



Progress, prospects and impact

How business is preparing
for the Modern Slavery Act

10th anniversary issue

The 2018 Annual Review of the State of CSR in Australia and New Zealand

Sponsors:



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1. About this report

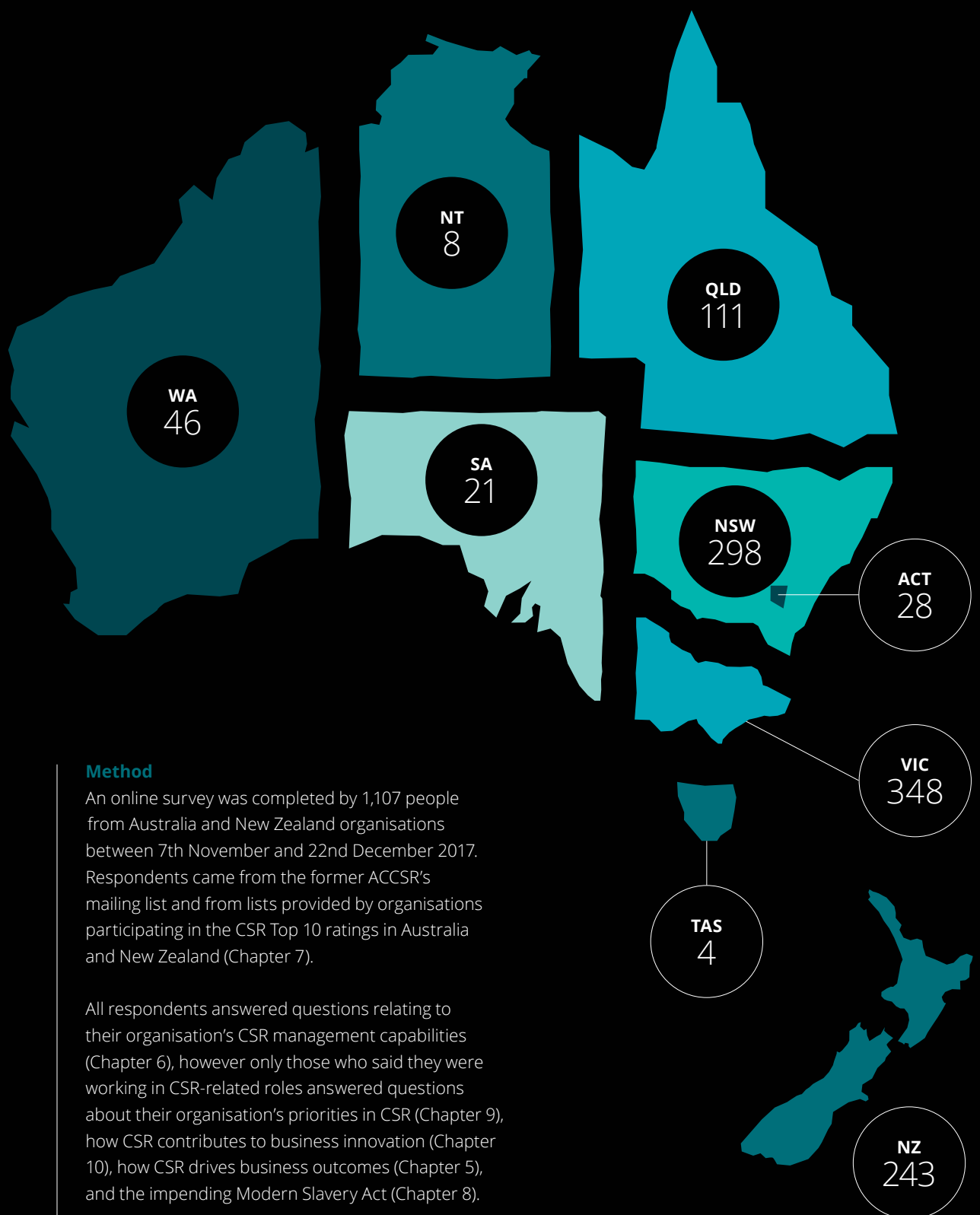
The tenth Annual Review of the State of CSR in Australia and New Zealand remains the largest ongoing study of organisational corporate social responsibility (CSR) practices, trends, and capabilities in Australia and New Zealand.

Our aim in this report is to analyse key trends in CSR so that CSR managers can make evidence-based decisions that advance positive change in their organisations. The first report in 2008 was widely praised as the most significant study at the time to lay out what it was like for CSR workers in the emerging fields of CSR and sustainability as an organisational management practice. Since then, this report has tracked the development of CSR in Australia and New Zealand and continues to highlight the most important issues facing practitioners and business leaders.

Deloitte has supported leading organisations for many years in their journeys towards more sustainable and responsible business practices. Last year, we further expanded our capability when the team from the Australian Centre for Corporate Social Responsibility (ACCSR) joined our Resilience and Sustainability Services team.

Established by ACCSR in 2008, the 10th Annual Review of the State of CSR in Australia and New Zealand is proudly published by Deloitte. This 2018 report reflects the talents of both the former ACCSR and Deloitte sustainability teams now working as one, under the Deloitte banner.

Thank you to our sponsors who have worked with us again this year: La Trobe Business School, Massey University, the New Zealand Sustainable Business Council and Wright Communications. We welcomed the participation of Macquarie University through its Faculty of Business and Commerce for the first time. We are especially grateful for additional analysis provided by Macquarie University and Massey University. Finally, our deep gratitude to all the respondents to our survey who have made this year's *Annual Review* possible.



Method

An online survey was completed by 1,107 people from Australia and New Zealand organisations between 7th November and 22nd December 2017. Respondents came from the former ACCSR's mailing list and from lists provided by organisations participating in the CSR Top 10 ratings in Australia and New Zealand (Chapter 7).

All respondents answered questions relating to their organisation's CSR management capabilities (Chapter 6), however only those who said they were working in CSR-related roles answered questions about their organisation's priorities in CSR (Chapter 9), how CSR contributes to business innovation (Chapter 10), how CSR drives business outcomes (Chapter 5), and the impending Modern Slavery Act (Chapter 8).

We define CSR as the organisational practices that address the impact of an organisation on business, society and the environment or seek to create positive societal value through core business. In this report, we use the terms CSR and sustainability interchangeably.

Respondents by location with numbers of participants from each location. n=1107

Chart 1
Respondents' industries^{1,2}

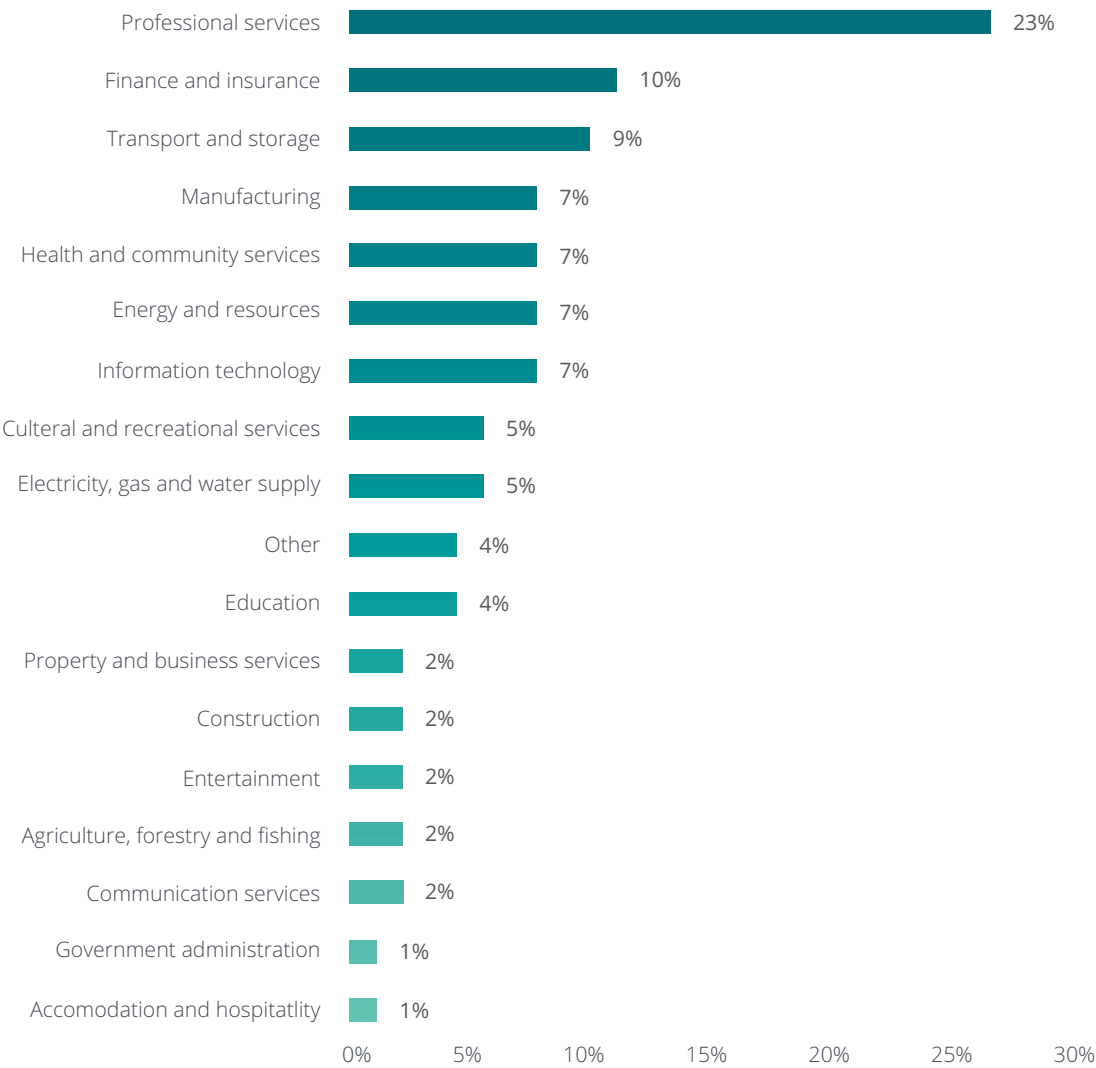
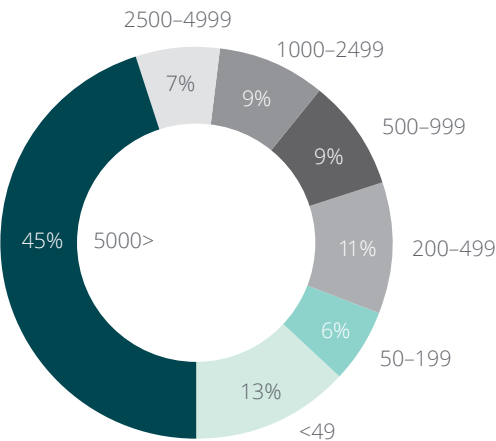


Chart 2
Organisational size







2. Introduction

The success of business has always depended on playing a valuable role in society.

Decades ago, Australian business may have understood its primary role in society as creating employment and paying taxes so that economic prosperity could be widely enjoyed and governments could look after health, education and other social issues.

Today, the direct and indirect impacts of business are better understood to include social and environmental as well as economic impacts. These impacts are magnified by the effects of globalisation, and more transparent through the speed of information flows in a digital world. Today, the role of business in society is larger and more complex than ever before and expectations of business continue to rise.

Businesses and many other types of organisations have responded to these changes by appointing dedicated managers of corporate responsibility or sustainability (described generically in this report as CSR managers), and by creating programs of work that mitigate or avoid negative impacts, amplify the positive impacts, increase transparency, involve affected stakeholders in decision making, or create new products and services to meet rising demand for sustainable consumption. These are signs of maturity in understanding the new discourse of business, which centres on business conduct, adaptation for a carbon-constrained world, and total value creation.

This report highlights how Australian and New Zealand organisations have significantly improved their CSR practices over the last decade and how prepared they are for the challenges of today and tomorrow. We show how CSR and sustainability practices have driven better business outcomes and shed light on the changing priorities of business.

As Australia looks set to introduce world-leading legislation on modern slavery in 2018, we focus on Australia's preparedness for a step-change in business action on human rights. We believe our results are the first to be published on this question.

This report demonstrates Deloitte's intention to lead in practice, standards, and growing the positive impacts of responsible and sustainable business.

We congratulate the organisations that participated in the CSR Top Performers ratings and thank them for supporting this work (see Chapter 7). Thank you to the universities and other valued sponsors in Australia and New Zealand, without whose collaboration and support this report would not be possible.



Dr Leeora Black
Principal, Sustainability Services
Deloitte Risk Advisory



Paul Dobson
Partner, Sustainability Services
Deloitte Risk Advisory

3. Snapshot

Business is underprepared for the Modern Slavery Act

- Awareness is weak (57% of CSR managers) and risks are likely under-estimated – 79% of senior CSR managers think it is unlikely there is any slavery in their supply chains despite the high prevalence of modern slavery in our closest trading region.


CSR continues to contribute
to organisational innovation.

Organisations with strong CSR management capabilities

are more likely to enjoy improved competitive advantage and reputation.

Experience counts and persistence pays

- Organisations who appointed CSR managers before 2012 get better outcomes from CSR than organisations that began their CSR journeys more recently.



The business case for CSR has strengthened over the last decade

- Four out of five organisations are reaping reputation benefits and reducing risk as a result of CSR.
- Improving competitive advantage through CSR was the area of most improvement in the business case for CSR.

Promoting diversity in the workplace
is now the top CSR priority in Australia.

Reducing environmental impacts
remains the top CSR priority for New Zealand.

4. Between the lines

Insights from Macquarie University, La Trobe Business School and Massey University

The Faculty of Business and Economics at Macquarie University is delighted to be a key sponsor of the *2018 Annual Review of the State of CSR* in Australia and New Zealand, partnering with Deloitte.

The publication of the 10th *Annual Review* provides a natural point for reflection on continuity and change, on progress made, and work still to do. The consistency of the commitment of participants to knowledge sharing and advancing practice is hugely impressive and has grown significantly over time. Sharing knowledge is critical to managing the complex issues of CSR, and the *State of CSR Annual Reviews* have played an important role in stimulating debate and building capacity to advance CSR in Australia and New Zealand.

Re-reading the first two *Annual Reviews*, the emphasis on supporting the development of CSR/sustainability management as a profession is striking. In 2008, being a CSR professional was a fairly lonely pursuit – in a fifth of organisations, leading CSR fell upon a single individual, and three in five companies employed a team of five or fewer to manage their CSR. Since then, enormous progress has been made in supporting the development and organisational impact of a group of passionate professionals.

One strong signal of success of the work undertaken to build the capacity of the CSR profession is the strengthening of the business case of CSR over time. Today, more than four out of five companies experience significant benefits from their CSR in the form of reputation improvement, risk management and improved competitive advantage. A strengthening business case underpins increased business commitment to CSR, as well as the social and environmental change that this provokes.

While much has been achieved, the shifting expectations and requirements of our societies present some significant emerging challenges for Australian and New Zealand companies. The analysis in this report of awareness of, and perceived preparedness for, the introduction of landmark modern slavery legislation provides some food for thought. The evidence suggests to me that companies' awareness is lower than might be expected, and that their estimates of their internally judged preparedness is higher than is likely to be the case. I am hopeful that the collective strength of this community will enable Australian and New Zealand businesses to proudly occupy a position of global leadership on this issue.



Professor Stephen Brammer

Executive Dean
Faculty of Business and Commerce
Macquarie University

The La Trobe Business School is delighted to be a key sponsor of the tenth *Annual Review of the State of CSR in Australia and New Zealand*. The 2018 Review continues to demonstrate leadership in CSR. Congratulations to the CSR Top Performers in Australia and New Zealand.

For CSR practitioners the *Annual Review* highlights the importance of moving from a risk minimisation approach to CSR to one that adopts CSR as an opportunity to build innovative product and service delivery.

Consumers and communities are increasingly propelling the business, government and not-for-profit sectors to act responsibly and are driving a movement which advocates transparency, responsible practices, and diversity.

In an environment where social media can immediately amplify one poor decision into a global incident, the *Annual Review* demonstrates that organisations are recognising the benefits of CSR for strengthening their reputation. It highlights the key CSR capabilities that lead to measurable business outcomes: building stakeholder engagement and value through dialogue, understanding stakeholder priorities, and working with them collaboratively.

Reading the *Annual Review* should be mandatory for all education providers to understand the importance of incorporating these key skills into curriculum.

For policy makers, the *Annual Review* highlights the support that organisations will require in building business capabilities in tracking their supply chain. The introduction of the Modern Slavery Act in Australia will highlight human rights issues which continue to be of concern for consumers, communities and key advocacy groups.



Professor Suzanne Young

Head of Department of Management, Sport and Tourism and Professor of Management (Governance and CSR), La Trobe Business School (LBS)

The Massey Business School (MBS) is pleased to partner with Deloitte for the 2018 *Annual Review of the State of CSR in Australia and New Zealand*. At MBS, CSR and sustainability are at the core of our teaching, research and service. As part of our Responsibility and Citizenship mandate, CSR is one of our key research platforms.

The 2018 survey results support the rationale that embedding CSR and sustainability could unlock opportunities for businesses and organisations. Without embedding CSR and sustainability, it will be impossible to attract the right calibre of people to work for them, and convince consumers to buy their products and services. New Zealand companies continue to appreciate the benefits of embedding CSR and sustainability into their core business. Additionally, New Zealand organisations prioritised reducing negative environmental impacts, measuring the impact of climate change, and improving waste reduction and recycling initiatives. As noted in the report, there have been tremendous progress in the last ten years, thus, collaboration and partnerships between all actors are crucial. To this end, we believe businesses, organisations, NGOs, the public sector and universities have to continue to work together to achieve the gains and opportunities presented.

Our congratulations to all of the participants and in particular to the New Zealand companies that continue to improve their CSR and sustainability programs.

Professor Kambiz Maani

Professor of Systems Thinking & Science and Associate Pro Vice-Chancellor (Research) for Massey Business School
Massey University



Associate Professor Gabriel Eweje

Director, Sustainability and CSR Research Group
School of Management, Massey Business School Massey University

5. The business case for CSR

In 1970 the US economist Milton Friedman famously proclaimed in the pages of the New York Times that the only social responsibility of business is to increase profits.

Since then, the business case for CSR has become one of the most-researched topics in CSR, and an enduring theme in the Annual Review of the State of CSR. In 2008 we asked respondents what outcomes they achieve as a result of CSR. Ten years on, we found that companies are enjoying greater business benefits from CSR, such as strengthened reputation, reduced risk, strengthened competitive advantage, and new value creation (see Chart 3). In 2008 we asked respondents what outcomes they achieve as a result of CSR.

Strengthened competitive advantage is the area of most improvement in the business case for CSR, with the proportion of respondents reporting this outcome increasing by nearly 9% (see Figure 4).

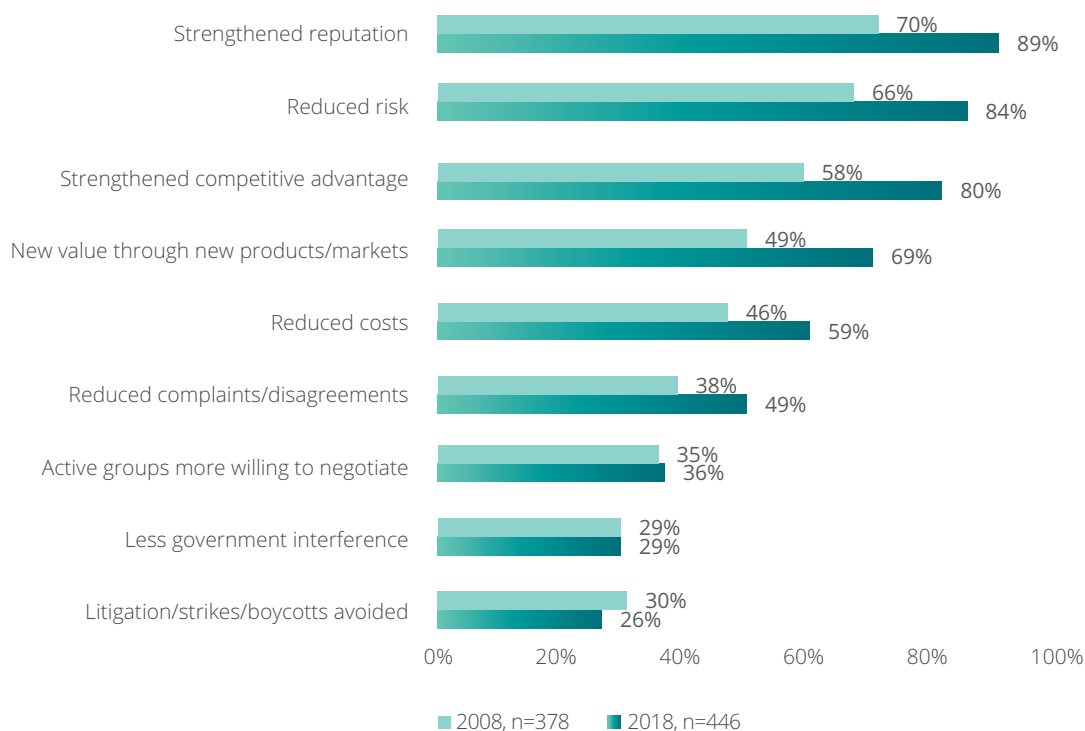


Chart 3
Business outcomes from CSR, comparison 2008–2018

Of the nine business benefits we measured, only one – avoiding litigation, strikes and boycotts – has declined in importance since 2018, with a small decline of 1.85%. This is interesting given litigation has been a more prominent feature in activist tactics against corporations in recent years. For example, two shareholders last year attempted to sue the Commonwealth Bank of Australia over climate risk disclosures³, and Rio Tinto was among the mining companies facing legal challenges in the Land and Environment Court over proposed expansion⁴. Our results suggest that corporations may be under-estimating the power of CSR practices and capabilities to help address rising stakeholder activism.

We classified each of these benefits of CSR into two types of outcomes from CSR – gaining benefits and avoiding losses. The benefits gained are more powerful than the losses avoided. For example, as Chart 4 shows, only modest improvements were noted in reducing stakeholder complaints and avoiding increased government requirements.

We may speculate on the reasons for this. Possibly, government moves such as an inquiry into a Modern Slavery Act in 2017 or the Financial Services Inquiry in

2018, are not equated with CSR, even though they are arguably the consequences of long term poor business conduct. Perhaps a narrow view of CSR sits behind this result. A narrow view would see CSR as about the traditional areas of philanthropy and community investment, whereas a broader view would be consistent with the International Guidance Standard on Social Responsibility, ISO 26000, that examines every part of organisational activity through a CSR lens.

The business outcomes of CSR were then further analysed by whether they created benefits or avoided losses, and by whether the organisation was an early (pre 2012) or late (from 2012) adopter of CSR. Early adopters realised 4% greater benefits from CSR than late adopters, illustrating the importance of consistency and a long term outlook for embedding CSR practices in organisations. They were also 6% more likely to realise market-oriented benefits like competitive advantage and 3% more likely to realise financial benefits such as reduced costs.

	2008 average rating	2018 average rating	Difference	Change as a % of 2018
Litigation	3.47	3.40	-0.06	-1.85
Activist groups were willing to negotiate with our organisation	3.52	3.62	0.10	2.74
There was less interference by government in the management of our organisation	3.23	3.24	0.01	0.41
Complaints and disagreements from stakeholder organisations were reduced	3.57	3.60	0.03	0.88
We reduced costs for our organisation	3.50	3.69	0.18	5.27
We reduced risks for our organisation	3.94	4.13	0.17	4.87
We strengthened our competitive advantage	3.84	4.19	0.34	8.95
We strengthened our reputation	4.04	4.38	0.34	8.53
We created new value in the form of new products, services or markets	3.69	3.97	0.28	7.63

Chart 4

Change in business outcomes from 2008–2018

6. Embedding CSR

The *State of CSR Annual Review* has been tracking organisations' CSR management capabilities since 2008.

CSR management capabilities show the embeddedness of CSR culture and practices in an organisation. They comprise four basic CSR management practices, which are scored by the organisations' employees. Scores show how employees rate their own organisations on the presence or absence of CSR practices as they experience them, and tell us how much organisations are walking the talk when it comes to CSR.

These practices are good predictors of improvements in reputation, risk management, competitive advantage and other business outcomes from CSR. Organisations with higher scores are more likely to reap the benefits of CSR (see Chapter 5).

Four management practices are basic to CSR success: stakeholder engagement, integrating stakeholder values into decision-making, having genuine dialogue with stakeholders, and accountability for social impacts. They are defined opposite.

CSR capabilities have strengthened over the last decade, as shown in Chart 5 to Chart 8 (overleaf⁵). These capabilities underpin performance and organisations' abilities to respond appropriately to changing stakeholder and societal expectations. The biggest growth in CSR capabilities was in the sense of social accountability from 36% to 58%, mirrored by the rise in sustainability reporting over the last decade. However, social accountability remains the weakest capability overall, and is 18% lower than the strongest capability, stakeholder engagement (86%).

CSR management capabilities are typically calculated by finding the mean of all responses to all items. In Charts 5 to 8 we have applied a different calculation to emphasise differences across years. In these figures we have taken scores of 4 or more out of 5 and divided by the total number of respondents.

The four management practices to CSR success

1.

Stakeholder engagement

People in our organisation understand the linkages and interdependencies between us and our stakeholders. Our staff or members routinely consider stakeholder needs in business decisions.

2.

Integrating stakeholder values

Managers are able to effectively detect and transmit value-pertinent information about stakeholders to all parts of the organisation to assist in business decision-making.

3.

Stakeholder dialogue

We engage in open dialogue with our stakeholders, treating them as equal partners in issues of mutual concern. We have clear processes for stakeholder dialogue and encourage equal control over the discussion agenda and communication process.

4.

Sense of social accountability

Our people believe that our organisation is accountable to stakeholders for its social impacts and we effectively report our social performance, even when the news is not all good.

Chart 5
Stakeholder engagement capability
2008–2018

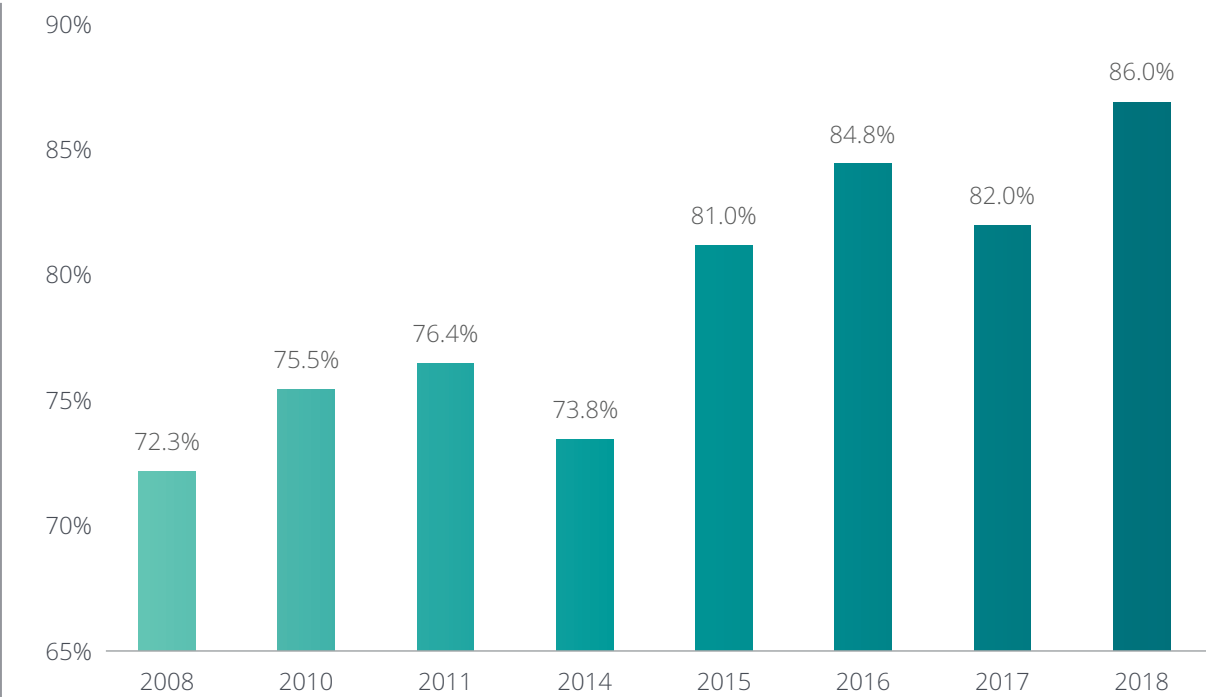


Chart 6
Integrating stakeholder values
2008–2018

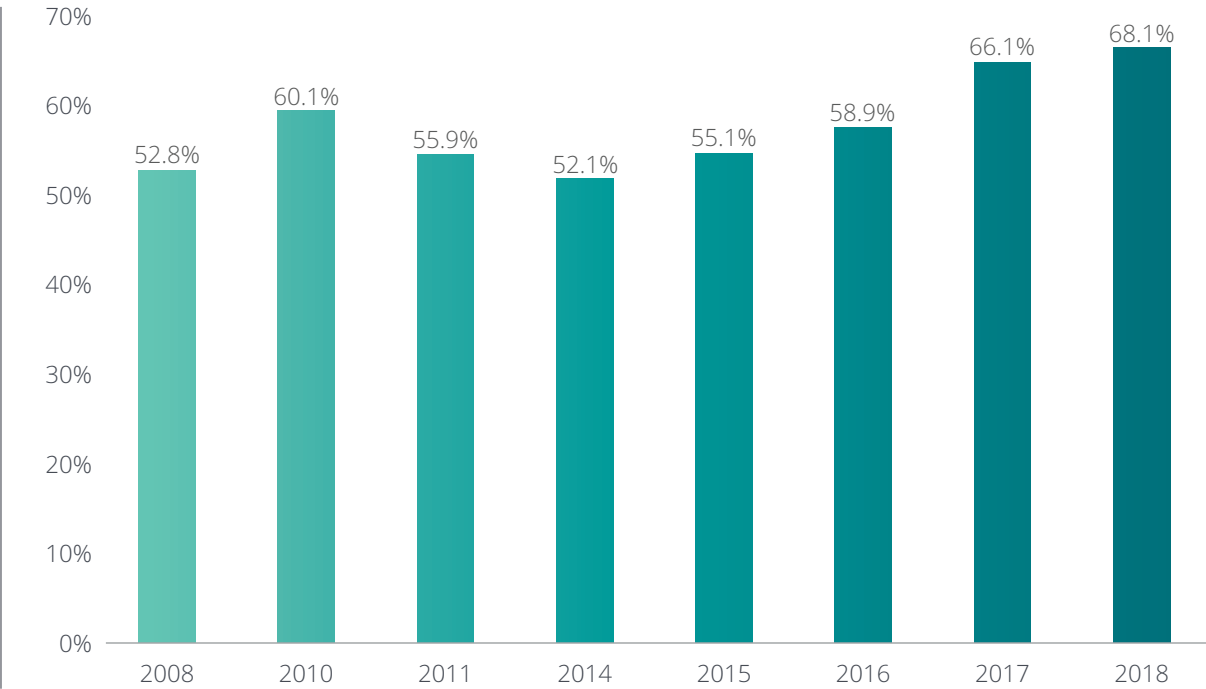


Chart 7
Stakeholder dialogue
2008–2018

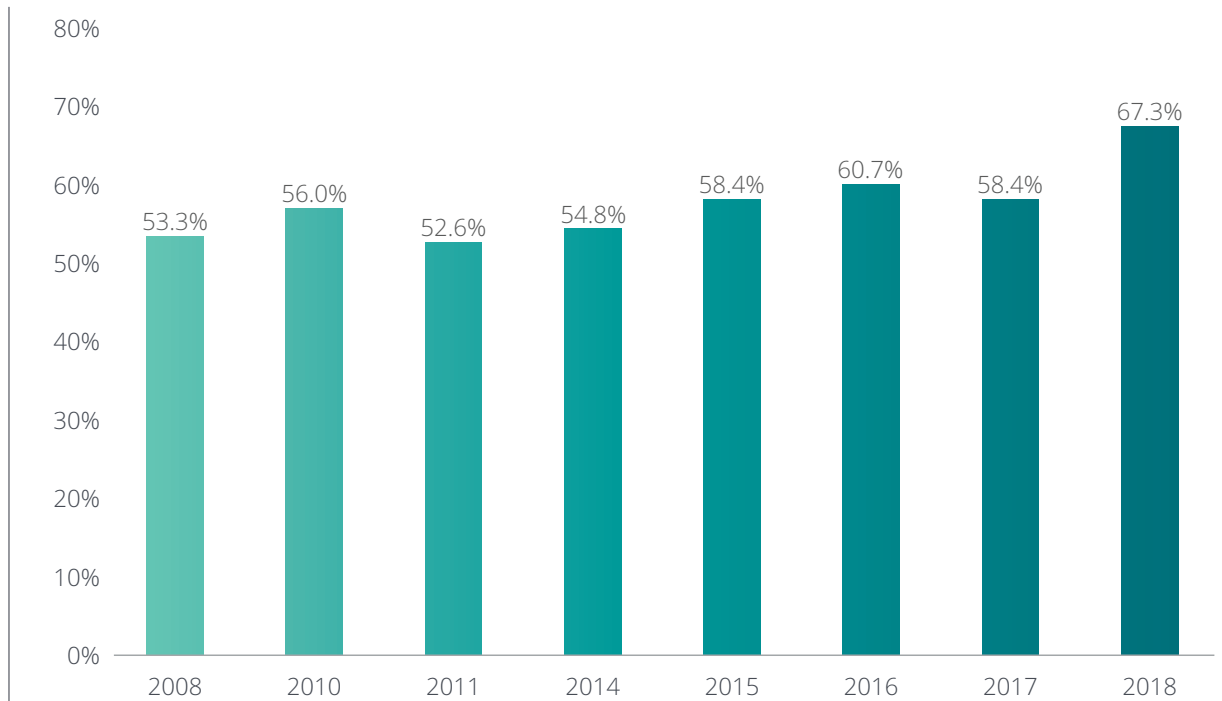
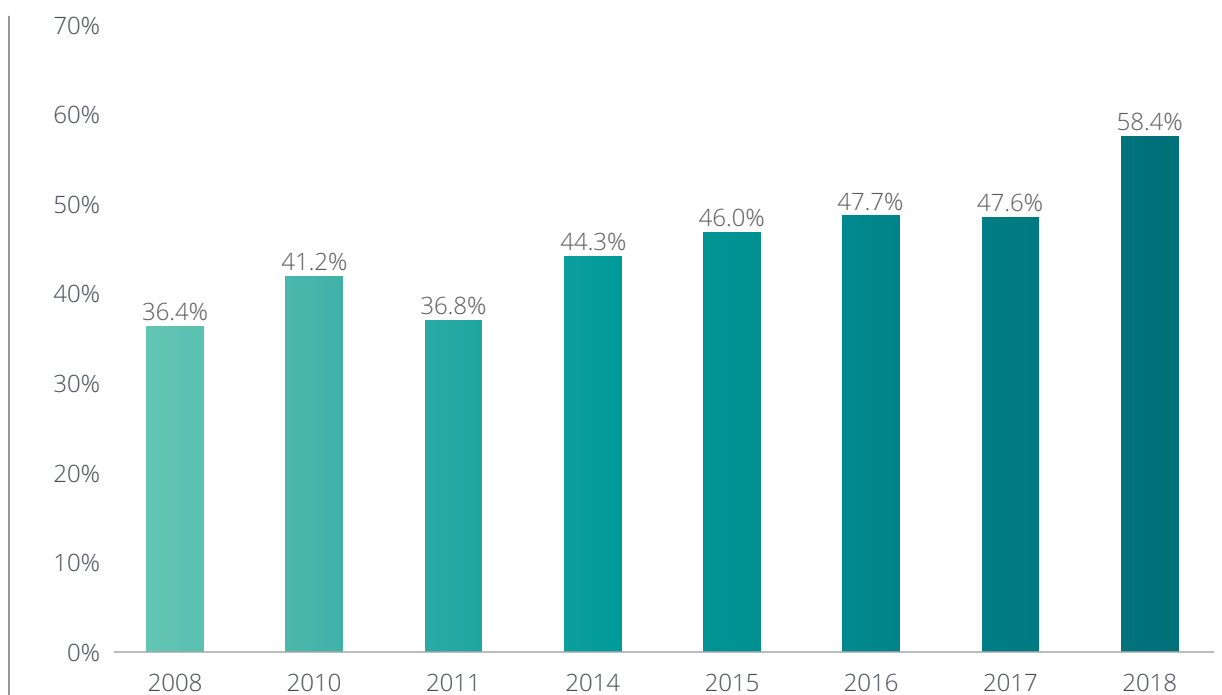


Chart 8
Social accountability
2008–2018



This year the electricity, gas and water supply industry reported the strongest CSR management capabilities (Chart 9), increasing from 74% in 2017 to 82% in 2018. This is significantly higher than the top industry in 2017, which was information technology at 78%. Manufacturing has increased its score since last year from 73% to 81%. The education sector continues to lag industry on CSR management capabilities with 68%, though an improvement from 66% when we last reported it in 2016.

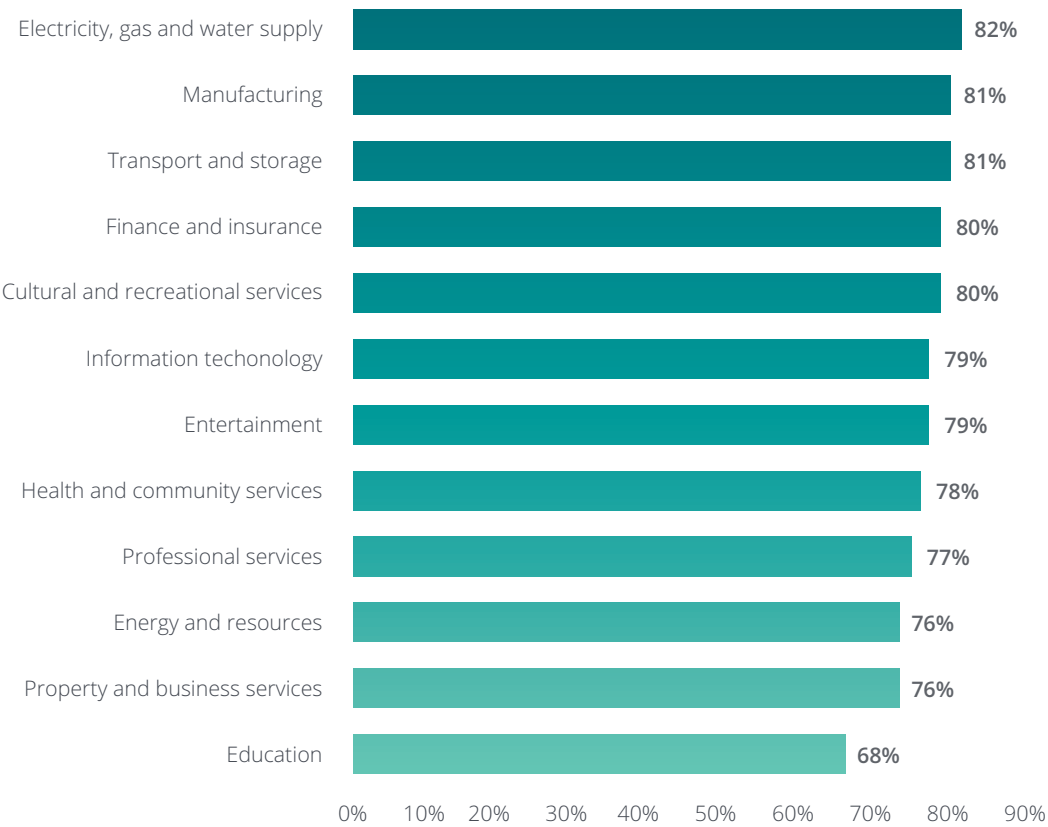


Chart 9
CSR management capabilities by industry, n=862



7. The CSR top performers

Organisations were once again invited to participate in the CSR capabilities assessment through offering the *State of CSR* survey to their employees.

Employees were asked to rate the extent to which they agreed or disagreed with a series of statements about CSR in their organisations. These results were used to identify the extent to which CSR management capabilities are embedded within their organisations. For more information regarding the management capabilities measured please see Chapter 6.

The CSR Top Performers in 2018 received a CSR management capability score of 80% or above.

Thank you to all the participating companies and their employees who made these assessments possible by responding to the *State of CSR* survey, and congratulations to the CSR Top Performers.

TOP PERFORMERS

Australia



New Zealand



8. The Modern Slavery Act

Australia is likely to introduce a Modern Slavery Act in 2018, following two Government inquiries in 2017 by the Parliamentary Joint Standing Committee on Foreign Affairs, Defence and Trade, and the Attorney-General's department.

The proposed Act will require organisations of a certain size to provide a public report on what they are doing to identify and combat any instances of modern slavery in their operations or supply chains.

Modern slavery is a pernicious form of human rights abuse with an estimated 40 million victims⁶. The Global Slavery Index⁷ suggests that two-thirds of modern slavery occurs in the Asia-Pacific region, where many Australian supply chains extend. In Australia, exploitative labour practices have been associated with the construction, agriculture, manufacturing, hospitality, cleaning and domestic work sectors, as well as third-party labour suppliers⁸.

The Joint Standing Committee on Foreign Affairs, Defence and Trade's interim report⁹ defines modern slavery as 'a broad umbrella term used to describe a number of crimes, including, but not limited to, human trafficking, forced labour, sexual slavery, child labour and trafficking, domestic servitude, forced marriage, bonded labour including debt bondage, slavery and other slavery-like practices'.

Having tracked the rising importance of human rights since 2008, we were keen to understand how ready business is for this heightened focus on human rights. We asked those working in CSR about the proposed Modern Slavery Act in the 2018 Annual Review.

Chart 10 shows that among people working in CSR, only 57% were aware of the Government's intention to introduce a Modern Slavery Act in Australia. Among the most senior CSR managers, 79% thought it was unlikely there is slavery in their organisation's supply chains (see Chart 11). This suggests a large knowledge gap among CSR workers. Modern slavery is extensive – the ILO estimates there are 168 million children aged between 5 and 17 years engaged in child labour and over 20 million victims of forced labour – and more likely to occur in the Asia-Pacific region than anywhere else, a region that includes Australia's largest trading partners.

“Modern slavery is pervasive in corporate supply chains in all regions of the world and amounts to an estimated \$150 billion (USD) of illicit profits a year.”

– Modern Slavery in Company Operations and Supply Chains, Report by the Business and Human Rights Resource Centre and the International Trade Union Confederation, September 2017

Chart 10
Awareness of
MSA by seniority,
n=367

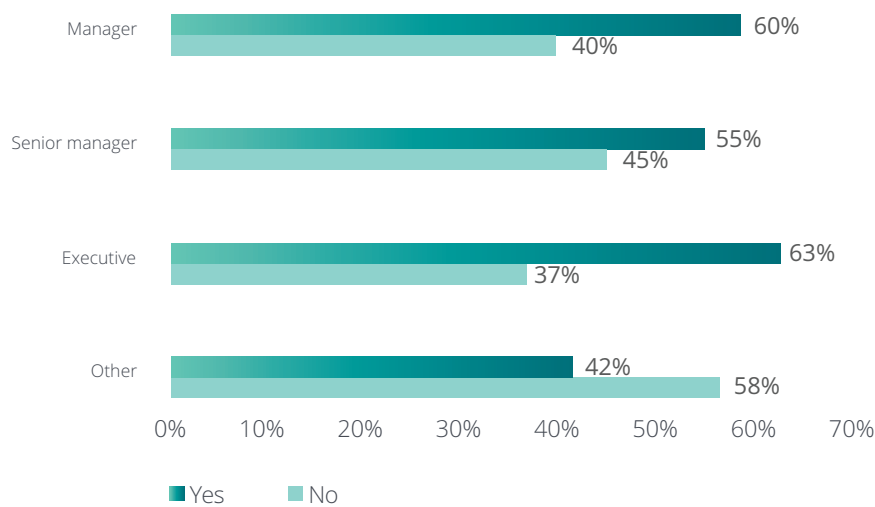
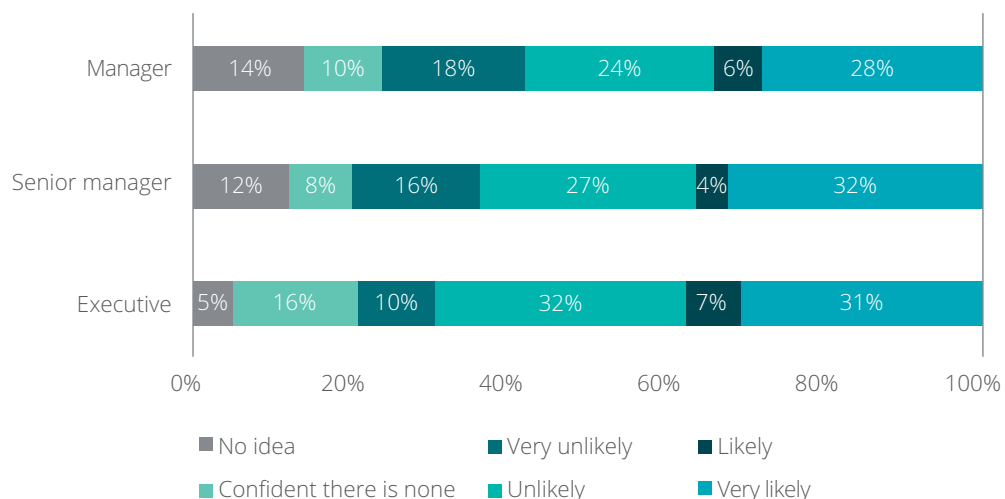


Chart 11
Perceived likelihood
of modern slavery
in supply chain,
n=313



Proposed Modern Slavery Act requirements

The Attorney General's model proposes to apply a mandatory annual modern slavery supply chain reporting requirement to body corporate, unincorporated associations and other entities conducting business in Australia, with a threshold figure of \$100 million in revenue, though there is support for a lower threshold. Entities will be required to provide a Modern Slavery Statement to a central repository, addressing a consolidated set of criteria. These statements will need to be approved at the equivalent board level and signed by the equivalent of a director and be published on the company's website. These statements will be required to be released no later than five months after the end of the financial year. The Modern Slavery Act is expected to be passed in FY19, and apply from FY20.

Companies will require support to comply with the Modern Slavery Act. Chart 12 shows what types of support they think they will need. Consultants, lawyers, industry associations and government are among the most trusted groups to provide that support (Chart 13).

"We are all going to have slavery in our supply chains no matter how good we think our corporate responsibility is."

Andrew Forrester
Chairman, Fortescue Mining Group and Walk Free Foundation

Chart 12
Types of support required¹⁰
n=367

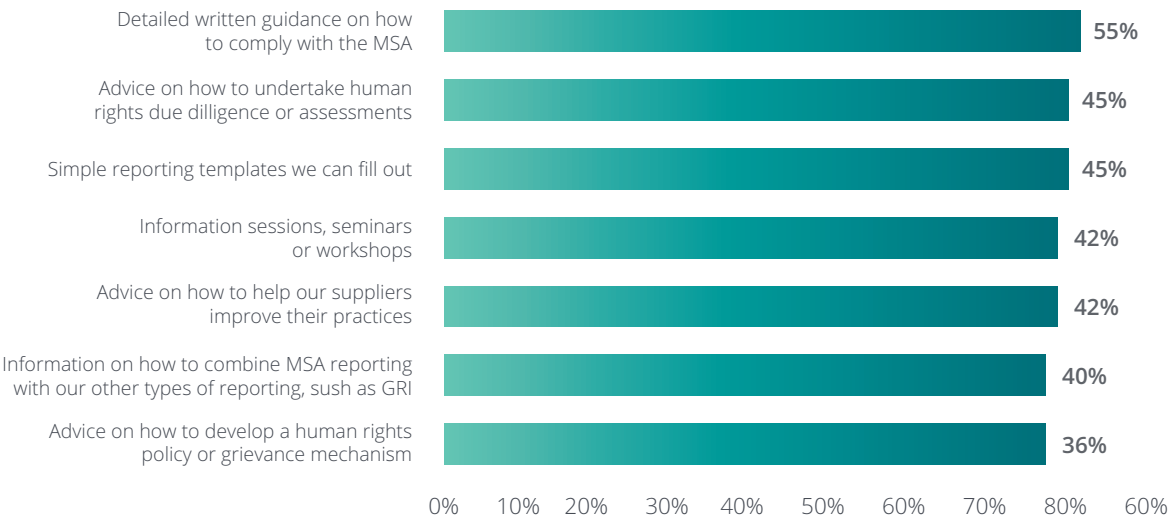
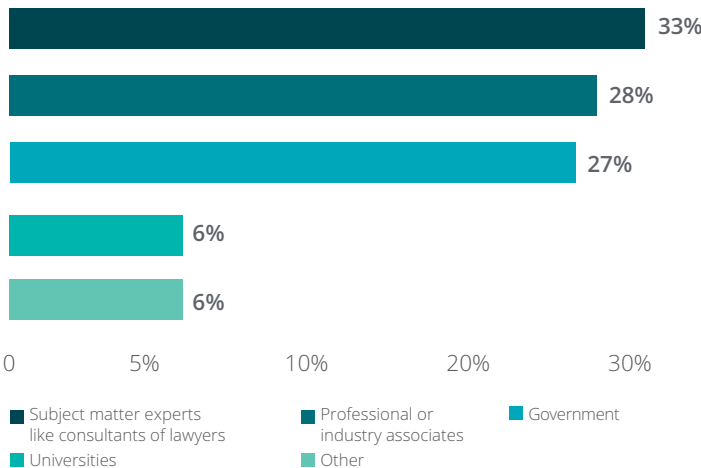


Chart 13
Most trusted advisor for support
n=451



The anticipated Modern Slavery Act reporting criteria are:

1. The entity's structure, its operations and its supply chains
2. The modern slavery risks present in the entity's operations and supply chains
3. The entity's policies and processes to address modern slavery in its operations and supply chains and their effectiveness (such as codes of conduct, supplier contract terms and training or staff)
4. The entity's due diligence processes relating to modern slavery in its operations and supply chain and their effectiveness.

Tips for preparing for the Modern Slavery Act:

Many companies are preparing now for the proposed Modern Slavery Act by conducting risk assessments and making improvements to processes, management controls and reporting. Here are Deloitte's tips for getting started:

- Map your organisation's human rights risks including mapping procurement categories to human rights issues and assess relative risks
- Determine or review policies to avoid complicity in human rights abuses and ensure requirements are embedded in supplier contracts, with appropriate controls and support
- Assess suppliers' current abilities to deal with human rights risks
- Develop supplier engagement programs to mitigate against human rights risks
- Establish ongoing monitoring of risks and compliance to corporate policy.

9. Priorities for the year ahead

For ten years, we have asked companies which sustainability issues they will be prioritising over the coming 12 months.

Throughout this time, strengthening stakeholder relationships has consistently topped the chart, with managing regulatory impacts and reducing negative environmental impacts regularly among the top issues.

Last year, managing the implications of technology shot to third place, where it remains in 2018. More than half say addressing the Sustainable Development Goals is a high or very high priority.

Topping the list of issues for the first time in 2018, with four in five saying it is a high or very high priority, is promoting diversity and inclusion (Chart 14). This issue has risen rapidly in importance since 2014 when we first measured it, from 50% rating it a high or very high priority, to 80% in 2018. In this time, Australian business has become more active and vocal on diversity issues, recognising that Australia is one of the most ethnically diverse countries in the world. Business are also acting on a broad range of social issues, as shown by business support for gay marriage in the 2017 referendum.

This year we introduced two new issues in response to developments in the human rights and climate change reporting landscape: Preparing for the Modern Slavery Act, and Addressing the requirements of the TCFD (Taskforce on Climate-Related Financial Disclosures). These issues were the lowest ranked across all respondents, with 26% saying they are high or very high priority issues. We expect these issues to rise in priority in coming years.

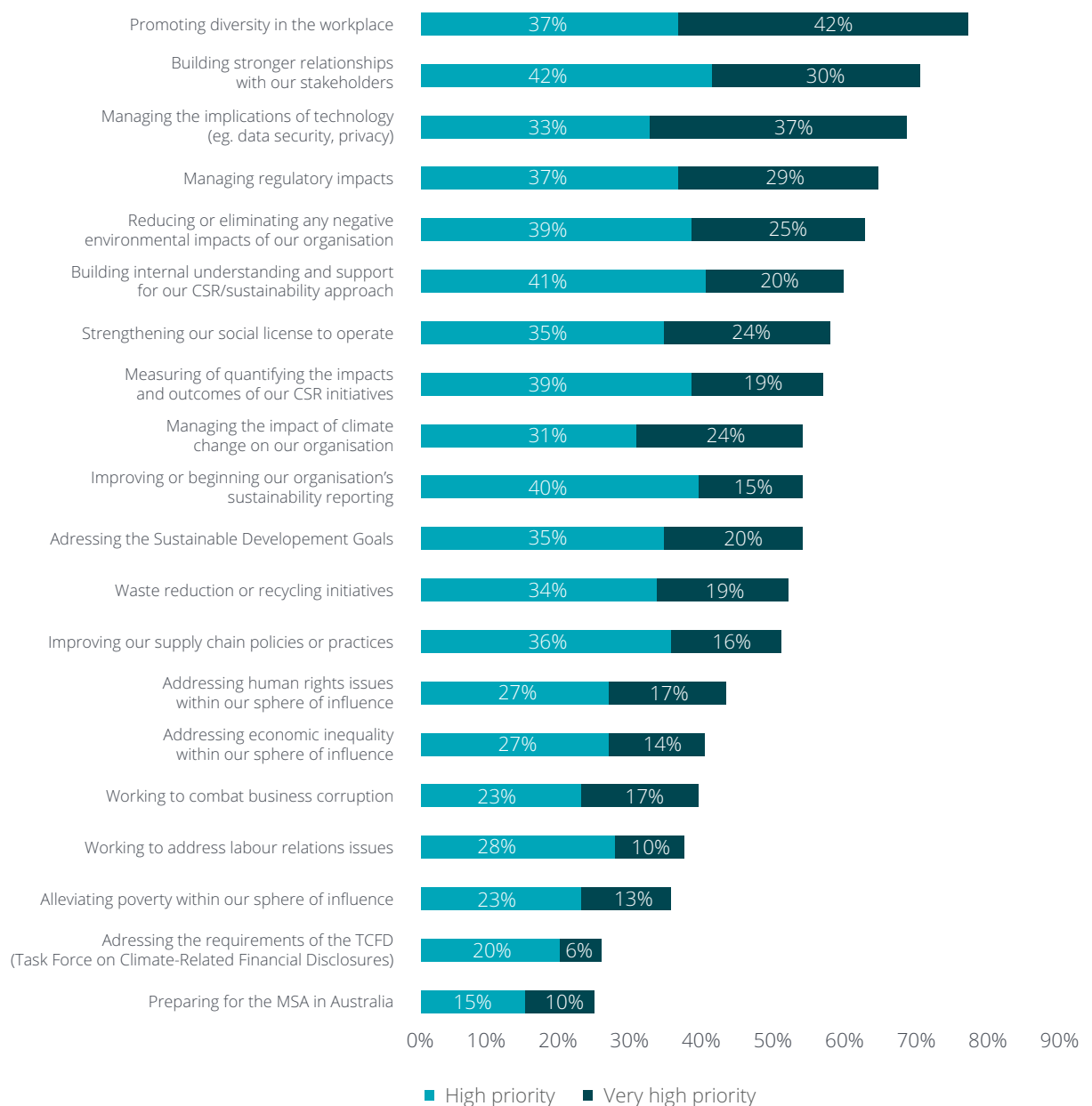


Chart 14
Priority issues
in 2018, n=476

Task Force of Climate-related Financial Disclosures (TCFD): mainstreaming climate risk considerations

The TCFD was established in late 2015 by the G20 Financial Stability Board to develop a voluntary and consistent disclosure framework for climate-related information that would better serve investors, companies and regulators to understand climate-related issues and their potential financial impacts.

In June 2017 the Task Force released its final report¹¹ which recommends that organisations adopt the TCFD disclosures in their mainstream financial filings. The framework covers four areas:

- **Governance:** Disclose the organisation's governance around climate-related risks and opportunities.
- **Strategy:** Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy, and financial planning where such information is available.
- **Risk management:** Disclose how the organisation identifies, assesses, and manages climate-related risks.

- **Metrics & targets:** Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Globally and locally many organisations have made public statements in support of the TCFD and in Australia and New Zealand many organisations are assessing the framework and starting to disclose in alignment with the framework.

While adoption of the TCFD framework is voluntary, it is becoming increasingly expected, as investors and other stakeholders increase their focus on understanding how organisations are considering the impact of climate change on their business from a strategic risk and opportunity perspective in the short, medium and longer terms.

Diversity and inclusion at Deloitte

At Deloitte, we believe workplace diversity recognises and leverages the different skills and perspectives people bring to an organisation through their gender, culture, physical and mental ability, sexual orientation, age, socio-economic background, language, religion, education, and family/marital status. It also includes the diverse ways of thinking and ways of working. Through our extensive research, we know that at the intersection of diversity and inclusion lies an area rich with fresh, innovative ideas and creativity – driving better employee experiences and client outcomes.

Research shows that companies that are diverse and inclusive significantly outperform their peers and will be better positioned to thrive. For example, research by Bersin and Deloitte¹² shows that organisations with more inclusive cultures are:

- **6 x more likely to be innovative**
- **6 x more likely to be agile**
- **3 x more likely to be high performing**
- **2 x more likely to meet or exceed financial targets.**

Priorities show small variations across industries

We examined the top three priorities by industry where there were at least 20 respondents per industry (Chart 15). Promoting diversity in the workplace is the top issue for professional services, transport and storage, electricity, gas and water supply, and energy and resources. Finance and insurance companies are focused on managing the implications of technology along with regulatory impacts. This reflects the digital

transformation sweeping through the industry. Unsurprisingly, Information Technology's top priority is managing the implications of technology, a constant for the industry. The top priority for the year ahead for both cultural and recreational services, and health and community services is building stronger relationships with their stakeholders.

Industry	Top priority	Second priority	Third priority
Cultural & Recreational Services	Building stronger relationships with our stakeholders	Managing the implications of technology (e.g., data security, privacy)	Waste reduction or recycling initiatives
Electricity, Gas & Water Supply	Promoting diversity in the workplace	Managing regulatory impacts	Strengthening our social license to operate
Energy & Resources	Promoting diversity in the workplace	Reducing or eliminating any negative environmental impacts of our organisation	Managing regulatory impacts
Finance & Insurance	Managing the implications of technology (e.g., data security, privacy)	Managing regulatory impacts	Promoting diversity in the workplace
Health & Community Services	Building stronger relationships with our stakeholders	Addressing economic inequality within our sphere of influence	Addressing human rights issues within our sphere of influence
Information Technology	Managing the implications of technology (e.g., data security, privacy)	Promoting diversity in the workplace	Preparing for the Modern Slavery Act in Australia
Manufacturing	Reducing or eliminating any negative environmental impacts of our organisation	Managing regulatory impacts	Improving or beginning our organisation's sustainability reporting
Professional services	Promoting diversity in the workplace	Building stronger relationships with our stakeholders	Managing the implications of technology (e.g., data security, privacy)
Transport & Storage	Promoting diversity in the workplace	Managing the implications of technology (e.g., data security, privacy)	Reducing or eliminating any negative environmental impacts of our organisation

Chart 15
Top three priorities
by industry

CSR issues have become more important over the last decade

Seven long-standing and central CSR issues have increased in priority for CSR managers in the last decade. None have declined significantly (Chart 16). Corruption, labour relations and human rights have all increased in importance for CSR managers (corruption +19%; labour relations +11%; and addressing human rights +10%).

Combatting corruption and anti-bribery has been an important priority of government in the last decade¹³, and business has accelerated their focus on this issue. This has been accompanied by falling ratings and rising scrutiny, as shown by the Transparency Corruption Perceptions Index¹⁴ where Australia's rating declined from 87 in 2008¹⁵ (rank of 9th least-corrupt nation) to 77 (rank of 13th least-corrupt nation) in 2017¹⁶.

Over this time, Australian companies' reputations were caught up in global issues including the Panama Papers, fraudulent and corrupt behaviour in the financial services sector such as NAB's bribery ring¹⁷, and CBA's fraudulent behaviour in the company's financial planning arm¹⁸.

Human rights issues have increasingly assumed centre stage among leading practitioners in the corporate responsibility arena over the last five years. The Sustainable Development Goals in 2016, and the impending Modern Slavery Act in Australia, have helped focus the attention of business on human rights issues. We explore this further in Section 8.



Chart 16
CSR priorities
comparison
2008 to 2018

10. CSR as a driver of innovation

As noted in Chapter 5, CSR is increasingly delivering competitive advantage. To achieve this requires innovation.

Innovation has long been considered an important aspect of CSR. Organisations need to create, change and foster a corporate culture that integrates social and environmental considerations into strategy and operations to create new stakeholder value.

Since 2011 innovation has become even more central to organisational strategies that address their role in society, when Michael Porter and Mark Kramer coined the concept “shared value¹⁹”. The concept has been embraced by many businesses.

We have tracked the relationship between CSR and innovation triennially since 2012, as shown in Chart 17. Our results show that CSR continues to drive innovation with significant increases since 2012.

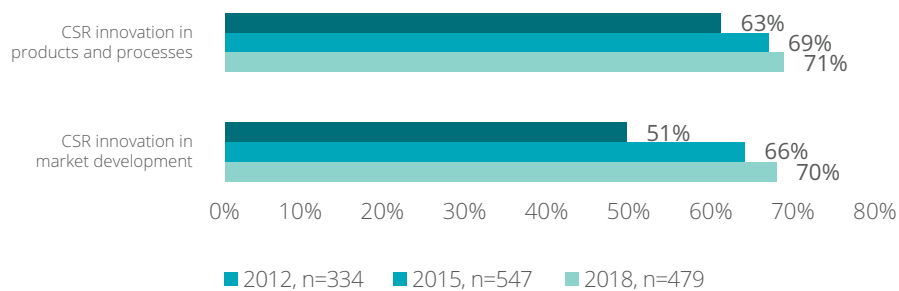


Chart 17
CSR as a driver
of innovation

Innovation in products and processes

Our organisation considers CSR issues when we develop and produce products and services. Our marketing emphasises CSR aspects of our products and services. Product market decisions take into account CSR considerations.

Innovation in new business markets

CSR practices have allowed our organisation to access new geographic markets, customers or distribution channels.

Some industries are using CSR for innovation more effectively than others. Chart 18 shows industry scores where there were at least 20 respondents per industry to these questions.

“Shared Value is not about sharing the value already created by firms – a redistribution approach. Shared Value is about expanding the total pool of economic and social value.”

Michael Porter and **Mark Kramer**,
Harvard Business Review, Feb 2011

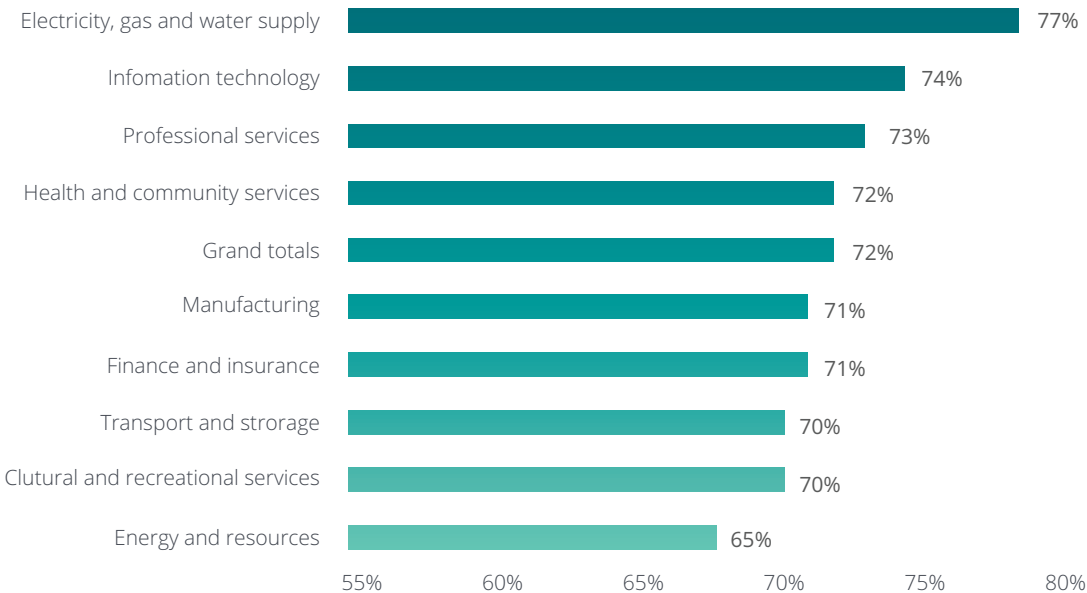


Chart 18
CSR innovation
scores by industry
in 2018²⁰

CASE STUDY 1

CSR innovation at Arup

Arup is a professional services firm providing services to all aspects of the built environment. We spoke to Sunny Oliver-Bennetts, Community Engagement Manager Australasia.

1. How has CSR evolved at Arup over the last 10 years?

Our CSR work started many years ago, when our founder, engineer and philosopher Sir Ove Arup, wrote the key speech setting out our organisation's values. A key focus of his was being a humane organisation. A decade ago, our community engagement work was grass roots, philanthropic and ad-hoc in nature. However, over the years, Arup realised we could have more of an impact if we not only donated funds but also used our technical skills with our partners to 'shape a better world'. Similar to lawyers or doctors, our engineers, planners and designers have specialised skills that can add immense value to people and places that wouldn't otherwise have access. Two years ago we came together globally in order to align our efforts and be more strategic. Now we have a global strategy looking at how we can scale our impact, innovate and continually refine our approach.

2. What CSR innovations are you most proud of in the last 12-18 months?

We have designed an impact measurement framework using a theory of change to test our hypothesis about the outcomes of our work against the UN Sustainable Development Goals (SDGs). Our focus has been on creating impact at scale and working closely with partners to ensure sustainability. But it's the actual projects that I get really excited about. For example, we have technical specialists working on the design for an Aboriginal Males Healing Centre in remote Western Australia; we recently sent a team of people on a mission to refugee camps in Cox's Bazar in Bangladesh training local people in bamboo design; we are designing a sewerage supply system servicing

over 12,000 people in Papua New Guinea, and; our digital team is working on mapping safe places for women and girls in the City of Sydney – just to name a few pro bono projects.

3. How does Arup incorporate CSR in to business innovation?

Arup has adopted the UN SDG framework across all of our work as a way to set project aspirations and targets for the most important aspects of social, environmental and economic sustainability. Aligning our core business with the UN SDGs will enable us to play to our strengths, maximise our impact and achieve our mission to 'shape a better world'. We are also using our impact framework as a way to feed lessons learnt and new knowledge into our commercial projects adding more value to clients and in turn the community.

4. What advice do you have for other companies wanting to innovate through CSR activity?

Firstly, I think it's important to understand the full capability of your organisation's product or service offering and how this can be leveraged to create social value. It's helpful to engage a cross section of the business in strategy development and product/service design to closely align your efforts. Further, look for partnering opportunities with organisations with a values alignment and an appetite to take risks and co-create scalable, impactful 'shared value' projects. And finally, ensure you invest in your people and provide clear avenues for staff participation inspiring a culture of long term engagement.

11. New Zealand setting the pace

New Zealand results streaked ahead in 2018 compared with 2016 and 2017, demonstrating a dedicated uptake of CSR practices.

This year there were 243 respondents from New Zealand, comprising 22% of total survey respondents. This response rate has slightly declined from last year when there were 359 New Zealand respondents, but is above the 2016 response of 226.

CSR management capabilities

CSR capabilities have become better embedded in New Zealand organisations over the past three years rising from a score of 73% to 80%, as judged by their employees. The largest improvement was in stakeholder engagement which jumped from 80% to 89%. While social accountability is still the lowest ranked capability, it has risen 11% since 2016.

The results suggest a heightened engagement with CSR. Results continue to reflect New Zealand's strong history in conservation and environmental protection – it was the first country in the world to enshrine the concept of sustainability in law²¹. These results are further supported by Labour's election win in 2017 and the subsequent establishment of the target of carbon neutrality by 2050. This pledge has prompted a number of companies to get on the front foot of regulation and make similar commitments to cutting emissions (see Fonterra case study).

CASE STUDY 2

CSR success at Fonterra

Fonterra is a New Zealand dairy co-operative. We spoke to Gary Philip, General Manager, Group Social Responsibility Performance and Reporting

1. How has CSR evolved at Fonterra over the last 10 years?

A key step for us was the adoption of ISO 26000 and using its definition of social responsibility. It states an organisation should take responsibility for its impacts on society and the environment, considering the expectations of stakeholders and contributing to sustainable development.

This has helped increase our regular engagement with stakeholders, to better understand their perspectives, and analyse our performance across the range of topics to ultimately prioritise our improvements.

Sustainability is now a core part of our strategic planning cycle and called our Sustainable Co-operative horizon. It has been a gradual process, embedding the thinking more and more during that time. It is a work in progress and one that we are still focused on.

2. Reducing environmental impacts is the top CSR priority in New Zealand. How does managing environmental impacts fit within the broader responsibilities of Fonterra?

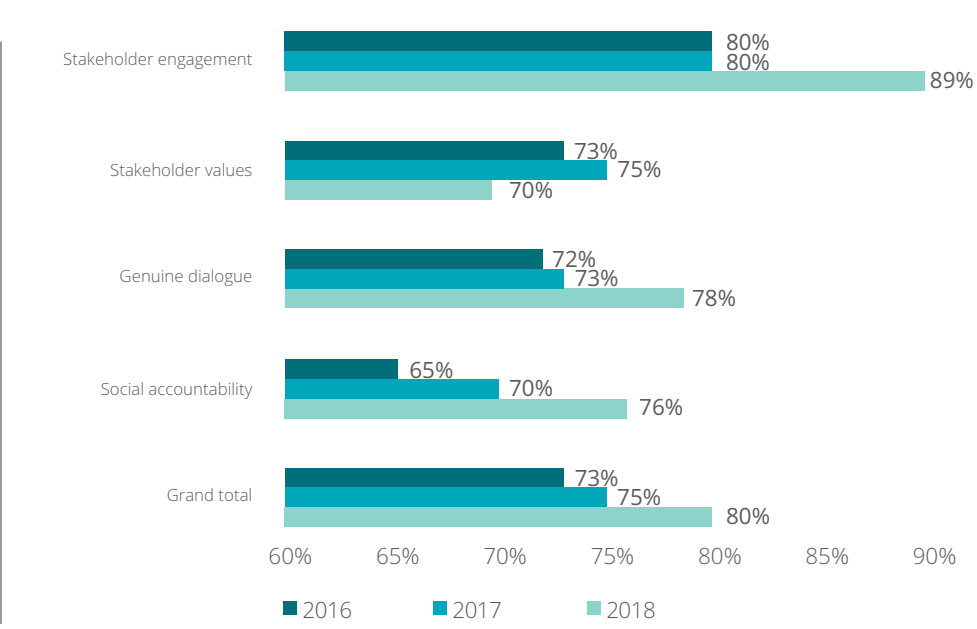
As a global food producer, we are in a privileged position of delivering nutrition and with the opportunity to make a positive difference to people's lives through our products. When we look at our approach to sustainability we are looking at three pillars. Improving the health and wellbeing of society through our products. Making a positive contribution to communities, including through positive livelihoods for our farmers and employees. And recognising we need to do this while still achieving a healthy environment for farming and society.

3. Can you tell me about a recent environmental achievement?

Nitrogen is one of the essential nutrients for growing the pasture that feeds dairy cattle. However, if excess nitrogen makes its way into waterways it can have a detrimental effect. A significant concern for New Zealand stakeholders.

Last year 95% of our farmers in New Zealand participated in our Nitrogen Management Program. Using the detailed information from our farmers we can provide them with detailed performance reports. These include estimates nitrogen losses, efficiency and their performance relative to other local farmers, allowing them to make year-on-year improvements.

Chart 19
Management capabilities amongst New Zealand companies



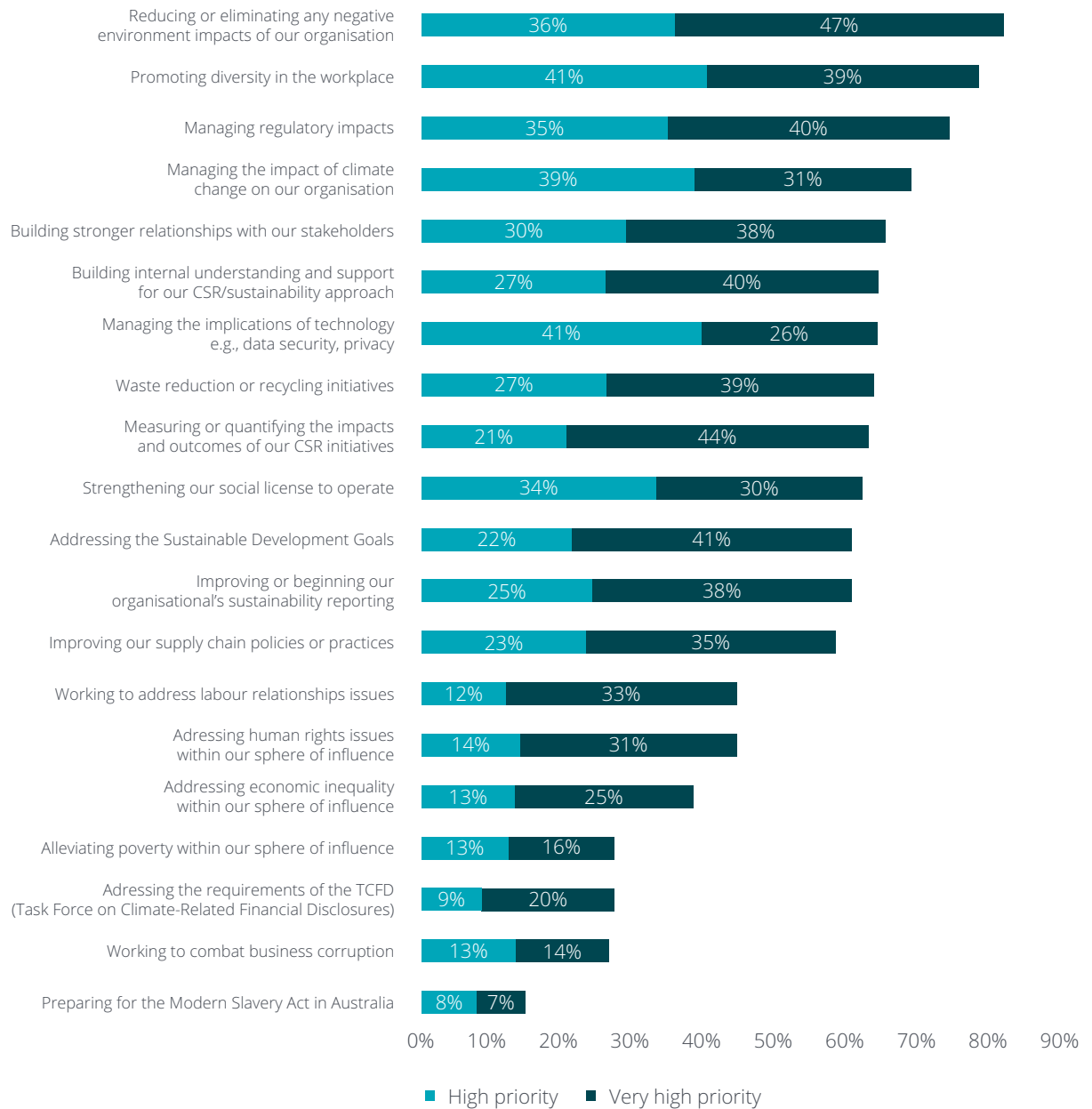


Chart 20
New Zealand
CSR Priorities

References and endnotes

1. Where an industry had fewer than 20 responses, we excluded this information from industry analysis.
2. Professional services included engineering, accounting, legal and management consulting.
3. <https://www.theguardian.com/australia-news/2017/aug/08/commonwealth-bank-shareholders-sue-over-inadequate-disclosure-of-climate-change-risks>
4. <https://www.smh.com.au/environment/rio-tintos-warkworth-coal-mine-faces-fresh-legal-challenge-20160229-gn6i47.html>
5. CSR management capabilities are typically calculated by finding the mean of all responses to all items. In Figures 5 to 8 we have applied a different calculation to emphasise differences across years. In these figures we have taken scores of 4 or more out of 5 and divided by the total number of respondents.
6. http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_574717/lang--en/index.htm
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8. Trading Lives Report, JFADT House Committee, http://www.aphref.aph.gov.au/house-committee-jfadt-slavery_people_trafficking-report-full.pdf
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10. Modern Slavery Act results are only presented for Australian respondents
11. <https://www.fsb-tcfd.org/publications/final-recommendations-report/>
12. <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/human-capital/hc-2017-global-human-capital-trends-us.pdf>
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19. Creating Shared Value, by Michael E Porter and Mark R Kramer, Harvard Business Review, Jan-Feb 2011
20. Innovation scores are calculated as the mean of two variables: innovation in products and processes; and innovation in new business markets.
21. <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1752-1688.2001.tb05511>



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