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Report to the Policy and Finance Committee
from Councillor Robert Shaw

WRC Holdings Group: Corporate Social Responsibility

1. Purpose

Several issues raised with councillors concerning Council owned companies might require further attention. This paper defines three kinds of issues and suggests the means to address them. Essentially, the paper asks that Council develops further the Statement of Corporate Intent. To a considerable extent, the task is to acknowledge and support, at the ownership level, the many useful initiatives Council-owned Companies have taken.

2. Background

Councillors recently have been asked to consider 3 different kinds of issues:

- Appeals from members of the public for WRC in its ownership role to intervene in the decision-making of appointed directors or managers. Examples of this are the development of the Kaiwharawhara reclamation, and dioxin emissions at Miramar.
- Challenges to the rationale for the public ownership of companies in general, and our companies in particular. Examples of this are the submissions to the annual plan in this and previous years from submitters including the Business Round Table and our friends from Hutt City.

- The seemingly sudden declaration by CentrePort that they were to adopt triple-bottom-line reporting. This involves reporting of financial, social, and environmental objectives and is an accounting concept advocated by the Business for Social Responsibility movement around the world. The triple bottom line reporting initiative appears to be part of the company's drive for more transparency of its systems and procedures in these areas – something that is to be applauded. Whilst we applaud initiatives (Councillor Gibson's motion to that effect, carried), and the company's serious interest in social and environmental issues accords with the wishes of some councillors, it is concerning that there may be significant goals, objectives and performance indicators adopted that are outside of the control mechanisms already set in place.

When trying to address such issues in an ad hoc manner, Councillors have made little headway for two reasons. First, Councillors are reluctant to cross the governance (owners) / management (directors) divide because it sets a precedent of "dabbling", and entails decision-making in some ignorance. Dabbling is undesirable because it shows insufficient concern for the proper procedures and thus creates uncertainty for downstream directors and managers, and it undervalues the competence of directors and managers. Importantly, it may be seen as undermining the legal obligation of Directors.

The mechanism for addressing these issues is through the Statement of Corporate Intent. That document sets out the expectations of both the owners and the directors. Both WRC Holdings Ltd and CentrePort provide the WRC with a draft SCI in July each year and WRC comments on those drafts so that they may be finalised by the Directors before the end of September. The SCI is an important component of the governance framework and provides company and shareholder buy-in to financial and non-financial performance.

The Statement of Corporate intent for the holding company needs to be comprehensive and sufficiently explicit to embrace all the requirements that Councillors have for all the companies. If that document is adequate, the others will flow from it.

We need to examine the Statement of Corporate Intent, asking if it adequately addresses the issues raised above.

3. Current Statement of Corporate Intent – WRC Holdings Group

The definitive statement on what WRC seeks to achieve from its ownership of companies is set out in the current Statement of Corporate Intent for the holding company. Two sections set out the goals and strategic direction for the company: section 1. Objectives for the Group, and, section 6. Performance Targets .

1. **“The Primary Objectives for the Group shall be :**

- (a) **To operate as a successful business.**
- (b) **To own and operate the Wellington Regional Council’s headquarters at 142-146 Wakefield Street, Wellington (known as the “Regional Council Centre”) on a cost effective basis.**
- (c) **To own the Wellington Regional Council’s interest in CentrePort Ltd and to maximise the commercial value to the shareholders and to protect the shareholders’ investment.**
- (d) **To effectively manage any other investments held in the Group to maximise the commercial value to the shareholders and to protect the shareholders’ investment.**
- (e) **To operate in an environmentally responsible manner.”**

2 The second level of definition in the Statement of Corporate Intent is the Performance Targets. These are all financial targets: **Net Profit Before Tax, Net Profit After Tax, Return on Total Assets, Return on Shareholders Equity, Dividend Stream.**

It may be seen that WRC leaves it to the directors to decide:

- (a) what, if anything, the term “successful business” means beyond the financial targets. For example, they may, or may not, adopt social or environmental goals.
- (b) what, if any, performance indicators are to be used to report to the owners on matters other than the financial targets.
- (c) the strategic direction for the group or individual companies.
- (d) Operating principles apart from that which is cast as an objective: “to operate in an environmentally responsible manner”.

4. **Current Statement of Corporate Intent – CentrePort**

As CentrePort is legally required (pursuant to section 5 of the Port Companies Act 1988) to operate a successful business as its primary objective, the current Statement of Corporate Intent reflects a strong financial emphasis. Since 1988, management philosophy and Council’s purposes have altered. There appears to be nothing in the legislation to preclude Councils developing the objectives to take account of altered circumstances. Indeed, CentrePort managers have already done this to a considerable extent.

5. **Seller at the Right Price**

Since 1998 Council's policy regarding CentrePort Ltd has been that it is "a seller at the right price rather than a holder at all costs". This contrasts with the objective given by WRC to WRC Holdings Ltd which is "to own and operate". This objective reflects the fact that the Holding Company is a vehicle for the Council to manage Council's investments until Council decides it wishes to sell.

In arriving at the policy "seller at the right price" Council considered in detail the rationale for its ownership of companies in general and CentrePort Ltd in particular.

"Seller at the right price rather than a holder at all costs" is consistent with the statements about the strategic direction for the Group set out in Primary Objectives (c) and (d) which are to "maximise commercial value" and protect the shareholders' investment".

This policy is fine if the sale is imminent, but it is likely the current portfolio of companies will stay with us at least until the next triennium and most probably much longer. Given the time involved, and the issues brought to the council table by the public, it might be desirable to develop further the objectives for the Group.

6. **Corporate Social Responsibility**

One of the most hotly debated issues of the last two decades is the social responsibility of companies. Opinions about business's social responsibilities lie mainly between two extremes. At the one extreme is the view that business is an economic institution directed towards profit whose only responsibility to society is to provide goods and services and to return maximum benefits to shareholders. The Nobel Prize winning economist Milton Friedman endorsed this classical view. He said the responsibility of business is "to use its resources to engage in activities designed to increase its profit so long as it stays with the rules of the game, which is to say, engage in open and free completion without deception or fraud."

At the other extreme, there is the view that business is a part of the larger society and, therefore, it has responsibilities other than simply maximising profits. Some proponents of this view also contend that it is often in a company's financial self-interest to be socially responsible. Friedman lost the debate.

In the case of companies owned by the public, arguments in support of social responsibility must carry even greater weight than is usual because the owners are already committed to act in the public interest.

This thinking about company philosophy and how it relates to the submissions from the public suggests that it would be sensible to make more explicit what we require from WRC Holdings Ltd.

7 **WRC's Requirements**

It is unlikely that any requirements the Council could consider will be new to the directors, or managers, of Council owned companies. Several papers given to Councillors recently indicate our companies do take positive initiatives in the community and act in a responsible manner. They appear to have taken upon themselves the model of “corporate citizen”. For example, CentrePort Ltd has consistently made submissions to relevant Councils as plans have been developed, and they meet with community groups as required. They pursue environmental protection and sustainability through ongoing programmes and have made significant decisions in the interests of the community. CentrePort employ environmental management systems that are subject to independent audit. Equally, the recent response from Medical Waste Ltd concerning dioxin was rapid and showed a good level of concern for their fellow citizens.

Hence, the development of the Statement of Corporate Intent can be seen as a ‘catch-up and tidy-up’ exercise. The one area that has not been greatly addressed appears to be that which relates to the owners establishing a method to respond to the public.

There are two sets of requirements that the owners might convey to a company to indicate how they want the company to perform:

- (1) Objectives, consistent with a stated strategic direction and supported by performance indicators, and
- (2) Operating principles that guide the directors and managers as they seek to achieve the objectives.

It is suggested that WRC develops the objectives for WRC Holdings Ltd (refer to section 8 of this report) and sets out some operating principles (refer to section 9 of this report).

In developing the objectives and operating principles, WRC will be required to consider the rationale for the ownership of companies, the strategic direction for the Group (and any members of the Group), and what “seller at the right price rather than a holder at all costs” means.

8. **Possible Objectives**

Objectives need be carefully defined and have performance indicators that will enable us to measure achievement. I have not developed the suggestions below to that extent, for my purpose at present is just to provide topics for debate.

Objectives to consider include:

- To advance the economic wellbeing of the Region
- To be model employers
- To contribute to the public's understanding of economic infrastructure
- To contribute to the development of technology in areas relevant to the companies' operations
- To provide local government entities with soundly researched submissions on their annual and strategic plans
- To make submissions to Parliament Select Committees and Ministers of the Crown on matters that relate to their expertise

9. **Possible Operating Principles**

The following principles may be considered. Some could appear in a charter of ethics and social responsibility. Our Council owned companies will:

- be known and respected for the manner in which they pursue financial objectives with exceptional regard for social, environmental and heritage values.
- behave in an ethical manner in all dealings, where compliance with the law, regulations and statutory plans is the minimum acceptable behaviour.
- set the standard in the Wellington Region for good corporate behaviour, particularly taking a long-term view of the impacts of key decisions.
- act to eliminate pollutants that damage the air, water or soil.
- minimise and safely dispose of hazardous wastes.
- disclose environmental impact of products and services when marketing.
- consult with all affected parties before making any key decisions with significant impacts on those affected parties and report on that consultation.
- disclose accidents and hazards and protect employees who report them.
- restore damaged environments and compensate for human injury.
- report on environmental and social performance as well as financial performance.

- use energy efficient products and processes.
- publish regular environmental audits
- name a senior executive for environmental affairs

10 Recommendations

That the Committee recommends to Council that it:

- (a) receives the report and notes its content.*
- (b) asks the Directors of the WRC Holdings Group and the Directors of CentrePort Ltd, and other interested organisations, for comments on the report.*
- (c) considers objectives and operating principles contained within this report and any feedback received from Directors at a workshop for Councillors, directors and company officers.*

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Councillor