Take on Board

Transcript – Rachel Alembakis

Helga Svendsen 0:00

Today on the take on board podcast, I'll be speaking with Rachel Alembakis about how corporate governance links with impact investment and also how environmental, social and governance analysis that is ESG analysis can help to mitigate risk and can help provide long term investment return. So, welcome to the take on board podcast, Rachel.

Rachel Alembakis 0:23

Well, thank you for having me. Helga, it's a real pleasure. So I'm the editor of a publication called the sustainability reports. And I look at environmental, social and corporate governance issues from two main perspectives. Number one, from the institutional investment perspective, so in the ways in which bring superannuation funds and fund managers are integrating material environmental, social and corporate governance issues into their investment decision making process. And then I also look at these issues through the lens of corporations. So the ways in which corporations are also integrating environmental, social and corporate governance issues. It's a very rich field and Australia as I'm sure you can imagine that And something that's very topical even today. So I'm really glad to be here to talk to you about it.

Helga Svendsen 1:05

Fantastic. Thanks, Rachel. I think that kind of lens through which we can see things will really help some of the board directors that are listening to this to think about how it can impact on their role. Before we get into exploring some of those issues. I wonder, tell me what was a young Rachel like, and when did you get your first inkling that you'd end up as a journalist in these issues?

Rachel Alembakis 1:27

Helga, I've wanted to be a journalist for almost all my life, I can remember I joined my very first school paper when I was in grade seven, I always wanted to write and then I fell in love with the medium of journalism from a really early age and just stuck with that straight true. I've always been a nosy person and I love writing and asking questions. And so that you know, I think those are the two fundamental qualities you need as a journalist. So that's been with me ever since the jump, I would say, I came into this particular way of financial journalism sort of a fairly securities track is one is want to do in this long life immediately. I wanted to start out as being the next Woodward and Bernstein when I was in my early university career, the swashbuckling investigative journalist and

that sort of thing. But it was really when I did my master's degree that I became really interested in economics and finance and investment and the ways in which institutional investors can influence the companies that they're invested in and the ways in which companies interact with their institutional investors as well.

Helga Svendsen 2:24

I'm thinking those skills of being a good journalist, being nosy, asking lots of questions, and really delving into the next layer of some of these things. They're also the types of skills that we look for in good directors. So at some stage, right, so I might be tapping you on the shoulder and saying, it's about time you stepped onto a board role as well.

Rachel Alembakis 2:44

Well, I think you're right that there's a commonality of skill set there. Helga. As you say, the inquisitive mind the ability to suss out and find information and the ability also to if you're not necessarily a master of the information yourself, the ability to need to know where to go to find the advice and the information that you need to make those informed conclusions. I don't profess to be an investment professional. I don't profess to be an economist and I don't profess to be a corporate executive. But in order to do my job, well, I have to know how to ask all of these people questions, get information from them, and synthesize it into a form of analysis that that leads to information that can be used in decision making processes. So I think Yeah, there is probably a good overlap in the skill set.

Helga Svendsen 3:30

So in thinking about that, and thinking about, you know, where you find your information, where you get that advice from different areas, for you to make those informed consideration on issues. I mean, I know part of your view is that corporate governance is really essential to the performance of organizations on a range of metrics, including a whole range of sustainability metrics, and I made sustainability in a broad term there. So what's your advice to directors and What they should be looking for and where they should be finding information that will help them in their consideration of these issues.

Rachel Alembakis 4:08

If you're on a corporate board or if you're someone who reports about a corporate board, your decision making process or your information gathering process, because it's not necessarily my job to come to the conclusions, but I have to be able to write intelligently, disclosure of transparent information has to be the first port of call. We have seen through the years example when disclosure by companies hasn't been sufficient across a number of issues sustainability, writ large financial,

sustainability, environmental, social and corporate governance, sustainability, and where that has caused problems for companies and their stakeholders as well as regulators. So for me when I'm writing about a company, my first port of call was always the annual report or the half year report and the sustainability disclosures there in so I am reliant on the information that companies to to present in the same way that directors are not directly in the day to day management of company and so therefore are similar relying on the information that is disclosed to them by the executives of the companies that they sit on.

Helga Svendsen 5:05

So I'm sure we can all think of organizations that have done that not so well, in terms of not being transparent and hiding information. Is there some that you can think of that have done it particularly? Well?

Rachel Alembakis 5:19

In terms of environmental, social and governance, there are companies that are attempting to do the stainability related reporting to a greater extent, I don't think there's anybody in the world who would put their hands up and say that, you know, they have the solution worked out in the disclosure exactly right. Because to a great extent, reporting on environment and particularly on social material issues. It's a nascent area, there aren't necessarily metrics in place that can make for easily comparable information. It's the assigning of responsibility ie., where a company draws its boundaries and responsibility for mental issues or responsibility for social issues is rapidly evolving. And it's frequently dependent on qualitative information as opposed to quantitative statistics. I think companies when it comes to issues like climate change the Task Force on climate related financial disclosures and the guidelines that they have set out, offer a framework that companies can use when it comes to the disclosure of climate related risks and opportunities, that a set of voluntary standards that companies are starting to integrate. And it's starting to provide a basis of comparable information, which is what's what's really useful for investors and for other stakeholders externally, that ability to compare apples to apples is paramount. It'll be very interesting, I think just to pick out another issue, the issue of modern slavery. Australia's modern slavery Act has come into a force and they're currently in the process of promulgating standards around disclosing exposures. And that will also throw out some very interesting results as That might be more comparable. And those are two examples writ large.

Helga Svendsen 7:03

I want to delve a little bit into both of those issues. So you talked about some of the voluntary standards around financial disclosure. Can you just give us a bit of a Cook's tour on what those standards would involve and what directors should be looking for in their own organizations to apply some of these voluntary standards.

Rachel Alembakis 7:21

And the definition of voluntary is quite interesting in this context, Helga, so when we're talking about the case of Australia, there is no law that says you have to disclose climate obligation in a prescriptive manner. However, the regulators ASIC and APRA, the Reserve Bank and the Senate Standing Committee on economics has been really forceful in saying that if climate is a material risk, companies must disclose that information. Most recently asik updated some of the regulatory guidance and saying that if a company has a question Related risks they have to disclose that on their operating and Financial Review, which is a major component of annual reporting to the market. Similarly, APRA has also said virtually related entities bank and superannuation funds that as climate risk as a material risk on their operations, they must similarly disclose that what the regulators and what government has do not do is mandate the form in which that you disclose it. So that's an important thing to understand, which is part of the conundrum that we deal with that there is no one way to report climate risk. When we talk about voluntary standards. CCSD is a set of standards that were developed by investors by company BHP Billiton, for example, had a major role and sitting at the tables draft some of these guidances and it's it's a way of disclosing information. First of all, but more importantly with the TCS does is that it gives a scenario analysis which means that companies can plug in their own particular set of numbers and find out what would happen been under various scenarios at 2030 - 2050. So for example, if the world comes together and agrees that they're going to take action to halt climate change at 1.5 degrees above the current standards, if they decide to halt climate change at two degrees, if they do nothing and climate and the world continues to warm to the 4.5, or five degree scenario, you can plug in your individual company's assets, liabilities, operations and find out how badly cared your assets would be under those various scenarios. And then the intention is for companies to then disclose as a result of all of this and to the public.

Helga Svendsen 9:39

So that's sort of thing directors should be looking at, potentially within their own organizations and also interrogating their own executive about some of these things.

Rachel Alembakis 9:48

Absolutely. It's an interesting scenario. Look, this the regulators, as I mentioned, the RBA ASIC and APRA, has been very, very clear that directors are obligated to have a care for climate change, they have to regard their company's obligation or how their company would function and the ways in which climate change will impact upon company function. Further, the regulators have said, If climate change is going to have a material impact on the way that companies operate, they must disclose material issues to the market, the ways in which companies can disclose that information. There is a bit more wiggle room there, but directors must have a care for climate change. And that's very, very clear.

Helga Svendsen 10:29

So great tip for people right there. So thank you. Now, you also talked about the modern slavery legislation, which is quite new in Australia. And I know you've got some views about getting ahead of the game, basically, rather than just waiting for the legislation and doing what the legislation says, but getting ahead of the game in this thing. So can you talk us through Firstly, what the modern slavery legislation might mean for directors and what they should be looking for and what are some of the things they should be doing around it?

Rachel Alembakis 10:56

Sure. Well, the modern slavery act is based on the legislation that's already in affecting United Kingdom. And basically what the modern slavery act says is that you as a company must interrogate through your operations and down your supply chain, to see whether or not you have exposure to modern slavery. Modern slavery covers a rubric of activities in the human rights sphere, we including things like under payment of wages, bonded slavery, and a whole other host of indicators, you know, whether or not the companies down your supply chain allow free association, you know, organization, fair wages, regard to legal obligations and things of that nature. That is a very wide rubric of information to be responsible for us. This is going to be a very interesting piece of legislation. Critically, the Australian legislation differs in a couple of critical ways from the British legislation in that first of all, entities with more than 100 million dollars in revenue annually, will have to report their modern slavery exposures and they religious was drafted such that entities include listed companies, government agencies, businesses that aren't listed, and investment funds. So if a superannuation fund turns over more than 100 million dollars in revenue each year, they're going to have to go down their supply chain and have a look as to whether or not there's modern slavery obligation down their supply chain as well, which would be in gathering information from the companies that they're invested in. So they're invested in the small cap company, for example, whose revenue is less than 100 million dollars, they may still have to report to the superannuation funds that are invested in them whether or not they have any modern slavery obligations. So it's a very interesting piece of legislation in that it will have far ranging impact. So companies will probably will have to report to the government that mandatory there can be if not, why not so if a company feels that there are no exposures to modern slavery, they are allowed to say they have no exposure, but they have to say how they got to that conclusion. So they're going to have to provide some evidence as to having done audit. So having asked you to put questionnaires down their supply chain, there has to be demonstrable evidence that there's no slavery exposures. That information put the government is supposed to be public as well. So we the individuals should be able to look up a company and read their modern slavery report. So transparency being the most effective disinfectant. There's an interesting opportunity there as well.

Helga Svendsen 13:19

It's going to affect so many organizations in this way, you know, if you're talking about super funds with more than 100 million, I mean, that's most of them, I would expect. So it's going to have very far reaching implications.

Rachel Alembakis 13:30

Exactly. And it's going to force companies if not just companies direct operations, ie what happens at their headquarters or what happens if they're overseas operation, but they have to look down to the supply chain as well. So they have to interrogate their supply relationships, their transport companies, creative exposures to modern slavery, if they're an agricultural company, they have to see that workers on farms are treated in ways that don't violate modern slavery obligation. It's an enormous piece of work and The regulations for reporting what has to be reported to what level of granularity they have to report it are currently being worked out. But as of next year's annual reporting, companies will have to start providing this information to the market.

Helga Svendsen 14:13

So organizations might be sitting back and just waiting to be told what to do, or they might get ahead of the game in this sort of stuff.

Rachel Alembakis 14:20

This is a place where Australia's miners and components of the extractive industry have a bit more experience because they have to have more oversight to how their operations work and how their supply chain is conducting itself. So for example, Fortescue metals has some interesting reporting around that and Andrew forest has put together a foundation that's actually provided handbooks and guidelines for companies that want to start looking at their modern slavery obligations ahead of time and how they would be able to a find the information that would be potentially disclose that information. Your BHP Billiton, your Rio Tinto have been disclosing or at least investigating modern slavery exposures because they often operate in countries where regimes of respect for human rights may not accord with what we would expect in Australian jurisdiction. And so that's a risk that they have to manage at all times. So to a certain extent, they've already been disclosing these information. companies that have operations in the United Kingdom are already reporting on their modern slavery obligations, because they fall into the UK regime. And so there's some companies that are here in Australia that are already ahead of the curve. But there's an awful lot now that are going to have to get up to speed and start looking at where their risks may lie, and how they're going to disclose that to government and then to their stakeholders.

Helga Svendsen 15:39

So directors of organizations that can see this coming might look to some of those companies that are already dealing with some of these things to get some guidance on what they're doing it that will help them to manage their own response to some of these.

Rachel Alembakis 15:50

This is a place where potentially directors might want to consult with external stakeholders such as institutional investors. For example, there are engagement groups, such as the Australian Council and superannuation investors, regnant as well, who have done reports through the years on modern slavery and human rights risks, and so they have been engaging with companies talking about what best practice would look like and how companies can lift their game on that. So they're actually to certain extent, institutional investors can be a wealth of knowledge for directors to sit down and talk to, and this is where the process of engagement can be so powerful. We in the journalistic community may not always know what's going on behind the scenes when companies and their investors Sit down. But there can be a very powerful exchange of information going on where directors can talk with powerful stakeholders, the people that owned the company. And so you know, what, do you know what best practice looks like to you? Are there things that you can share with us so that we can integrate that and that's where, you know, the directors role as being the representative of the shareholder can give them a capacity to add value and potentially save their companies from being exposed to additional risk.

Helga Svendsen 16:58

All right. That is great advice. I want to take a slightly different track and thinking about for example of financial services Royal Commission, but also other ratings and analysis that talk about culture and not just culture. But there being this increasing call for focus on indicators that are not just financial, but might be about culture might be about sustainability and other things. What are you seeing when you look at organizations in relation to the non financial indicators? What are you seeing were they doing well, and maybe where they're doing it? Not so well?

Rachel Alembakis 17:32

Well, I think pretty conclusively, we can see examples of whether or not doing it well, the banking Royal Commission, as you pointed out, has shown out a light on very poor corporate conduct by the big four banks, IOOF, AMP interests me to ask me this question because asik had released a report called the director and officer oversight of non financial risk review, review came down really hard on the company's biggest Holding a big IOOF, saying that companies need to apply a greater focus and sense of urgency to the oversight and management of non financial risk in the particular sense of non financial risk. They talked about operational risk, conduct risk and compliance risk, saying that there was not enough work done for to oversight and not enough work done for management on

these issues as well. And that's, that's an important report to read. It investigates the ways in which there were failings around those non financial risk management indicators. And that might be a very good lesson for directors or potential directors. It's very interesting, this question of culture and conduct, isn't it? Because again, you know what much with a lot of the field of environmental social and corporate governance non financial risk is extremely important, but sometimes hard to put your finger on not good enough I suppose public disclosure to apply the standard usually applied to other areas. I you know, I I can't define it, but I know that when I see it. And what does that actually mean for director? Well, it's quite clear where the failings are. In terms of who's doing it particularly well, I suppose I'll stick with the financial services industry, you can point to so for example, where the big four banks and AMP, IOOF or called out for some of their conduct, the smaller mutual banks and credit unions, they're consistently shown to have very high scores with their customer engagement. And we'll talk about the ways in which they try and manage the relationship with their customer owners in terms of their reporting their transparency, and the way that they interact. You know, perhaps within the financial services industry, we don't paint too broad a brush over everybody. And we can delineate out where there's examples of poor corporate conduct and examples of federal corporate conduct. But it's pretty clear if you look year on year and you pull the public as to, you know, the institutions that they have faith in or feel that there's good culture. There's been a precipitous decline in public trust of all Corporations across the board. And that should be a concern for directors. Because if you are not well regarded by the communities in which you operate, you are endangering the social license to operate within that community that can be catastrophic. In the case of mining companies who aren't allowed to get permits to exploit resources from the ground, it could be catastrophic in the case of banks, and that people vote with their feet and take their money from, you know, one group of products and they put it in another place. To that extent, you can look at the ways in which people have moved their superannuation funds from retail superannuation providers and just wholesale shifted into the industry superannuation funds, which seem to have a better level of trust with the public

Helga Svendsen 20:42

Which obviously has a big impact on whichever organizations they are. So it's getting some directors to really have a bit of a understanding of these things is going to be vital when your research as a journalist, is there early indicators that you've seen, again, that directors might be able to keep an eye out for within their own organization.

Rachel Alembakis 21:03

We're coming up to the AGM season. So this is really the point at which we, you know, we started to get the disclosures in the annual reports, we're starting to get shareholder resolutions that are put to companies as well. And that's always, it's always an interesting point at which you can assess, clearly transparently in public certain indicators of success. So for example, there's an organization called a CCR. They routinely put shareholder resolutions to companies such as the big four banks such as origin, such as BHP Billiton and Rio Tinto across a whole wide rubric of issues that fall into these non financial indicators. So for example, they've put resolutions to BHP Billiton into reaction to

this year, asking BHP Billiton and Rio Tinto to stop being members of the minerals Council, for example, saying that the minerals council stance on climate change and the solutions to mitigating and adapting to climate change our wholesale added step with BHP Billiton and Rio Tinto on climate strategies and By therefore supporting an industry association that lobby, contrary to BHP Billiton stated business strategy. BHP Billiton and Rio Tinto are acting contrary shareholder interests. There will have to be a vote on that in public directors of BHP Billiton executives the BJP goes to will have to defend their stances. And so those are really interesting times where you get public disclosure. Similarly, all for the big four banks suffered a first strike against them at their last AGM season. There's legislation called the two strikes legislation if companies have more than 25% shareholder vote against their remuneration votes for two consecutive AGM. The shareholders then have the right to spill the entire board of directors and replace them with a new board of directors. So it's going to be very interesting year all four banks had four strikes against them. It will be interesting to see whether their increased performance their increased disclosure their changes to remuneration structure, the ways in which they remunerated customers for breaches of standards will be enough to stave off a second strike as easy as AGM. So for my opinion, as a journalist, I look first to information that must legally be transparent and Folsom is the most truthful source of information. Because you can say things in public, you can say things in private. But if the two are contrary to each other, you have to start analyzing where the Gulf lives. And I think the banks have said certain things there have been certain disclosures that have come to light by Ken Henry and others can Henry, the former board chairman at NAB, that have seemed contrary to stated opinions on improved performance at NAB, so I think there's a lot of information that must be questioned. And that's, you know, that's again, going back to the Financial Services area and the Royal Commission on banking. That's such a useful discussion point and I think it's going to throw up such an interesting discussion point for you to come because it can come All of the major players at an entire industry entire country, and we're going to be analyzing that information and trying to assimilate the impact of culture and conduct and operational risk risk for years to come. They should prove instructive case files and case lessons for future executives and future board members, I think.

Helga Svendsen 24:18

All right, till they say so much in here already. You know, we've covered a whole range of issues around you know, transparent information and good metrics, some of the big issues around climate change and the modern slavery act, you know, some of the things that directors should be really watching out for, I know you're a journalist, and not a board director, but if this were a board meeting at the end of it, we would be looking at the actions shade. So I'm wondering what are the one or two actions that you can suggest for directors out there? What's just a couple of really next steps that they should be doing as they consider some of these issues?

Rachel Alembakis 24:57

I'm so glad you asked that question. Helga because I I really want to bring it back out and come back to foundations. One of the issues that I'm passionately interested in reporting on is the topic of corporate diversity and board diversity. And I mean diversity across a number of metrics, not just

gender diversity, although it's critically important to me that corporate boards reflect society at large in terms of how many men and how many women but diversity read very large divert cognitive diversity, diversity of professional background, diversity of ethnic heritage. The empirical evidence is so very clear that companies that are managed by diverse management and diverse boards perform better. And this isn't just a nice to have. It's not just a PC opinion. This is actual empirical fact that if you want to have a well performing company, across all the metrics we've talked about today, your company has to be diverse because the more people with different backgrounds you have sitting at the table, the more likely you are to see the unseen risks and see the unseen opportunities. So if ever I was to sit in front of a board, and they asked me the opinion of what's critical to list, have a care to your diversity, because it is in your interests, as the managers and the owners of these companies to perform as well as you can and it is so transparently created, the diversity matters critically in that equation. That would be the place that I would start. Anything else would have to flow from that discussion. How are you?

Helga Svendsen 26:26

Oh, well, you're never going to get argument out of me that looking at diversity of organizations is, so I love that as a number one take out from this conversation. That's what directors need to be doing to really succeed on some of these things. Thank you so much for your time today and some of your wisdom and insights on this, I have no doubt that it is going to be enormously helpful for some of the directors that are listening to this to help them to plot their way through some of these things and to get that journalist insight, I'm sure will be very helpful. So thank you for joining us here today.

Rachel Alembakis 27:00

You're welcome and thank you for the opportunity as well Helga.