Australian Centre for Corporate Public Affairs Annual Oration

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What does the community expect from large corporations, and are they able to meet those expectations?

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Firstly, I would like to acknowledge the traditional owners of the land on which we meet the people of the Kulin nation and pay my respects to their elders; past, present and emerging.

I have given this oration a slightly shorter title…. Of matters Manus, milk, and men

The one thing everyone in this room will agree on is the importance of reputation. I suspect you collectively spend more time actively supporting and defending reputation than on any other part of your role. It's a topic most boards understand – reputation and license to operate - we get it as much as you do.

It is well understood that any license to operate must focus on an important part of the board's community – the shareholder – to ensure the sustainability of satisfactory returns to those shareholders.

The notion of sustainability brings not only the temporal element of the long term – if a corporation is to remain trusted - and relevant - then stakeholders beyond the shareholders and customers need to be considered to deliver sustainability.

And of course that is why we are considering the topic of *community* expectations tonight. Although there I [no definitive answer to the question of just what a corporation's community is.

I would like to touch on a few matters in my portfolio of interests that illustrate these points.

Let me begin with Broadspectrum. Despite some misguided attacks, the understanding amongst key stakeholders is that Broadspectrum delivers critical services very well. This positive reputation has been essential for us to win and renew contracts, attract talent and ensure investor support.

Broadspectrum's risk profile clearly became radically different when activists challenged the corporation on its involvement in the regional processing of asylum seekers. Their argument was, and remains, that if there are human rights abuses in a system any company with a business relationship to that system is contributing to, and complicit in, the abuse even without being directly involved. The fact that it was the Government's policy – that there is bipartisan support for that policy - and that we were delivering critical social services to vulnerable people was of no interest to the activists.

I was quoted in the AFR last October saying “We’re an Australian company delivering services within the frame of a policy of the Australian government that has bipartisan support and we do not influence government policy in this area. So we think the activists’ attention to us is misplaced. If they want to change government policy, they should engage directly with the government.”

The Immigration Minister Peter Dutton agreed with me saying “If the activists have a gripe about a political issue, they need to prosecute that in the political arena, not in the business area.” He went a step further calling on other segments of corporate Australia to toughen up saying “The responsibility is really with major investors and the super funds and fund managers to make clear this sort of political activism has no place in the Australian marketplace. That would send the clear message this political witch-hunt won’t succeed.”

We did, of course, expect our investors and clients to look to us to actively manage both the reputational and performance risks and, moreover, manage them successfully.

Successful management implies considering which community expectations you can and should try to meet and being prepared to put your position clearly. You must build a positive reputation. That positive reputation needs to be more than a halo. There must be evidence that the company understands the environmental, social and governance risks that exist and actively manages them.

It has been interesting for me to reflect on the matter now, some months since I was central to advocating these positions. I have not changed my view of the inappropriateness of the activists’ actions nor of the appropriateness of

Broadspectrum's response.

Importantly the activists were seeking change in public policy but they were offering no solution to the impact of that change in public policy. Surely any sector of the community that seeks change has the responsibility to consider the effects of that change?

And I know this is a pipedream – but wouldn't it be good if people stuck with the facts.

From everything we have seen, the most public of the activists did no independent research into the abuses they alleged. Statistics reported for other purposes were packaged into misleading and factually incorrect ratios. Wild statements were willfully made. Yet this campaign impacted the views of others in the community who I assume felt there was a basis to trust the activists but not a basis to trust the corporation. So this is the license to operate that the board is protecting. To meet community expectations you must be a trusted source of information the community will rely on.

Let's consider another very topical issue - milk. Because milk matters – a lot. When it comes to the milk you are going to drink, everyone in the community rightly expects a lot of the corporation they buy their milk from. Dairy products have always been part of the Australian diet - a key source of calcium and protein.

Each year Australians consume on average just over 100 litres per person of drinking milk so they demand a safe product of reliable quality, available when and where they find convenient. The milk needs to be affordable and having choice in type of milk, brand and pack size and type is important.

The greatest expectations, however, are around value.   This is because many Australian households have a very limited budget to spend on groceries. According to the ABS Household Expenditure Survey, 40 % of Australian households spend $150 or less each week on food – and having enough milk for the household is a non-negotiable.

These expectations around value are therefore highly rational – impossible to fault.

For an organization like Coles, that is first and foremost customer led, delivering on these sort of expectations is clearly core business. So how is Coles doing?

Coles has been successful in meeting these community expectations. Wesfarmers is proud that Coles' brand milk remains at $1 per litre today, helping to ease ongoing cost of living pressures. Coles is delivering value to customers – providing them good quality, highly nutritional products at great prices with a very wide selection of drinking milk to choose from – across many brands and varieties including full cream, lite, no fat, lactose-free, organic and probiotic.

Coles' brand milk was placed on 'Down Down' in January 2011. This saw the average retail price of private label milk fall to $1 per litre (a 14 % price reduction at the time). In July 2011 the ACCC found that Coles' discounting of house brand milk did not constitute predatory pricing and that price reductions benefited consumers. Recent analysis from Dairy Australia is fascinating. The expectation was that there would be no increase in milk sales volumes as a result of lower prices, reflecting limited price elasticity of milk consumption. As Dairy Australia points out, contrary to expectations, over the five years since $1 milk came in volumes grew and the total milk market has increased by an estimated $325 million.

Diving down into next part of the milk story - it is clear some sections of the community have expectations other than the ones just examined. These are born of concerns centering on the viability of the dairy industry, national food security and other factors a long way outside the $150 per week shopping basket. These concerns are being driven by a global slump in milk prices – but more of that later.

The facts are that last year the total amount of milk produced in Australia was 9.7 billion litres. One quarter of this raw milk supply is for drinking milk while three quarters is used to manufacture other dairy products including cheese and butter which are consumed domestically and exported.

Also over the past 15 years the Australian dairy industry has undergone a significant transformation following its deregulation. Since 2000, the number of dairy farms has fallen by 50 % and the national herd is 20 % smaller. But productivity in the sector has improved, and the yield per cow is 15 % higher.

So with the industry now fully deregulated, a sizable component of milk production is currently used for manufactured and exported dairy products. So the global forces of supply and demand are affecting Australian farm gate prices – and as I mentioned we are in the middle of a price slump. And with something like 30 - 40% of Australian milk production finding its way into products that are exported – the impacts are severe.

This is posing significant challenges for many dairy farmers and the debate has become highly emotional. But the reality is that the current difficulties are export driven. According to Dairy Australia more than 90 % of the annual variation in farm gate milk price is explained by movements in average export returns. With significant export exposures, Murray Goulburn has been caught at the centre of this. And while it is a principal supplier to Coles, just 4.5 % of Murray Goulburn's volume goes to Coles' drinking milk purchases. And Coles' sales of house brand milk account for only 3 % of the total milk volumes produced in Australia.

It is hard to sustain an argument that Coles' activity is responsible for the lower farm gate milk price received by farmers. Coles major impact has been to make milk more affordable for consumers. But Wesfarmers knows it is in the corporation's interest to have a strong, viable dairy sector. Which, of course, is in the customers' interest too. That's why a corporation like Coles will respond to the latest developments and the resulting move in community expectations. Coles has announced additional support for affected dairy producers. As it has done in the past in South Australia and Western Australia, Coles has proposed to launch a new brand of milk that explicitly delivers a proportion of the value of milk sold into an independent fund to provide direct support to affected dairy suppliers. At 20 cents per litre purchased, this can be meaningful.

So should Coles extend its objectives to meet all these expectations? Coles is part of Wesfarmers, a listed corporation, whose objective is to invest in businesses in a way that delivers an acceptable return to shareholders. Pleasingly an outcome of meeting that objective is the ability to make a positive contribution to other concerns. Reflecting its success in increasing sales and profits, Coles is contributing to the community in many ways including through the jobs and wages provided to over 100,000 team members, hundreds of millions of dollars of tax paid to governments, direct community contributions to charity partners, a strong indigenous employment program and a transformation of supplier partnerships.

Let me examine supplier partnerships for a moment. Coles is committed to working with smaller businesses in the food and agri-business space to help fund innovative, productivity enhancing activities. The $50 million Coles Nurture Fund was launched in April 2015 and provides interest-free loans and grants of up to half a million dollars to small producers. Nine successful applicants from the first round in 2015 have been funded, and Coles has started to announce the second round recipients.

A focus in the past few years has also been to develop a number of long-term supply contracts. In recent weeks, Coles has started to receive deliveries of truss tomatoes grown at a new, state of the art hydroponic greenhouse near Port Augusta. This facility, operated by Sundrop Farms, uses solar power and sea water to grow high-value produce year round. A long term supply agreement with Coles was a catalyst for securing $100 million of private equity funding for the venture.

In doing the right thing on milk for customers Coles has served the sections of the community to which it is obligated - customers, suppliers and shareholders. Coles has also delivered what we might regard as a positive second order effect contributing to the sustainability of the industries that supply the corporation. Has Coles entrenched an obligation for itself and companies like it to take a much broader view that may sometimes be almost impossible to deliver on in a commercial setting? Coles can only be successful if its suppliers are successful. Australia's farm sector, like all sectors, has to continually strive for productivity improvements. This is the main game. It will involve more investment and ongoing innovation to build the farms of the future.

But now to matters of men… and women

I think it is easier to understand the activist and their motivations if you are an activist yourself. And I am clearly an activist for gender equity. Chief Executive Women (CEW) is the foremost advocacy organization working to improve the representation of women in all facets of leadership in this country. I am President of CEW and I believe we are making great progress.

First, there is greater awareness among corporations of the need for gender equity.

Most large corporations have moved past the idea of saying ‘we need more women’ to the idea that, like having a strong safety culture, the equity that leads to diversity is the right approach for big businesses that aim to be high performing.

The rhetoric from the leaders of our large corporations has long been that it makes good business sense to retain talented women. And finally it is becoming more than just rhetoric. Throwing away investments in recruitment, training and learning and development, just to have to start again investing in a new cohort of women clearly is not economically rational.

Third, investors, analysts, media and other commentators have made it clear ***they*** expect corporations to leverage the 50% of the talent pool comprised of women. So the balance has shifted quickly from corporations feeling they would receive a competitive advantage from being seen to promote women, to one in which corporations are “marked down” if they do not.

And the chorus is getting louder.

Australian Institute of Company Directors (AICD) Chief Executive John Brogden, has said that they may consider supporting the idea of quotas if top ASX companies do not move fast enough in appointing women to their boards. AICD supports the 30% Club – who aim for 30% female representation on listed company boards.

CEW member, and AICD Chairman, Elizabeth Proust reiterated the AICD's commitment in her opening address to their conference in March this year. She gave a clear message to her 37,000 members when she said if the 30% goal is not met by 2018 then the community of directors 'will need to take stock of their values and consider if it is appropriate to recommend other measures to force the issue'. Evidence of positive progress is that more than 40% of director appointments in the ASX this year have been women.

And governments at every level are coming on board as well. In March the Federal Government announced its target of 50% of women on Australian Government Boards, upping the previous ante of the 40% target set by Julia Gillard.

Gladys Berejiklian, NSW Treasurer, appointed her sixth female chair to a NSW Government Board this financial year, bringing the NSW percentage to 46%.

Can corporations deliver on these targets that government, directors and advocates are setting out?

There is no shortage of research, no shortage of best practice case studies and frankly no shortage of women.

For example, Bain & Company and CEW jointly conducted research in 2011. One finding was that along with "visible and committed leadership," women believe "creating working models that support men and women with family responsibilities" is the most important action to overcoming barriers to women's progression into leadership roles. Telstra are best practice with their much applauded ‘all roles flex’ initiative. And there’s no shortage of women demanding more work. For example, the percentage of dual-income households in Australia has increased from 40% in 1983 to nearly 60% in 2013. We have seen the percentage of working mothers with children under the age of 18 increase by 6% in the past decade.

But flexible working is still viewed as the exception to the rule in the majority of Australian companies. Less than 50% of organisations have a workplace flexibility policy. And even when such policies exist, they are not always effectively utilised.

So we see evidence of changing in attitudes in the leadership of the corporation and in sectors of the community but actual progress towards achieving gender parity in key organisational leadership positions is slow. There are only 8 female chairs in the ASX 200, only 10 female CEOs in the same group and with only 26% of senior executives in the ASX 200 being women – women are clearly underrepresented in the key leadership pipeline.

And the gender pay gap is clear. It hovers just below 20% with male dominated work better paid and often better organised than female dominated work. We see female graduates starting on lower salaries than male graduates, even in the same industry and workplace – and men receiving bigger attraction and performance bonuses than women.

Women’s traditional caring role, combined with a lack of flexible work options, has forced them into casual and non-career part time jobs and this has been a long standing practice. The Australian community is clearly influenced by a number of interrelated work, family and societal factors, including stereotypes about the work women and men 'should' do, and the way women and men 'should' engage in the workforce.

So it seems the community found all of this acceptable. It's ok to pay women and men unequally, it's ok for 50% of the population to be underrepresented in leadership and it's ok for women to retire with less superannuation than men. So it follows the community would ***not*** expect large corporations to try and change this.

Some of you may have seen the ANZ Bank's wonderful campaign #equalfuture. It features an ad showing a group of kids who were asked to do chores and then the girls were paid less than the boys. The ad posed the question "does that sound fair to you?". It was very clear by the reaction of the girls that it did not seem fair to any of them. One very little boy noted "Women and men should have the same money" but a slightly older boy struggled with the notion of giving up his undeserved bonus. One of the girls summed it up: "I have no words it is so wrong".

What happened between that little boy who wanted equity and that older boy who wanted to keep his bonus? That's the dilemma our community is facing? I think it means what the community expects of corporations when it comes to gender equity is ***not*** what the large corporation should be trying to deliver.

Surely the answer to all the questions I've posed tonight lies in the truth that corporations are not separate from the community – they are part of it.

Corporations can and should play a leadership role in opening and continuing a conversation with the broader community based on good economics and a sense of social justice. And the community has a role to play in representing and advocating for the issues that matter in a rational and factual manner.