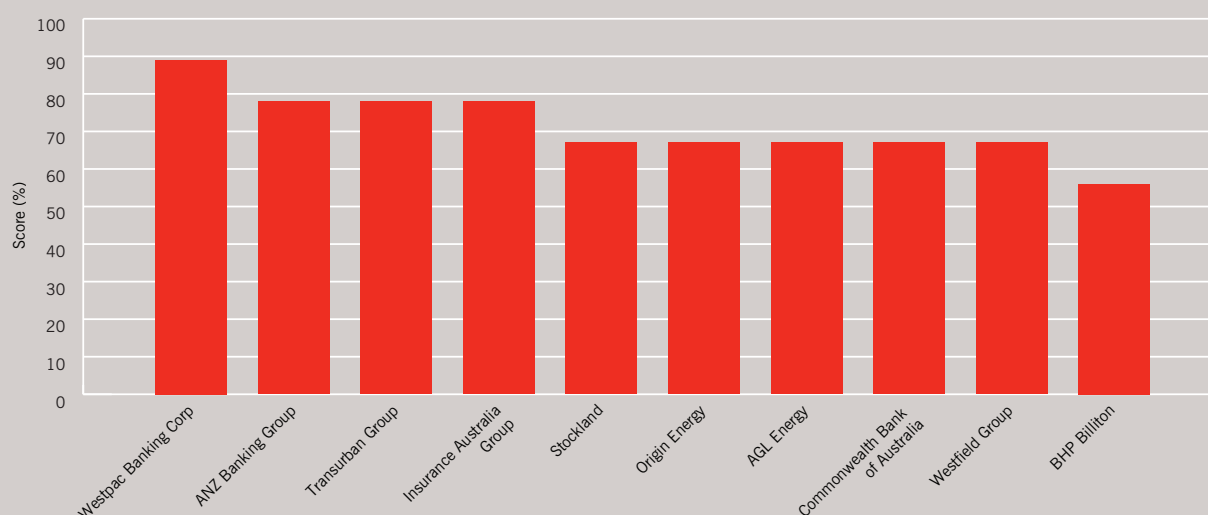
The following criteria were used in this criteria group:

- 1.1 Discloses a clear statement of the leadership, purpose, mission and values of the organisation with reference to corporate governance.
- 1.2 Discloses evidence that clear and appropriate measures are in place to measure the material parts of the organisation's success model and the quality of key relationships.
- 1.3 Discloses and responsible investment guidelines on policy.

Performance can be summarised as follows:

- performance by the ASX Top 50 companies against the 'Mission and values' criteria ranged from 11% to 89%;
- the top ten average score was 64% (see Figure 4) and the average score across all companies evaluated was 44%;
- 100% of organisations disclosed some kind of missions and values statement.

Figure 4 – Top ten performing companies in the 'Mission and values' criteria group



Good practice case study – Westpac Banking Corporation

Westpac's corporate governance statement is formatted to directly link with the ASX Principles and Guidelines. Many of the higher scoring companies used this format to clearly demonstrate their commitment to the guidance. Each principle is referred to in the context of how it is adhered to and actioned by Westpac. Milestone achievements or activities for the reporting year are included in bullet format to provide an accessible way for stakeholders to understand and where possible measure performance and achievements in relation to corporate governance.

Examples of Westpac's milestones for 2008 include:

- new CEO and board member;
- detailed board performance review;

- review of skills required on board to assist with board succession planning;
- review of Code of Conduct and broader 'Principles for Doing Business';
- formation of Westpac's Sustainability Council comprising officers across the group with explicit sustainability responsibilities;
- captured email addresses from shareholders to enable electronic communication with approximately 25% of shareholders.

www.westpac.com.au

2. Key relationships

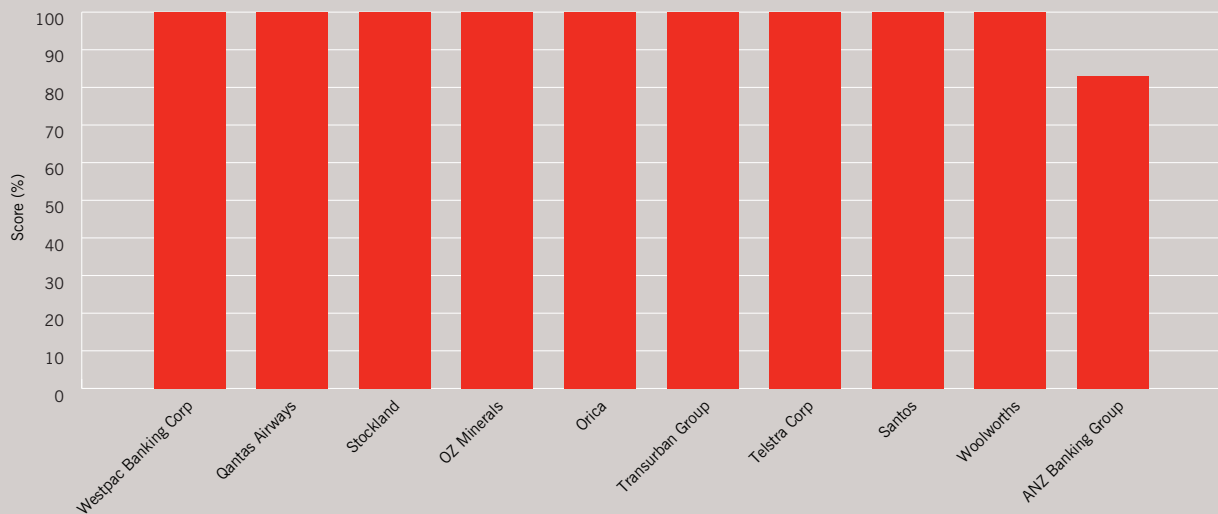
The following criteria were used in this criteria group:

- 2.1 Discloses a clear statement of the key relationships/ stakeholders of the organisation and evidence of stakeholder engagement on corporate governance issues, processes described.
- 2.2 Reference to a communications policy for promoting effective communication with shareholders and encouraging their participation (e.g. at general meetings with disclosure of the policy, or a summary of that policy).

Performance can be summarised as follows:

- the average score for the ASX Top 50 in the 'Key relationships' group was 69%, suggesting that these organisations are embedding strong processes for reporting on their engagement with stakeholders, including on corporate governance issues;
- the average score for the top ten companies against the key relationships criteria was 93% (see Figure 5);
- these high scoring companies clearly disclosed how they engaged with stakeholders on corporate governance issues, which was rare across the ASX Top 50 companies;
- the average score was probably higher for this criteria group because there are regulatory requirements in place for many issues covered – for example detailing a policy for communicating with shareholders.

Figure 5 – Top ten performing companies in the 'Key relationships' criteria group



Good practice case study – Stockland

The corporate governance section of Stockland's Community Responsibility Report provides an overview of how Stockland engage with each of its identified stakeholder groups. In reference to shareholders and the investment community, Stockland highlights that its engagement with investment analysts includes analysts with a focus on Environmental, Social, Governance (ESG) performance.

It also acknowledges a growing interest among the investment community in actions relating to climate change and carbon footprint.

Shareholders are engaged through annual general meetings, reports and direct contact. The investor information section of the Stockland website includes access to a range of Stockland's corporate investor presentations including:

- full and half year results briefings;
- AGM presentations
- roadshow marketing materials
- tour packs for institutional investors.

www.stockland.com.au

3. Governance

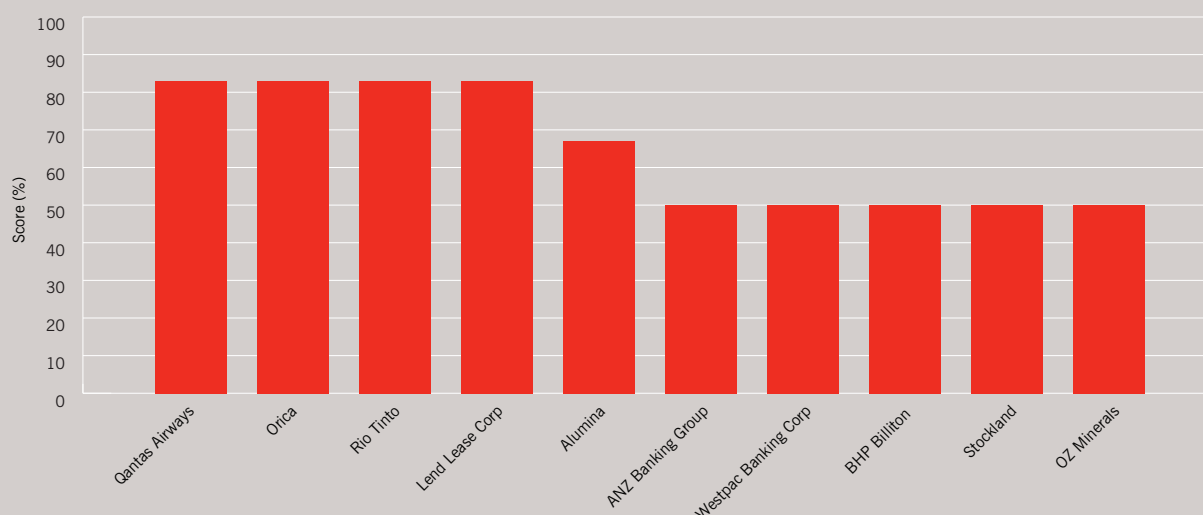
This criteria group used the following criteria:

- 3.1 Discloses that sustainability is managed by either a dedicated sustainability committee or board member(s).
- 3.2 Reference to a transparent and responsive process for evaluating the performance of senior executives in relation to agreed sustainability objectives.

Performance can be summarised as follows:

- the overall average score for this criteria group was just 35%, indicating that disclosures on governance structures in place to manage sustainability are a more challenging area for organisations;
- performance was particularly poor in terms of disclosing information on any remuneration structures in place that are explicitly linked to sustainability performance;
- this is demonstrated by the relatively low top ten average score of 58% (see Figure 6).

Figure 6 – Top ten performing organisations for the ‘Governance’ criteria group



Good practice case study – BHP Billiton

“Governance is not just a matter for the Board, a culture of good governance must be fostered throughout the organisation.”
Don Argus – BHP Chairman

BHP Billiton’s Annual Review includes its stated approach to corporate governance as above. The Review includes details on the sustainability committee and BHP’s approach to HSEC and sustainable development governance.

Sustainable development governance for BHP includes:

- the Sustainability Committee overseeing the health, safety, environment and community (HSEC) matters across the Group;
- business line management having primary responsibility and accountability for HSEC performance;
- the HSEC function providing advice and guidance directly, as well as through a series of networks across the business;
- seeking input and insight from external experts such as our the Forum for Corporate Responsibility;

- clear links between remuneration and HSEC performance.

Performance of individual Directors is assessed against a range of criteria, including the ability of the Director to:

- consistently take the perspective of creating shareholder value;
- contribute to the development of strategy;
- understand the major risks affecting the business;
- provide clear direction to management;
- contribute to Board cohesion;
- commit the time required to fulfill the role;
- listen to and respect the ideas of fellow Directors and members of management.

www.bhpbilliton.com

4. Board structure

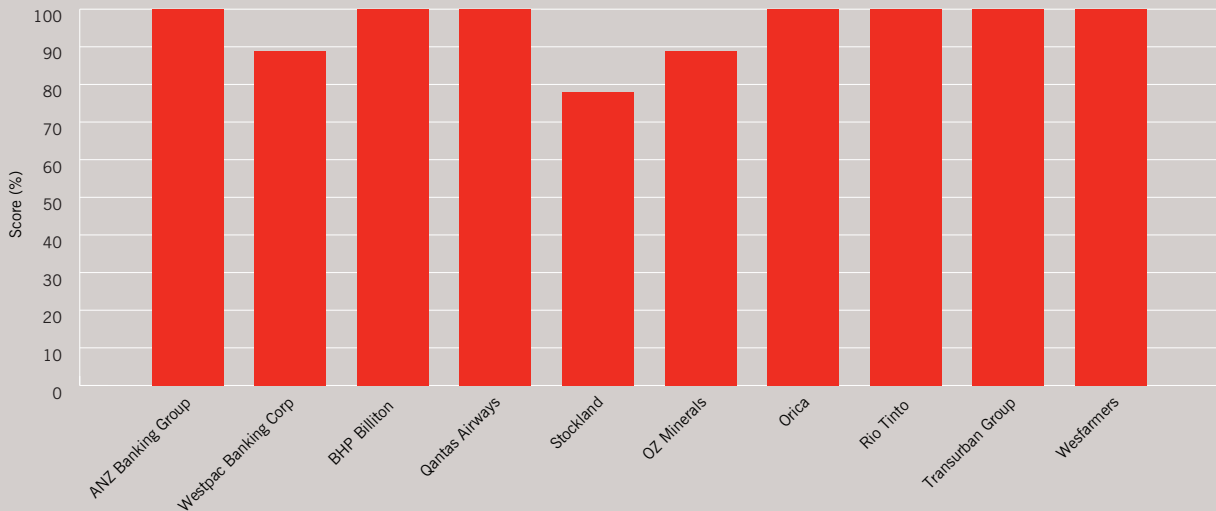
This criteria group used the following criteria:

- 4.1 Disclosures of appropriate board size and composition, with formally assigned responsibilities to individual members.
- 4.2 Discloses that the chair and a majority of the board should be independent directors with a separation between the roles of chair and chief executive officer eg. not exercised by the same individual.
- 4.3 Discloses that a board nomination committee exists.

Performance can be summarised as follows:

- average criteria scores for disclosures relating to board structure were the highest for both the top ten and the ASX Top 50, which may be linked to regulatory requirements on disclosures in this area;
- the top ten performing companies average was 96% (see Figure 7) and the overall ASX Top 50 average was 92%;
- thirty companies scored the maximum 100% on these criteria (but disclosing to a high standard doesn't necessarily equate to high quality governance processes in practice).

Figure 7 – Spread of ASX Top 50 performance for 'Board structure' criteria group



5. Ethical decision making

This criteria group uses the following criteria:

5.1 Reference to a company code of conduct and disclosure of either the code or a summary of the code as to:

- the practices it includes to maintain confidence in the company's integrity;
- the practices it includes to take into account their legal obligations and the reasonable expectations of their stakeholders;
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

5.2 Discloses company confidential or 'whistleblower' policy.

5.3 Discloses company policy forbidding bribes.

5.4 Disclosures refer to company policy guidance for facilitation payments.

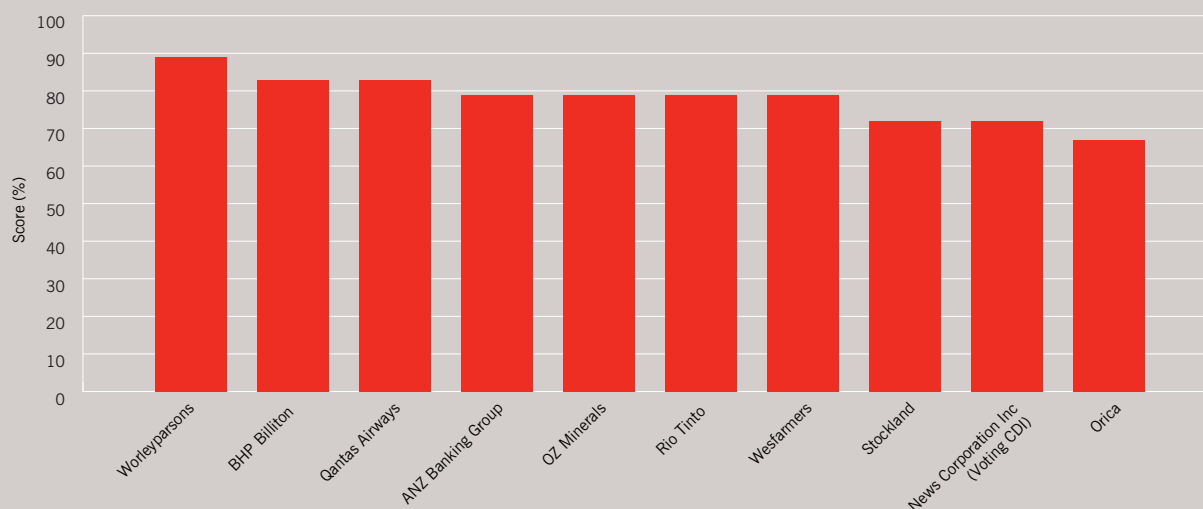
5.5 Company monitors compliance with code of conduct.

5.6 Disclosures on incidences breaching the code of conduct and disciplinary procedures to deal with the incidences.

Performance can be summarised as follows:

- disclosures on ethical and responsible decision-making had an ASX Top 50 average of 52% and a top ten average of 73% (see Figure 8);
- while many reports included information on a company code of conduct or Ethical Business Practice, evaluating the implementation of these relies on disclosing on breaches of the code, which were less consistently referred to in the assessed reports.

Figure 8 – Top ten performing companies in 'Ethical decision making' criteria group



Good practice case study – ANZ

In relation to corporate governance, the Board seeks to:

- embrace principles and practices it considers to be best practice internationally;
- be an 'early adopter', where possible, by complying before a published law or recommendation takes effect;
- take an active role in discussions regarding the development of corporate governance best practice and associated regulation in Australia and overseas.

Their objectives for 2009 include:

- implementing its new Group Code of Conduct and Ethics, including 100% employee completion of the Code of Conduct and Ethics Declaration training course, and agreement with the Code;
- implement an employee values and ethics training program, and ensure it is completed by our 100% of senior executives globally.

www.anz.com.au

6. Integrity

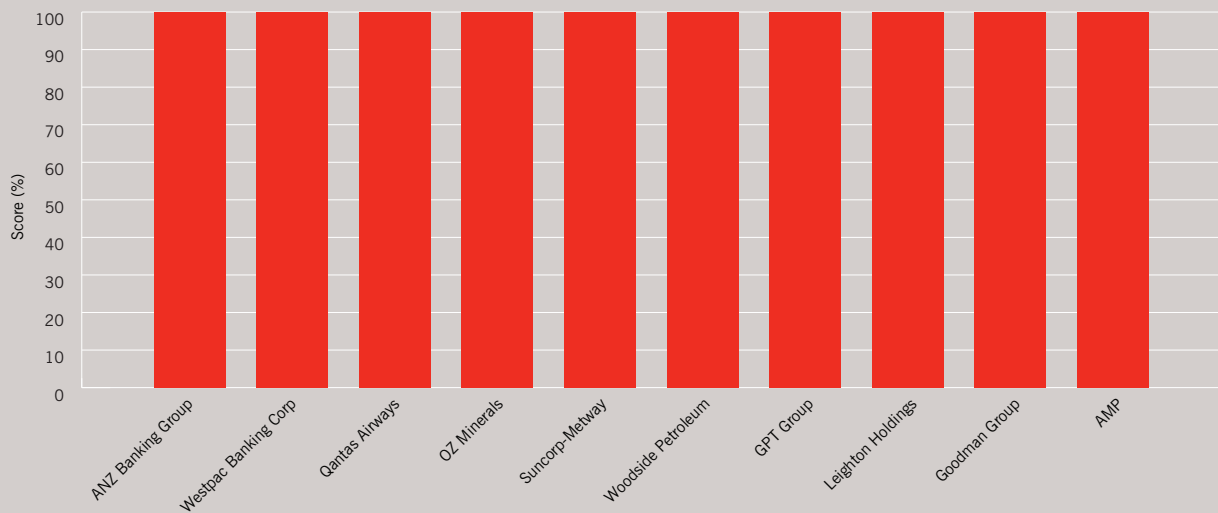
This criteria group used the following criteria:

- 6.1 Disclosure of the level and composition of remuneration and evidence for why they are sufficient and reasonable and that relationship to performance is clear.
- 6.2 Discloses that the board has established an audit committee.

Performance can be summarised as follows:

- the top ten organisations achieved an average score of 79% against indicators on the 'Integrity' of disclosures (see Figure 9).
- eleven companies scored the maximum on these criteria. It should be noted that high scores on disclosures on these areas do not necessarily ensure robust procedures in practice, merely that information available to shareholders meets ASX guidelines.

Figure 9 – Top ten performing companies in the 'Integrity' criteria group



Good practice case study – Qantas

Qantas has an 'Executive Remuneration Philosophy and Objectives' that is included in the Director's Report. The Philosophy and Objectives (P&O) are reviewed annually to ensure they align with Qantas' performance and long and short-term goals as an organisation.

There is a focus on making the document accessible to stakeholders with a visual representation of the company's reward framework and use of a number of graphs to demonstrate the link between executive remuneration and the organisation's performance over time.

Targets and measures used in deciding remuneration are articulated throughout the report. As an example, for 2007/08, the Performance Share Plan target was evaluated against a Balanced Scorecard of Customer, Operational, People and Financial measures. The P&O discloses what tools are used to measure performance against these targets and the Balanced Scorecard performance criteria aim to align Executive remuneration with the key value drivers for the Qantas Group. The targets are set by the Qantas Board annually at the start of the year and provided to the Board at the end of the year so it can make an assessment as to whether the targets have been met.

www.qantas.com.au

Key impacts and risks

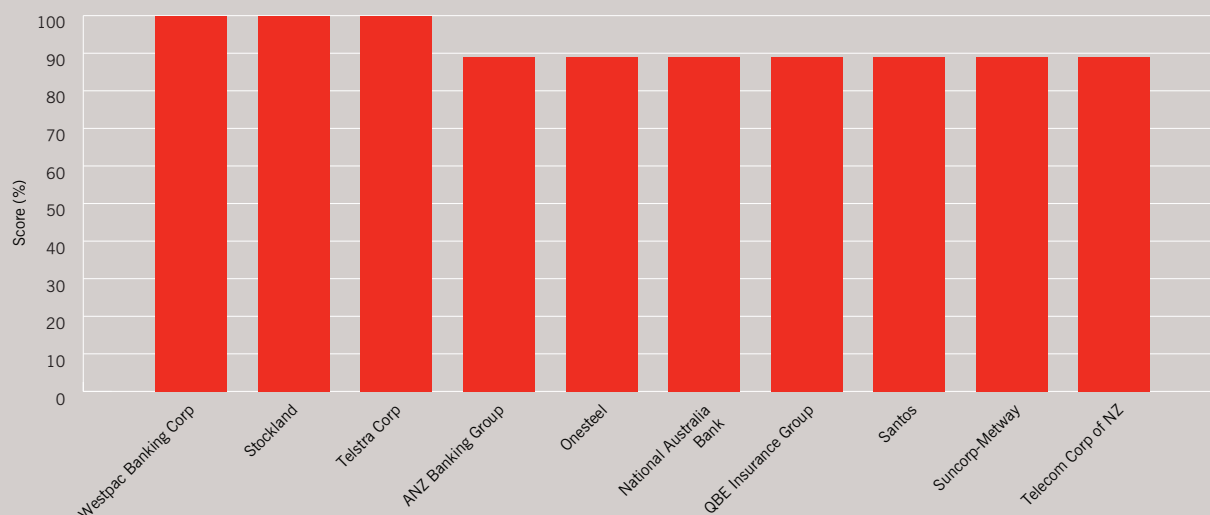
This criteria group includes criteria on:

- 7.1 Discloses a policy overseeing and managing material business risks and disclose a summary of programmes related to those policies.
- 7.2 Discloses a management design and implementation of a risk management and internal control system to manage the company's material business risks, reporting to the board on how those risks are being managed effectively.
- 7.3 Discloses that management has identified sustainability risks material to the business.

Performance can be summarised as follows:

- this criteria group was one of the stronger areas of disclosure with a top ten average of 72% (see Figure 10) and an ASX Top 50 average of 57%;
- the main differentiating factor between the top ten and other organisations was disclosures on the identification of sustainability risks and the subsequent management of these risks;
- organisations that systematically identify and disclose their key organisational risks (including those related to sustainability) are better prepared to mitigate and manage these risks, if they should occur.

Figure 10 – Top ten performing companies in the 'Key impacts and risks' criteria group



Good practice case study – Telstra

Telstra's approach to managing its material issues include evaluating the significant risks to the company, the critical factors for ensuring Telstra's success, and reporting on internal control systems to manage material business risks. Identifying these includes:

- key future challenges for the industry;
- concerns raised by stakeholders through stakeholder engagement;
- key future challenges for society as identified by social

and environmental experts, governments and grass roots community organisations;

- sustainability context, including the Global Reporting Initiative, Millennium Goals, and United Nations Global Compact.

Telstra's 'Way We Work' Business Principles also include specific reference to the expectations on all employees relating to risk management and internal controls and identifies the responsible senior leadership team members for these topics.

www.telstra.com.au

Adherence to codes and guidelines

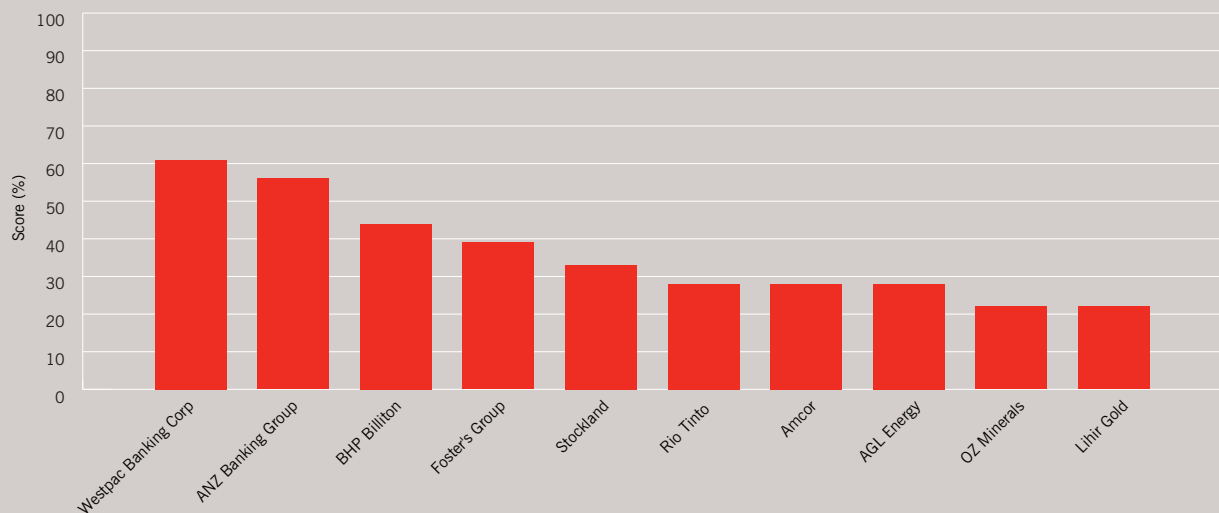
This criteria group used the following criteria:

- 8.1 OECD Guidelines for Multinational Enterprises.
- 8.2 GRI Sustainability Reporting Guidelines.
- 8.3 AA1000 Assurance Standard.
- 8.4 OECD Principles of Corporate governance.
- 8.5 ISAR Guidance on Good Practices in Corporate Governance Disclosure.
- 8.6 UN Global Compact.

Performance can be summarised as follows:

- this was the lowest scoring criteria for both the top ten organisations and ASX Top 50 companies with averages of 31% and 12% respectively (see Figure 11);
- the guidelines to which organisations most commonly adhered were the GRI reporting guidelines (44% or 22 companies), the AA1000 Assurance Standard (20% or ten companies) and UN Global Compact (18% or nine companies);
- these findings reflect the level of global recognition of these three specific standards and their maturity in penetrating reporting practices of major companies;
- the least frequently referred to were the ISAR Guidance on Good Practices in Corporate Governance Disclosure.

Figure 11 – Top ten performing companies in the ‘Adherence to codes and guidelines’ criteria group



Conclusion and recommendations

This study considered the corporate governance disclosures of the ASX Top 50 and how far they reflect current internal and external expectations of companies' corporate governance practices. Under these specific criteria, many companies performed very well. Encouragingly this shows that most corporations are generally aware of their legal obligation to have accountable financial reporting and demonstrate they are practising good governance through their management and board processes. However, this examination of corporate disclosures does not necessarily represent the quality of governance practices in the company – or mean companies are sufficiently implementing the corporate governance measures. One would hope that high quality reporting on governance would indicate an internal drive of ethical, accountable behaviour but it cannot be guaranteed (which has been demonstrated by the events of recent months concerning irresponsible remuneration practices and poor risk management).

The results of the research can be summarised as follows:

- ASX Top 50 disclosures on corporate governance were stronger than areas addressed in previous trilogy research, with an overall ASX Top 50 score of 49% and a top 10 average of 66%;
- individual scores ranged from 30% to 77% and ANZ was the highest scoring company. The top 10 included organisations from several different sectors, so there was no discernable best performing sector;
- the criteria group in which organisations performed the best was 'Board structure', although this is conceivably linked to the requirements for provision of certain information for shareholders by law;
- organisations received the lowest average scores in the 'Codes and guidelines' criteria group, indicating that many organisations are not making use of the standards and guidelines available to them to assist in reporting and transparency.

Recommendations

ACCA Australia & New Zealand and Net Balance Foundation recommend that organisations:

- disclose organisational vision and values, including how corporate governance is considered an important element of internal behaviour;
- include clear reporting on corporate governance performance measures using KPIs;
- give a clear indication of key stakeholders groups and engagement measures, including what dialogue takes place relating to corporate governance;
- provide an overview of the governance structures in place to manage non-financial (sustainability) issues and performance – including any board committees and their composition and remit as well as individual board member responsibility;
- detail any remuneration structures in place that directly link reward to executive performance against sustainability targets (such as diversity, health and safety and emissions reductions);
- explain the structure and composition of the board, including independence of directors and separation of CEO and Chairman nominations as well as audit, nomination and risk committees and their remits;
- provide a detailed description (or full version) of the organisational code of conduct, including policy on areas such as whistleblowing, anti bribery and facilitation payments. The report should also explain how compliance with this code is monitored and any performance data (on breaches and non compliance related dismissals);
- identify key organisational risks – both financial and non financial – and the process by which they were selected. Report should also include an explanation of how these risks are subsequently managed and mitigated;
- highlight any standards or guidance used to report on corporate governance issues.

Appendix 1

About the authors

The Association of Chartered Certified Accountants

The Association of Chartered Certified Accountants (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 United Kingdom over 15 years ago. It has been 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 & New Zealand in 2003.

Net Balance Foundation Limited

Net Balance Foundation Limited (www.netbalance.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.netbalance.com), a sustainability advisory and assurance firm.

Appendix 2

Acknowledgements

Michaela Campbell, ACCA Australia & New Zealand
Rachel Jackson, ACCA UK
Vicky McAllister, ACCA UK
Paul Moxey, ACCA UK
Rebecca Allonby, Net Balance Foundation
Camille Aylmer, Net Balance Foundation
Kate Clark, Net Balance Foundation
Nicole Joffe, Net Balance Foundation
Ross Wyatt, Net Balance Foundation
David Rowan White, Board Member, Net Balance Foundation
Kate Bedzuidenhout, independent researcher
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Appendix 3

ASX Corporate Governance Principles and Recommendations

Principle 1 – Lay solid foundations for management and oversight

Principle 2 – Structure the board to add value

Principle 3 – Promote ethical and responsible decision-making

Principle 4 – Safeguard integrity in financial reporting

Principle 5 – Make timely and balanced disclosures

Principle 6 – Respect the rights of shareholders

Principle 7 – Recognise and manage risk

Principle 8 – Remunerate fairly and responsibly

The full text ASX Corporate Governance Principles and Recommendations (Second Edition – August 2007) can be found at: <http://asx.ice4.interactiveinvestor.com.au/ASX0701/Corporate%20Governance%20Principles/EN/body.aspx?z=1&p=-1&v=1&uid=>

Global Reporting Initiative G3 Guidelines – Economic Performance Indicators

Aspect: Economic Performance

- EC1 – Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments;
- EC2 – Financial implications and other risks and opportunities for the organisation's activities due to climate change;
- EC3 – Coverage of the organisation's defined benefit plan obligations;
- EC4 – Significant financial assistance received from government.

Aspect: Market Presence

- EC5 – Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation;
- EC6 – Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation;
- EC7 – Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.

Aspect: Indirect Economic Impacts

- EC8 – Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement;
- EC9 – Understanding and describing significant indirect economic impacts, including the extent of impacts.

ICGN Statement on Global Corporate Governance Principles Relevant to Sustainability and Corporate Governance

The ICGN Statement on Global Corporate Governance Principles incorporates two principles in relation to this discussion:

- Long Term Prosperity of the Business: To achieve this objective, the board should develop and implement a strategy for the organisation which improves the equity value over the long term (sustainability);
- Corporate Social Responsibility: Organisations should adopt and effectively implement a code of ethics and should conduct their activities in an economically, socially and environmentally responsible manner.

Glossary

AA1000 Assurance Standard (AA1000AS) – a non-proprietary, open-source Assurance Standard that covers the full range of an organisation's disclosure and performance, based on assessment of reports against three Assurance Principles: Materiality; Completeness; and Responsiveness.

ACCA (Association of Chartered Certified Accountants) – ACCA Australia & New Zealand.

Audit committee – an operating committee of the Board of Directors, typically charged with overseeing financial reporting and disclosure.

Code of conduct – a company's policy statements that define ethical standards for their conduct.

Corporate Social Responsibility (CSR) – a commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (www.wbcsd.org).

Dow Jones Social Index (DJSI) – the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes, STOXX Limited and SAM they provide asset managers with reliable and objective benchmarks to manage sustainability portfolios.

Facilitation payments – a certain type of payment to foreign officials which is not considered to be bribery according to legislations of some states as well as in the international anti-bribery conventions.

FTSE4Good – an index series that has been designed to measure the performance of companies that meet globally recognised corporate responsibility standards, and to facilitate investment in those companies. Transparent management and criteria alongside the FTSE brand make FTSE4Good the index of choice for the creation of responsible investment products.

Global Compact – a United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The Global Compact is a principle based framework for businesses, stating ten principles in the areas of human rights, labour, the environment and anti-corruption. Under the Global Compact, companies are brought together with UN agencies, labour groups and civil society.

ISAR Guidance on Good Practices in Corporate Governance Disclosure – International Standards of Accounting and Reporting draws upon recommendations for corporate governance disclosure contained in documents from other international organisations and national governments, as well as the deliberations of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). For reference purposes, the guidance also contains a list of national and international resources on corporate governance disclosure.

Material business risks – means risks that could have a material impact on a company's business. They can include but are not limited to: operational, environmental, sustainability, compliance, strategic, ethical conduct, reputation or brand, technological, product or service quality, human capital, financial reporting and market-related risks.

Nomination committee – a nomination committees is focused on evaluating the board of directors of its respective firm and

on examining the skills and characteristics that are needed in board candidates.

OECD Principles of Corporate Governance – a set of principles for policy makers, investors, corporations and other stakeholders worldwide. They have advanced the corporate governance agenda and provided specific guidance for legislative and regulatory initiatives in both OECD and non OECD countries.

Remuneration – pay or salary, typically monetary payment for services rendered, as in an employment.

Responsible investment/socially responsible investment – is split into core and broad components. Core responsible investment includes specifically tailored managed funds, direct share portfolios managed by financial advisers, and also micro-finance, microcredit and green loan products offered by banks. Broad responsible investment is the developing practice by mainstream institutional investors to integrate environmental, social and governance (ESG) issues into their day to day financial analysis, stock selection, company engagement and voting processes.

Shareholder – one who owns shares of stock in a corporation, with which comes a right to declared dividends and the right to vote on certain company matters, including the board of directors.

Sustainability – the Brundtland definition of sustainable development originates from the Brundtland Commission, led by the former Norwegian Prime Minister Gro Harlem Brundtland United Nations in 1987. It defines sustainability as meeting the needs of the present generation without compromising the ability of future generations to meet their needs. (ACCA and Net Balance Foundation Trilogy reporting series – *Disclosures on Human Capital*).

Sustainability reporting – organisations are increasingly disclosing their approach to sustainability issues via annual sustainability reports. These reports are also known as 'corporate responsibility', 'corporate social responsibility' and 'corporate citizenship' reports. Organisations can also disclose their approach to sustainability via an integrated set of annual accounts, combining the annual financial report with disclosures on sustainability (economic, social and environmental) issues.

The Corporate Responsibility Index (CRI) – a strategic management tool licensed to St James Ethics Centre to help improve corporate responsibility by providing a systematic process that measures non-financial risks and develops and improves corporate responsibility in line with their business strategy. It provides a benchmark for companies which are committed to managing, measuring and reporting their impact on society and the environment.

The Organisation for Economic Co-operation and Development (OECD) – an international organisation of 30 countries that accept the principles recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in a variety of areas including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation.

UN PRI United Nations Principles for Responsible Investment (UN PRI) – signify a commitment from investment institutions to develop their application of ESG factors across their investment portfolios (not just specialist responsible investment products).

Appendix 5

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Appendix 6

ASX Top 50 referenced reports

Company	Report
AGL Energy Limited	2008 Sustainability and Annual Report
Alumina Limited	2007 Annual Report
Ancor Limited	2008 Annual Report and Sustainability Report
AMP Limited	2007 Annual Report
ASX Limited	2008 Annual Report
Australia And New Zealand Banking Group Limited	2008 Corporate Responsibility Review
AXA Asia Pacific Holdings Limited	2007 Annual Report
BHP Billiton Limited	2008 Annual Report and Sustainability Report
Bluescope Steel Limited	2007/8 Annual Report
Brambles Limited	2008 Annual Report and Sustainability Report
Commonwealth Bank Of Australia Limited	2008 Annual Report
Crown Limited	2008 Annual Report
CSL Limited	2008 Annual Report and Environment Report
Fairfax Media Limited	2008 Annual Report
Fortescue Metals Group Limited	2008 Annual Report
Foster's Group Limited	2008 Annual Report and Sustainability Report
Goodman Group Limited	2008 Annual Report
GPT Group Limited	2007 Annual Report
Incitec Pivot Limited	2008 Annual Report and Sustainability Report
Insurance Australia Group Limited	2008 Annual Report and Annual Review
Leighton Holdings Limited	2008 Annual Report, 2007 Sustainability Report
Lend Lease Corporation Limited	2008 Corporate Governance Statement, Sustainability Report
Lihir Gold Limited	2007 Annual Report, Sustainability Report
Macquarie Airports Limited	2007 Annual Report
Macquarie Group Limited	2008 Annual Report, Foundation Annual Report
Macquarie Infrastructure Group Limited	2008 Annual Report
National Australia Bank Limited	2008 Corporate Responsibility Report
Newcrest Mining Limited	2008 Annual Report, 2007 Sustainability Report
News Corporation Inc (Voting CDI)	2008 Annual Report
Onesteel Limited	2008 Annual Report
Orica Limited	2008 Annual Report and Sustainability Report
Origin Energy Limited	2008 Annual Report and Sustainability Report
OZ Minerals Limited	2007 Annual Reports and Sustainability Reports for Oxiana and Zinifex
Qantas Airways Limited	2007 Annual Report and Sustainability Report
QBE Insurance Group Limited	2008 Annual Report
Rio Tinto Limited	2007 Annual Report
Santos Limited	2007 Annual Report and Sustainability Report
Stockland Limited	2008 Annual Report and Sustainability Report
Suncorp-Metway Limited	2008 Annual Report
Tabcorp Holdings Limited	2008 Annual Report
Telecom Corporation Of New Zealand Limited	2008 Annual Report
Telstra Corporation Limited	2008 Annual Report
Toll Holdings Limited	2008 Annual Report
Transurban Group Limited	2008 Sustainability Report, 2009 Half Year Disclosure
Wesfarmers Limited	2008 Annual Report and Sustainability Report
Westfield Group Limited	2008 Annual Report
Westpac Banking Corporation Limited	2008 Stakeholder Impact Report
Woodside Petroleum Limited	2008 Sustainable Development Report, Annual Report
Woolworths Limited	2008 Annual Report, Corporate Responsibility Report
Worleyparsons Limited	2008 Annual Report

A study by the Association of Chartered Certified Accountants
Published May 2009

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