



Purposeful, Sustainable Business

Co-operative and Mutual
Enterprises meeting the
challenge of ESG

About this publication

Authors: Business Council of Co-operatives and Mutuals and Mutuo (mutuo.coop)

Original writing by Peter Hunt, Mutuo

Published March 2021 by the Business Council of Co-operatives and Mutuals (BCCM) | GPO Box 5166, Wynyard, Sydney 2001 | bccm.coop

© Business Council of Co-operatives and Mutuals (BCCM)

This work is licensed under the Creative Commons Attribution 3.0 Australia Licence (CCBY 3.0).

This licence allows you to copy, distribute and adapt this work, provided you attribute the work and do not suggest that BCCM endorses you or your work.

To view a full copy of the terms of this licence, visit: creativecommons.org/licenses/by/3.0/au

Disclaimer: While the BCCM endeavours to ensure the quality of this publication, the BCCM does not accept any responsibility for the accuracy, completeness or currency of the material included in this publication and will not be liable for any loss or damage arising out of any use of, or reliance on, this publication.

For more information about BCCM visit: bccm.coop

About co-operatives and mutuals

Co-operative and mutual enterprises, or CMEs, are businesses that are owned by members rather than shareholders. Their members can be their customers, as in the case of a mutual bank, their policy holders, such as a mutual health insurer, their suppliers, as in a farmer owned co-operative or their members can be small or medium enterprises themselves.

They are shared business ventures that enable individual entrepreneurs or businesses to work together for a common purpose. As a collaborative business vehicle, co-ops and mutuals facilitate the pooling of capital and business expertise so their members can compete in markets suited to larger entrants. They enable bulk purchasing and group marketing activities, collectively invest in infrastructure and R&D, promote education, training and skills development and bring independent businesses together for business acceleration and scale.

Eight in 10 Australians are members of at least one co-operative or mutually owned organisation. An estimated 140,000 small and medium Australian businesses are made more resilient, profitable and sustainable through co-operative group structures. Because of their shared local ownership, CMEs are domiciled in Australia, distribute wages and profit back into their community and are taxed in Australia.

About this Report

This new report looks at the growing importance of sustainability in investing. It considers how Environmental, Social and Governance (ESG) considerations have come to the fore, the way these values are measured, and what this means for Co-operative and Mutual businesses.

This publication is based around an interview with Colin Melvin, which was conducted by journalist David Speers. Their dialogue is interspersed with expanded information on the issues that they discuss.



David Speers



Colin Melvin

About BCCM

This publication is made by the **Business Council of Co-operatives and Mutuals (BCCM)**, the peak body for Australia's member-owned firms across all industries.

Co-operatives and mutuals operate in a diverse range of sectors of the economy including agriculture, manufacturing, finance and banking, insurance, mobility services, health services, aged care, disability employment, education, Aboriginal services, housing, retail and wholesale. The top 100 Australian co-operative and mutual enterprises (CMEs) have a turnover of \$33.9 billion.

The members of the BCCM collectively have 11.4 million members. They represent the leading co-operative and mutual firms operating in the Australian economy.

The BCCM advocates for recognition of the sector and for measures that create a level playing field between CMEs and other business models, including implementation of the recommendations of the Senate Economics References Committee report into "Co-operative, mutual and member-owned firms", and the Hammond Review recommendations to improve access to capital for co-ops and mutuals.

From 2016-2019 the BCCM coordinated industry action to work with Government to bring forward the first enabling legislation for co-operatives and mutuals in 18 years.



Preface

Just before Christmas 2020, BCCM published its landmark report into the resilience of Co-operative and Mutual Enterprises (CMEs) during the coronavirus pandemic. Our research showed that the purpose driven, long-term nature of CMEs helped them to weather the storm as businesses, but also to maintain their mission of serving their communities of members.

This natural mutuality of CMEs tends towards running sustainable business, as evidenced by the longevity of CMEs, which are a huge 25% longer lived than comparable competitors.

Sustainability for CMEs is about more than being a responsible business. It is about being able to adapt to a changing world and yet still deliver on the core business purpose. As the rest of the corporate world is waking up to the impact that business has on its environment, on people and how it engages with business owners, CMEs are quietly delivering on all of these fronts because it is part of their DNA.

It is important that CMEs share their experience with other types of business and engage directly with the global trend towards ever higher Environmental, Social and Governance standards. Such a paradigm shift for business is a natural progression for CMEs.

In this publication, we begin that journey of engagement by showing how ESG relates to Co-operative and Mutual business, and how our mutual value can play a part in delivering on ESG expectations.



Melina Morrison
CEO, BCCM

Introduction

Company boards are familiar with the concept of social responsibility and the importance of their corporate footprint being open to scrutiny. The idea has moved from being seen by many firms as a 'nice to have' bolt on to something that is entirely conventional.

Consumer and societal expectations of business have been changing fast and those firms that took the concept seriously have developed sophisticated reporting approaches to measuring their impact.

Investors too are much more interested in the behaviours of firms. Fund managers in the sustainable, ethical and socially responsible investing space put these concerns at the heart of their investment processes. The fact that impact investment has become mainstream means that this agenda is no longer just the domain of active social investors; but is being built into the investment mandates for large funds.

The many competing approaches to assessing impact each have their place in the niche from which they emerged, but new internationally recognised standards are now being adopted.

In responding to this agenda, we have seen firms seek to address how their business impacts on people and society in general; many voluntarily adopt standards around their environmental, social and governance performance. It has become mainstream.

The co-operative and mutual business sector has much to offer this debate. Now is the time to show how mutuality adds value and how co-operatives and mutuals represent the original responsible and sustainable businesses.

Peter Hunt
Managing Partner,
Mutuo

Purpose and Diversity: ESG, sustainability and business investment



David Speers



Colin Melvin

Considered one of the original leaders of the global sustainability revolution in business, Colin Melvin has been at the forefront of global developments in corporate leadership, stewardship and sustainability and responsible asset management for over twenty years. Colin coined the term “ESG” to describe the pillars of the competitive business of the future - Environmental, Social and corporate Governance.

David Speers is a renowned Australian journalist and host of *Insiders* on ABC TV. Previously he was political editor at Sky News Australia, as well as host of *PM Agenda*, *The Last Word* and *Speers Tonight*.

In conversation with David, Colin distils his vast international experience from the investor and corporate perspectives in developing and challenging strategy, promoting effective risk management and corporate governance, and creating well-aligned incentives to lead in business.

The genesis of ESG

David Speers

‘Can we start with your role in coming up with the whole idea of ESG - can you tell us a bit about how it came about? Why did you think that the original concept was needed?’

Colin Melvin

‘ESG was part of the dialogue around the United Nations’ Principles for Responsible Investment. I was involved in that project early on, in 2004, 2005, and I was part of the drafting group. I didn’t come up with the acronym just myself, but with a group of people.

We were considering what we should call all those things that might impact the long-term value of an investment decision, which we weren’t currently considering. That is, the value of the asset we were investing in.

We were looking around for different words, social, environmental, governance and so we came up with the ESG as a shorthand for saying everything that might impact the long-term value of the decision, we’re not currently considering.’

Principles for Responsible Investment

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

The Principles were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, investors publicly commit to adopt and implement them, where consistent with their fiduciary responsibilities. They also commit to evaluate the effectiveness and improve the content of the Principles over time.

In implementing them, signatories contribute to developing a more sustainable global financial system.

Signatories' commitment:

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1:
We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2:
We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3:
We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4:
We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5:
We will work together to enhance our effectiveness in implementing the Principles.

Principle 6:
We will each report on our activities and progress towards implementing the Principles.

Source: <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment>

Can capitalism help achieve fairness and equality?

David Speers

'I have a quote from you, "Capitalism, as it has functioned through the '80s, '90s and early 2000s, was broken, that there's much more demand for a longer-term trend towards getting back to greater fairness, equality, and opportunity."

Many would agree with that, but you could also argue this is the role for government, to achieve that sort of fairness and equality itself. Why did you believe that private investors could drive this sort of change, or should drive this sort of change?'

Colin Melvin

'It's not either/or. I think it's both/and. You need both parties to be participating together and we should remember that government doesn't legislate in a vacuum.

It's also very difficult for national governments to control multinational corporations, or to rein them in. Investors can get involved in the setting of policy, or indeed could perhaps do more in that regard, just as companies do. So, we needed both.

Governments have a pretty mixed record, when it comes to actually driving change. There is a kind of natural short-termism baked into the electoral cycle as well, we must remember. If you're going to seek re-election every three, four, or five years, you're disinclined to be introducing new taxation, for example. And of course, on certain measures, it's taxation that we very clearly need.

So, it seemed to us at the time, and it still seems to me now, that there's a role for private actors, businesses and investors, to work together for common benefit, and to shift focus away from the transaction as the source of wealth creation towards the relationship. From the short-term to long-term. That's the key to understanding, I think, the shift towards sustainability.'

“ To shift focus away from the transaction as the source of wealth creation towards the relationship. That's the key to understanding... the shift towards sustainability.”

The purpose of business

David Speers

'So how was that shift initially received? Were there many at the time that said, "Well, hang on. Businesses are about making money. That's how the market works. We shouldn't be about all these other things." How was it received?'

Colin Melvin

'Well, it's very clear that business requires to make money. It's like oxygen for business, but it's not the purpose of business to make money. That was clear to us at the time and I think it's increasingly clear to a very large proportion of the business and investment community now.

You're referring to the so-called Friedman doctrine. Milton Friedman famously said that "The purpose of business is to make to make money for its shareholders" even if he didn't really believe it, in its concentrated, or stark, form at that time. It's fairly clearly not the purpose of business. But business, and those of us who invest in business, understands that there's a purpose behind it. The purpose is to provide solutions to needs.'

“ The purpose is to provide solutions to needs.”

D.S

'That's a really interesting question. What is the purpose of business? Why does a business exist? Do you think the business owners or managers have the answer to that?'

C.M

'There's a very interesting and active dialogue around two things at the moment. One is corporate purpose and the purpose of investment companies, and the other is impact. And both of these kind of work together. I think a lot of businesses haven't fully articulated their why yet.

Why does the business exist? And when I was running the stewardship service at Hermes Investment Management, that was one of the key questions we would ask the chair or the chief executive of the companies that our clients invested in, "What's the purpose of the business?" It really elicited very interesting responses. And you could often get some insights into the quality of management and direction of the firm through that sort of dialogue.'

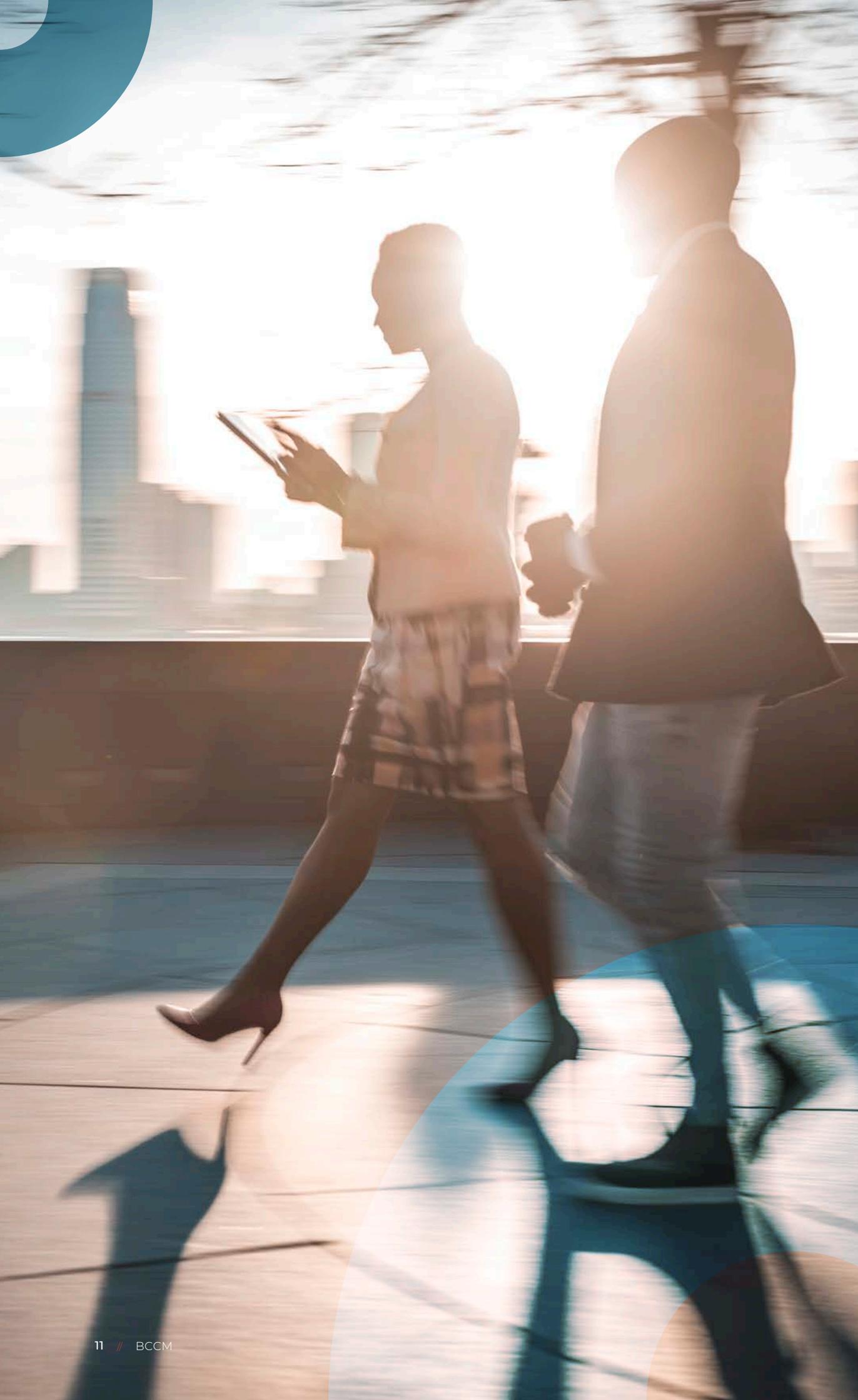
How ownership affects business purpose

The type of business ownership will define the business purpose.

A privately owned company exists to create value for its shareholder owners. In doing so, it will provide a range of goods and services to customers. It can be motivated to provide excellent goods and services in order to meet the business purpose, but ultimately it exists for the delivery of profits to the owners of capital. It is often argued that these pressures ensure greater efficiency, but there is always an inherent trade-off between the interests of shareholders and other stakeholders such as staff and customers.

A state or municipal public service provider exists to serve the public interest. However, in practice this relationship can be convoluted. Taxpayers and service users may diverge so government agencies and bureaucracies can end up being seen as clients by those providing services. Consequently, a natural buffer is placed between the service provider and the end user, and although this is supposed to work in their interests, it often results in paternalistic, or distant decision making.

A co-operative or mutual business exists to serve its members, who are active participants in the business. This distinguishes them from investor-owned firms. Mutual structures try to deliver equity by managing stakeholder interests, to balance the relative importance of different stakeholder groups. This is why CMEs can claim to be popular with members because their services are focussed on them.



The gradual adoption of ESG

David Speers

'So in the years since the concept of ESG was formed, has it been well understood, or has it become confused? Have some picked and chosen amongst the three elements? Do they get that they need to work together as a whole?'

Colin Melvin

'It has been a little confused. At its best you can see the rise in interest in ESG, and sustainability, and investment, as a clear potential of momentum for change and I think that's the best way to look at it, really. However, within that, you do see the acronym ESG attached to pretty much anything.

You can see paragraphs, purpose statements, mission statements and so on, full of ESG. And the more I see it within a single sentence or paragraph, the more doubtful I am that it actually means anything at all. Wherever you see ESG, it's worth asking yourself, "Does this mean impact? Does it mean stewardship? Does it mean improving the quality of investment decision making or business strategy?" And if it doesn't mean those things, what does it mean? That's really worth considering, because we are in danger, within the investment community, of setting something up separate from investment, which is responsible investment, which, of course, is a mistake.

The whole point of the UN Principles for Responsible Investment was to change the way investment itself works, not to create something else. It's the responsibility of business and the responsibility of investment, which then is seen to drive performance in the longer run.'

D.S

'Can we pick apart the ESG here, because there may be some advantage for mutuals in the areas that are perhaps often neglected. But at the risk of focusing on E, where I guess there has been overwhelming focus, what are your thoughts? We have this fascinating, and slightly weird, debate in Australia when it comes to climate change in particular, where a lot of business- certainly all the main business groups, Business Council of Australia and so on, the farming lobby, are all in support of greater action, whether it's setting the target of net zero emissions by 2050 or having a properly regulated mechanism to get there. The government, by contrast, isn't yet at either of those goals. Within that dynamic, do you think business is doing enough to pressure the government? Many listed companies are going out on their own and setting targets and doing things. But should they be pressing the government harder?'

The gradual adoption of ESG (cont.)

C.M

'Yes. I think so. I think we need more robust engagement with government to get the right regulation, to get the right outcome. I don't think the government can hold out for much longer. It is swimming against the tide. But as we discussed earlier, there is a natural disinclination by legislators to bring in the regulation we need properly to address these issues. They just don't think long-term enough. The electoral cycle is naturally short-term, so it requires robust engagement by business, and by investors, to get governments to do the right thing.'

“ We need more robust engagement with government to get the right regulation, to get the right outcome.”

We should also recognise the lobbying that goes on by the companies themselves. Although the leaders of many companies are now starting to say the right things, their colleagues are still spending shareholder money, investor money, lobbying to reduce regulation, and this is happening globally. That needs to change. It's a kind of lazy assumption that, because the leadership are saying the right thing, everything's fine in the background. It's not fine in the background. There's a toxic relationship between business and government, which leads to lobbying money, which leads to the wrong sort of regulation almost by default, through industry bodies. And that really does need to be addressed.'

D.S

'On the S, then, in ESG-- last year, we also saw, amidst the pandemic, the Black Lives Matter movement in the United States, and I think around the world, to varying degrees - this campaign for tackling racial inequality.'

'Many businesses are trying to grapple with diversity and inclusion. Is this what we're talking about and how important is tackling that S in the equation here, when it comes to ESG?'

C.M

'It is massively important. And I think we're going to see more attention to this as the world recovers from the pandemic. You mentioned diversity, and the Black Lives Matter movement. This, of course, is not just a single event, but a series of events. It's part of that mega trend that we discussed earlier, towards greater fairness in society, which cuts across pandemics and other crises.'

The gradual adoption of ESG (cont.)

C.M

'The trend is towards business attending to the needs of people, and towards taking a more relational approach. In terms of diversity, it's essential for business success. Diverse teams are more creative, they reflect more clearly the interests of the stakeholders and the business. It's just now becoming obvious that this is the right thing to do. I would encourage all CMEs to consider very carefully the social aspects of business, not as something altruistic, or pure in its own form, but as key to business success in the future.'

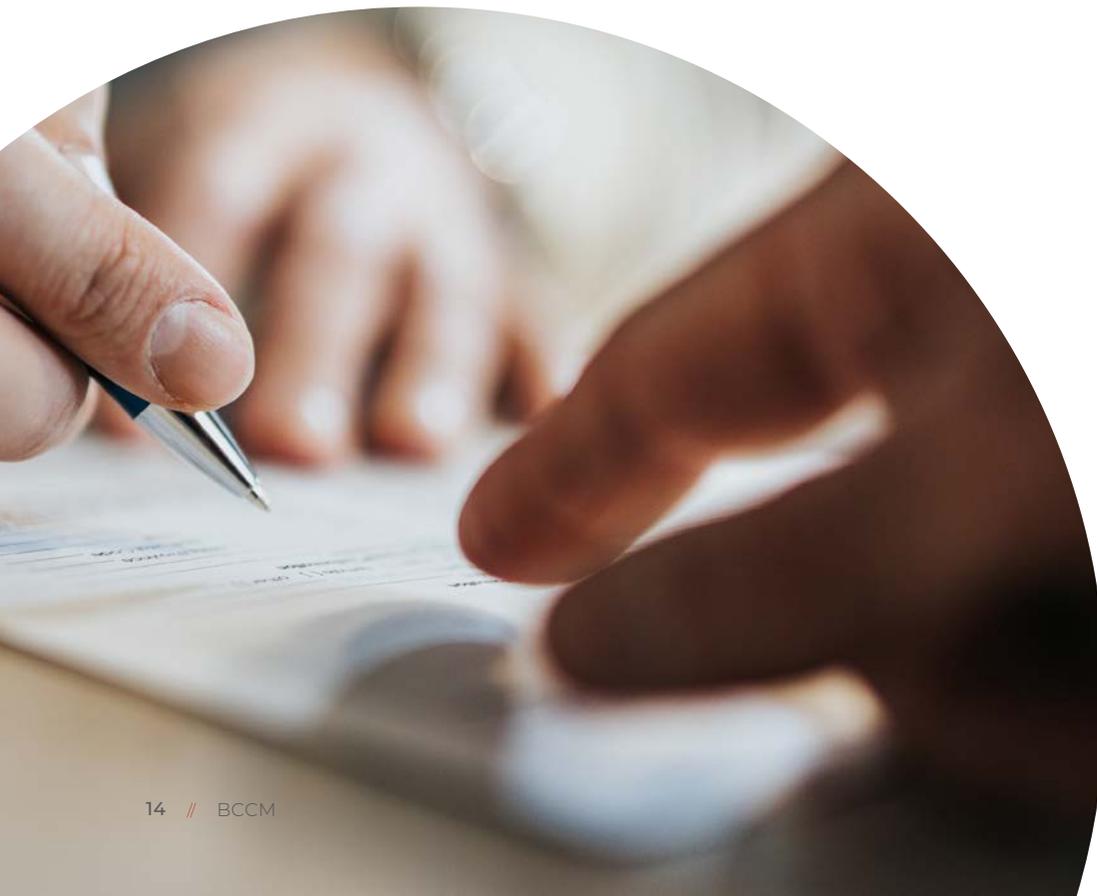
D.S

'And then the G. Just tell us, is this really about bringing it all together, the glue to actually deliver what we're talking about here?'

C.M

'Good governance is behind it all, really. Good corporate governance is the quality of the direction and control of the business and we've had guidelines on this globally for decades. If you look at the World Bank, the International Corporate Governance Network, they've got fairly clear guidance, which applies internationally.'

Virtually every developed market now has local corporate governance codes and guidelines, which are policed by investors. So it is, as you say, what brings it together. Behind every company that's got a significant strategic, social, or environmental risk, or a problem, or an opportunity they haven't yet grasped, there's a governance issue somewhere. And so good governance supports good business success.'



Environmental, social and governance standards (ESG) for investment

Increasingly, investors are concerned with the environmental, social and governance (ESG) standards of the companies they invest in. Beyond the ethical and moral arguments in favour of good behaviour, it is now clearly of value as one of the necessary tests for capital investment.

There are many quick definitions of what is meant by ESG. McKinsey provides a useful summary:

The sustainable business

ESG (environmental, social, and governance) has become the preferred terminology for capital markets when assessing the sustainability of a business.

E

environmental criteria

This includes the energy a company uses and the waste it discharges and the consequences for people and the environment as a result. 'E' encompasses carbon emissions and climate change.

S

social criteria

This addresses the relationships a company has and the reputation it fosters with people and institutions in the communities where it does business. 'S' also includes labour relations and diversity and inclusion.

G

governance criteria

This relates to the internal systems of practices, controls, and procedures a company adopts in its governance. 'G' includes compliance with the law, and relations with all internal and external stakeholders.

Source: ESG Framework, McKinsey

Investing for impact. Stewardship.

David Speers

'What is the difference between impact investing, stewardship and ESG?'

Colin Melvin

'All these definitions are still in flux, they're part of a dynamic conversation within the investment industry. Impact investing was very niche until quite recently; it was, effectively, a kind of venture capital. You were allocating new capital with the intention of doing something additional - intentionality plus additionality, and you would maybe take less of a return as a result. You'd feel good, because you'd done something good in the world - there's nothing wrong with that, and that's a very valuable thing, but it's quite niche, quite small-scale venture capital.

This idea of impact investment has come right into the mainstream now. People investing in public markets, buying shares from someone else, are starting to say the impact of the company, whose shares they'd bought, is somehow their impact. But that doesn't seem right, because there's no new money going into this. You've just bought the shares from someone else.

So, there isn't really an impact unless you've done something as a result of your ownership, it would seem. And that's where stewardship comes in. Stewardship is the quality of the ownership of the asset, and then how you behave as an owner, how you use your shareholder rights, and the responsibilities attached to that, and so on. Impact has shifted from venture capital to the mainstream, but it's somewhat confused. The major impact in public markets is through the quality of ownership of the firm. And in many cases, it's not very good quality ownership. It needs to improve. And then you've got the whole debate around ESG itself, and the integration of ESG into investment decision making, which is another feature here.'

D.S

'On the shift to the mainstream of all of this, we should talk about Larry Fink. Of course, very well known, and perhaps arguably the world's most powerful investor. And the letter that he writes to CEOs each year-- the latest came out just a few weeks back, in which-- I thought he made an interesting point.

Many might have suspected during the pandemic that issues particularly around climate change, would have dropped down the order of importance. But it seems quite the opposite. He is really stressing once again, in fact, more so, the importance of tackling this, amongst ESG issues.

And he makes the point that there's been a whopping 96% increase in sustainable investing since 2019. Do you share the view that the pandemic has only emphasised, I guess accelerated, the trend here of ESG?'

Investing for impact. Stewardship (cont.)

C.M

'I think there has been some acceleration, but remember, this is a long-term trend. It's a mega trend. My own career and involvement in this goes back 27 years, way before it became fashionable, and has covered several crises, of which the pandemic is the most recent. But the trend has continued. After the global financial crisis in 2008, you might have thought, "Well, that's the end of it. People will retreat to short-term money," but, in fact, the opposite happened. There was a growth of stewardship and interest in sustainable investment very markedly after the crisis. Right now, what we're seeing, I think, is a deep understanding of our interdependence.

If you atomise societies and economies, if you force people apart, it's very clear that they need each other in order to create wealth. And I think that's behind part of what we've seen. But the bigger point here, really, is that this mega trend towards sustainability, this shift towards greater fairness in our economies and societies, this understanding that we are interdependent, and that wealth arises through the quality of the relationships we have and generate as businesspeople, as investors, not through our skill in buying and selling things from each other. We need to do that but doing a turn on the transaction is not how you create wealth in the longer run.'

“ This mega trend towards sustainability, this shift towards greater fairness in our economies and societies, this understanding that we are interdependent, and that wealth arises through the quality of the relationships.”



Measuring ESG value

David Speers

'Larry Fink also made the point in this year's letter about the need for companies to detail how they're going to achieve what they say they're going to achieve. He says, "We expect you to disclose how this plan is incorporated into your long-term strategy and reviewed by your board of directors." I guess that brings us into this conversation around how to measure, what standards should be agreed upon, how to report these issues. How is the process going in this space of actually measuring progress?'

Colin Melvin

'There is a lot of effort going into this. There are groups of investors and companies looking at impact measurement, but it's all very much in its infancy. I do, though, get a little concerned when people say, "Show me the data."

The data is the problem, because it's often only to the extent we haven't properly focused on the right measures and requirements yet. If you think about a business, and assessing the value of a business, we are yet to the point where we can properly understand what are called, or termed, externalised costs.

This notion of a business externalising costs onto the environment, which may need to be picked up, or the business will be forced to pick up the costs through consumer preference changing, or regulation. That isn't part of the dialogue around the accounting for business success at the moment and those are the kinds of things that need to change. So, a simple search for data and reporting doesn't really get you there. It's an easy thing to complain about, but I think there's a more fundamental point here, which is actually assessing and valuing the contribution of business, which goes beyond the financial contribution in the short term.'

D.S

'There are some voluntary standards there, but do we need more unified global standards?'

C.M

'There are some attempts to do this, at least within the European context. You might be aware that there's new disclosures coming into force on the 10th of March which are going to require investors to make clear the aims of their investment products, as to whether they're sustainable or not, the kinds of businesses they're investing in, what their intentions are, and so on.

So that's an attempt to standardise the labelling of investment products in relation to sustainability. I think we're going to see more and more of these types of efforts, but fundamentally, it comes down to human behaviour, the leadership, and the quality of leadership of our firms and our investing institutions, and an understanding of how we create value in the longer run.'

The development of global Environmental, social and governance standards (ESG)

Currently, ESG reporting is reflected in the many voluntary standards that have emerged, but the range of initiatives is confusing for both investors and companies trying to develop meaningful reports and assessments. Some ESG reporting standards offer competing alternatives, while others complement each other.

Disclosure standards and frameworks provide the foundation of this as they facilitate the disclosure of comparable, consistent, and reliable ESG information. Using this information, data providers and rating agencies can build tools, analytics, and resources for the capital markets.

Sustainability frameworks and sustainability standards are different

Frameworks provide principles-based guidance on how information is structured, how it is prepared, and what broad topics are covered.

Standards provide specific, detailed, and replicable requirements for what should be reported for each topic, including metrics.

Standards make frameworks actionable, ensuring comparable, consistent, and reliable disclosure. Frameworks and standards are complementary and are designed to be used together.

Source: www.SASB.org

Developments towards a comprehensive global system for corporate disclosure

Much of this voluntary certification has emanated from what is now accepted as established environmental standard setting, but social and governance standards are less defined, often they are loosely based on UN sustainable development goals, which are more open to interpretation. Meaningful social and governance standards are still being established, suggesting there is room for the mutual sector to engage positively.

In September 2020, five leading framework and standard-setting organisations announced a shared vision for a comprehensive corporate reporting system that includes both financial accounting and sustainability disclosure, connected via integrated reporting.

CDP - (Carbon Disclosure Project)

CDSB - (Climate Disclosure Standards Board)

GRI - (Global Reporting Initiative & Global Sustainability Standards Board GSSB) matches to the UN SDGs

IIRC - (International Integrated Reporting Council) aligned to the wider goals of financial stability and sustainable development

SASB - (Sustainability Accounting Standards Board) Designed for communication by companies to investors about how sustainability issues drive long-term enterprise value.

Further to this, in November 2020 the **IIRC** and **SASB** announced their intention to merge into a unified organization, the **Value Reporting Foundation**.

CDP and CDSB focus on environmental standards. GRI Standards focus on the economic, environmental, and social impacts of a company in relation to sustainable development, which is of interest to a broad range of stakeholders, including investors. Many major global companies use both SASB and GRI standards to meet the needs of their audiences.

SASB and GRI provide compatible standards for sustainability information, which are designed to fulfil different

purposes and are based on different approaches to materiality. In the IIRC's Integrated Reporting Framework, non-financial information is integrated with standard financial reporting to provide a more rounded picture of a firm's performance.

SASB Standards focus on ESG issues expected to have a financially material impact on the company, aimed at serving the needs of most investors.

Many standards are industry specific and include both qualitative and quantitative disclosures.



Source: sdgs.un.org

Co-operative and Mutual Enterprises and ESG

David Speers

'Let's look at the context for co-operative and mutual enterprises. CMEs here in Australia operate across a whole range of industries: banking, agriculture, motoring clubs, health care insurance, and so on. They're values based, they're purpose-driven mutuals.'

They now have the option to potentially include investment partners. What do you believe are some of the opportunities, and, indeed, the challenges for mutuals and co-operatives?'

Colin Melvin

'The opportunities for mutuals, I think, relate to the corporate structure and ownership structure itself. One of the challenges you have in publicly-owned firms is the requirement for short-term results and returns. The tyranny of the market, and the still kind of lazy expectation that you're going to keep on improving earnings on an improving trend, and that dialogue you have with the owners of the business, who aren't really owners at all, but rather asset managers focused on short-term results. That's still fundamentally the case, although, hopefully, it's starting to change.

Mutuals don't have that problem. They have a very clear alignment of interest between the owner and the business. A coincidence of interests. And I think that gives them an advantage in the shift towards a more relational perspective on business and investment. I think that's a very good starting point, and it enables these businesses to take a longer-term perspective, and genuinely to reflect the interests of their owners.'

Co-operative and mutual business impact & ESG

As business seeks to explore how it can express its impact more positively, and to do this in a measurable way, many firms have elaborated on their business purpose as a way of expressing their good intentions. Yet they cannot escape the basic legal duty that they have to their investor shareholders.

Co-operative and mutual business has an inherent natural advantage over such investor-owned firms in that it has a clear and unambiguous business purpose, existing to provide a service to their mutual membership, rather than focussing on capital growth for investors.

If we apply the sustainable business formula to CMEs, then it might look something like this:

Co-operatives and Mutuals are the epitome of a sustainable business

They are established to provide a service to members rather than to simply grow capital value. Their business focus is particularly suited to meeting the three ESG objectives.

As responsible, sustainable businesses, co-operatives and mutuals should always demonstrate that they meet the Environmental, Social & Governance criteria as outlined by standards setters.

E

environmental criteria

Co-operatives and mutuals can be leaders in corporate action on the environment.

Often, green energy generation businesses are set up as co-ops partly for this reason. Firms will be judged on how their business impacts the environment of their community and a CME's alignment to its community can be beneficial.

S

social criteria

Co-operatives and mutuals are communities of people, encouraging engagement between their stakeholder groups and beyond.

The focus of their mutual business purpose can itself deliver social value, for example in the way they impact on markets or through specific progressive corporate behaviours that help to bring positive change in society.

G

governance criteria

Co-operatives and mutuals all operate equitable, one member one vote, governance structures. Democracy and engagement are at the heart of co-operative governance and they will all operate inclusive governance structures that participate with their owner members.

Source: www.mutuo.coop

In terms of attracting external investment funding, the co-operative or mutual's business purpose is an advantage

Co-operatives and mutuals are funded by a mixture of share capital, retained profits, and debt. To appeal to any debt or equity investor, it is necessary to be clear about what the money is to be used for. A clear business purpose makes the proposition unambiguous.

If we look at the ESG framework, we can see how any business can test itself against the criteria, and this will be the same for a mutual, except that it will be able to use its corporate status as positive indicator.

In this respect, being a co-operative or mutual per se is an upfront advantage,

but only if it is visible from the outside. Co-operatives and mutuals should ensure that they are able to express their business purpose clearly and that this can be shown as a meaningful thread that runs demonstrably through the operations of the business.

The challenge beyond this for a co-operative or mutual is to demonstrate its value as a mutual. The ground-breaking Mutual Value Measurement (MVM) Framework, developed in Australia by Monash University and the Business Council of Co-operatives and Mutuals (BCCM) is a tool which firms can use to begin to do this.

Measuring Mutual Value

David Speers

'Coming back to the question around setting standards, developing standards, and having some uniformity here, is there a risk that they won't fully incorporate the mutual business model that we've been discussing? Should mutuals, do you think, work more closely together to try and help the investment community understand what their distinct purpose is?'

Colin Melvin

'Yes, I think so. We need a variety of corporate forms and ownership. I think it's very healthy to have that. I was part of the Ownership Commission set up by the UK government some years ago, and that looked at different corporate forms, including the mutual form, and, indeed, proposed that the government introduced policy which encouraged different forms of ownership of companies.'

I think the mutual sector has got a lot to offer. The style of ownership lends itself to a longer-term perspective, so there's a great connection between the interests of the owners and the interests of the business overall, and that's not there in the same way in public markets. I think it's actually very well set up to think more relationally, and more long-term, than transactionally.'



The report of the Ownership Commission – Plurality, stewardship and engagement

The Ownership Commission was a two-year study by a group of top academics and high-profile business leaders who undertook an analysis of corporate ownership, focussed on the UK.

The Commission published its findings in 2012. The key recommendation from the study was that plurality, stewardship and engagement needed to be strengthened within business and the economy in order to drive better ownership and corporate behaviours.

Plurality: The Commission supported corporate plurality/diversity in order to have a variety of different types of ownership within the economy. It argued that this would promote more resilience to shocks within particular sectors, would allow investors and savers more avenues in which to save and invest and would give customers more choice. Such plurality would involve a mixture of co-operatives, mutuals, employee-owned businesses and family enterprises as well as listed firms. Recommendations included positive policy to support corporate diversity, legislation for capital raising in mutuals and wider support for medium sized businesses.

Stewardship: The Commission recommended that fiduciary obligations of directors, investment management companies, trustees and shareholders should be widened, and that better stewardship should be achieved through maximum transparency for all aspects of ownership. Specific recommendations included a requirement for businesses to make a statement of their business purpose in their annual report, requiring directors to declare what they believe is in the best long-term interests of the business and encouraging pension funds and other long-term end asset owners to take more long-term control over their beneficiaries' money.

Engagement: The Commission concluded that the engagement and involvement of employees, shareholders and other business stakeholders with management is a proven way to increase the performance and accountability of businesses. It recommended encouraging employee share ownership schemes, share-voting pools to whom individual or institutional shareholders can cede their voting rights and that shareholders should have a greater role in the governance of businesses.

David Speers

'There is, in fact, some work under way here. BCCM and Monash University have developed a methodology for measuring the value that mutuals and co-ops can generate. They've called it the Mutual Value Measurement. Is this the sort of front foot approach of trying to define and measure that value, that should be put forward to investors?'

Colin Melvin

'Yes, that sounds like a great initiative, I think it would be good to see that. We should also make the point that governments are in a position to introduce policy which can support mutuals and the mutual structure, and I think it would be sensible to do that.'

Mutual Value Measurement (MVM)

One of the greatest challenges for co-operatives and mutuals (CMEs) is to be able to quantify and communicate consistently the value that our businesses create. That's why the Business Council of Co-operatives and Mutuals teamed up with researchers at Monash University and the co-operative and mutual enterprise sector, to find a new way of measuring the positive impact on members, customers, the community and the economy – the Mutual Value Measurement (MVM).

The Mutual Value Measurement Framework helps CMEs to measure their total value creation (mutual value) through a set of common dimensions and shared language about measuring and reporting mutual value.

The MVM Framework can be used by CMEs across different industries, of different sizes, and with different capabilities. The Framework has been field-tested through research by Monash University's Business School and is available with an implementation guide and templates that will allow interested CMEs to assess and plan the full adoption of the Framework.

The MVM Framework uses six dimensions to cover the unique areas of value that CMEs generate which can be used to provide the test base and evidence for how an individual co-operative or mutual has an impact in its operations.

Dimensions of Mutual Value



1. Commerciality
Generation of sustainable economic value for current and future members through business operation.



2. Shaping Markets
Creating, maintaining and/or shaping sustainable competitive markets for goods and services.



3. Member Relationships
Building and maintaining meaningful and sustainable relationships with members of CME.



4. Community Relationships
Building and maintaining strong and sustainable relationships with the broader community beyond the members of CME.



5. Ecosystem and Reciprocity
Stakeholders of the CME are part of a mutually beneficial and sustainable ecosystem a 'virtuous circle'.



6. Mutual Mindset
Acting ethically, sustainably and consistent with mutual/co-operative values.

Once co-operatives and mutuals are able to identify, measure and demonstrate their unique mutual value, they could be in a position to use their mutuality to their advantage in seeking business funding.

Source: <https://mutualvaluemeasurement.com/about/measuring-mutual-value/>



The future of ESG

David Speers

'Looking at the trends, then, at the moment. I mean, where do you envisage ESG, and investing more generally, to be at in the next decade? If we look at coming out of this pandemic, and the sort of things that Larry Fink and others are saying, what do you see in the future?'

Colin Melvin

'I spend a lot of time in my work as a consultant with asset management firms globally. Through my business, Arkadiko Partners and for one of our larger clients, which is one of the top 10 asset management firms by asset size, in the past year, we did a survey of their key prospects and clients. They selected 10 of their prospects and clients that they deemed to be most advanced in sustainable investment and we went to talk to them. We interviewed them all to find out what they thought was going to happen.

Rather than us making it up, or gazing in the crystal ball, we thought, "Let's go and talk to the people whose money it is we'd be investing." The key takeaway from that was that the sustainability of the investment management firm, not the strategy or product, but the firm itself, was a key consideration in the pension funds hiring the investment manager. It was no longer enough just to offer the right product or service, which of course has been the case for decades in investment. But you, as an investment management firm in yourself, should behave sustainably. That's fascinating, because that is that shift from the transaction to the relationship as the source of wealth creation. These big pension funds are looking to build a relationship with an asset management firm which shares a purpose and a set of sustainability traits and behaviours, with that shared purpose leading to a longer-term relationship, which leads to the creation of value.

“ Shared purpose leading to a longer-term relationship, which leads to the creation of value. ”

I think that's the shift. It's away from the transactional to the relational. It's from the short- to the long-term in business relationships.'

The future of ESG (cont.)

D.S

'At the end of the day, does it work, ESG investment? I mean, I know it's not all about the money, we have discussed that. But what do the results actually show for the bottom line?'

C.M

'It is about the money in the sense that profit is oxygen for business, and investment needs to find a return. The point is that in the longer-term, the creation of value or wealth is the same as the creation of wellbeing. It is, in the end, human flourishing and that's what you'll see rewarded.'

Now, is that happening in terms of the returns to sustainable investment products at the moment? Yes. They've been performing very well. Now, you might say, "Well, they're just carbon-related effects, oil price is depressed," and so on. I think it's more than that. And we're going to see this coming through more strongly going forward, I suspect.

So, if there is a mega trend towards sustainability, if this is the way that business and investment are going, then I would think that's the trend to follow.'



Investment in the social purpose of mutuals

Investment is already taking place in mutuals that are able to demonstrate their social impact.

The following two examples, one from the UK and one from Australia, show how this area of investment has great potential for growth.

Case study: Co-operative Group

In May 2019, in a first for a UK retailer, The Co-operative Group issued a sterling denominated Sustainability Bond, raising £300m to allocate proceeds exclusively on its work on supporting and promoting Fairtrade, including Fairtrade producers and their communities.

The move underlines the Co-op's unique focus on a better way of doing business which delivers real benefits for members, communities and investors. The Co-op intends to allocate the net proceeds of the Sustainability Bond issuance to the costs of bringing Fairtrade products to customers, marketing and promoting Fairtrade products and the wider Fairtrade movement.

The five-year Sustainability bond pays investors an annual interest of 5.125%. Raising funds through a Sustainability Bond allows the Co-op to access long-term funding at an attractive rate and enables global investors to increase their focus on investments that meet the UN's Sustainable Development Goals and key environmental and sustainability targets.

The Co-op has developed a Sustainability Bond Framework under which any subsequent bond issuance will allow the Co-op to allocate funds to its spend on education, via its Academies Trust, alleviating water poverty, providing access to responsibly sourced products and delivering energy efficient technology to lower emissions.

Commenting on the bond Steve Murrells, CEO of the Co-op, said: "The popularity of this bond demonstrates confidence in the Co-op's growth strategy and in particular how we've placed sustainability at the heart of our future plans.

"Co-op was an early pioneer of Fairtrade and now with the support of like-minded investors we can grow it further, opening up new opportunities and creating value for our members as well as producers and communities in developing countries."

Source: www.co-operative.coop/investors/reports

Case study: Australian Unity

In December 2020, Australian Unity issued the first mutual capital instruments to raise \$120 million, as part of its ongoing capital management strategy. The proceeds of the offer are to be used for a range of opportunities across the Australian Unity Group. These include pursuing near-term growth opportunities within the individual. The use of proceeds may also extend to merger and acquisition opportunities across the Australian Unity Group to increase investment in social infrastructure and to help support business consolidations in important mutual sectors such as private health insurance, banking and friendly societies.

Australian Unity Managing Director, Rohan Mead said: “Australian Unity is delighted to issue Australia’s inaugural mutual capital instrument and to provide

eligible investors with the opportunity to invest in Australian Unity. The Offer will support Australian Unity’s ongoing and sustainable growth as it continues to provide health, wealth and care products and services that deliver both community and social value.”

Australian pension fund, HESTA, committed \$20 million as a cornerstone investor in Australian Unity’s issuance, helping to establish a new capital source for the For- Purpose, Mutual sector in Australia. The \$56 billion (AUD) industry fund made the investment through its \$90 million Social Impact Investment Trust (SIIT). The SIIT aims to catalyse the development of Australia’s impact investment market through developing a pipeline of investments designed to earn an appropriate market return and a measurable social impact.

Source: www.australianunity.com.au/media-centre/asx-announcements

Below Image: Artist impression: To be completed in 2020, the Surgical, Treatment and Rehabilitation Service (STARS) at Herston Quarter will be the first building delivered as part of the \$1.1 billion Herston Quarter Redevelopment in Brisbane. The Herston Quarter project – a partnership between mutual company Australian Unity and the Queensland Government – is one of the most significant pieces of social infrastructure currently under construction in Australia.



What CMEs can do next

The paradigm shift underway toward ESG investment will make a long-term impression on how markets and individual companies interact. CMEs issuing either debt or equity will need to work within the new frameworks and standards, which will apply to all types of corporation equally.

As these are being established it is likely that little regard will be given to mutual business, its different purpose or its particular norms of governance, as dominant shareholder owned firms will be the main focus.

Mutuals have an interest in engaging with the organisations developing these standards, in order to have the potential to influence, or at least comprehensively understand the way they are being developed.

MVM provides a useful start for organisations that have yet to undertake social reporting. The measures identified under the MVM dimensions can be applied individually to ESG frameworks, but alone they will not be sufficient to meet ESG expectations. They can enhance a firm's position if applied in a way that fits ESG standards.

Collectively, CMEs should consider formally engaging with the standard setting bodies through participation in their programs.

BCCM will come forward with proposals for this initiative.

To find out more email ceo@bccm.coop

What CMEs can do next

By working together, CMEs can:

- Achieve global engagement with international ESG standards setters
- Work with global ESG thought leaders and expert practitioners
- Establish a mutual approach to social impact reporting, taking account of:
 - Existing Australian experience in this space
 - Best practice examples from elsewhere

Individual firms will benefit from:

- Engagement with leading edge global thinking on ESG
 - The ability to influence how mutuals approach ESG
- Engagement with investors and standard setters
 - The ability to influence the way mutuals are perceived by these
- Access to new social reporting frameworks for internal use
- Engagement with peer CMEs internationally
- Influence on any certification/verification process

**By working
together,
CM&Es have
shown that
they can
achieve so
much more
than they
can
alone.**

Author Biography – Peter Hunt

Peter founded Mutuo in 2001 as the first cross mutual sector body to promote co-operative and mutual business to opinion formers and decision makers.

For ten years prior, he was General Secretary of the Co-operative Party (UK). He is co-founder of Supporters Direct, the football supporters' initiative, which went on to establish over 100 supporters' trusts at professional football clubs.

He led the Parliamentary teams which piloted five private members bills through the UK Parliament, working with all parties to update co-operative and mutual law.

He advised the UK Coalition Government on its plans to mutualise Post Office Ltd and in 2012 published the report of the Ownership Commission, a two-year study into corporate diversity.

Peter has worked with the Foundation for European Progressive Studies (FEPS) since 2015, co-authoring the 'Peoples' Business' research document.

He works globally as an advisor to co-operatives and mutuals and is a recognised thought leader on strategies for improving the business environment for member owned firms.

He provides strategic advice to the Australian Business Council of Co-operatives and Mutuals and has initiated a number of their projects. In 2018/19 he led the successful industry alliance to develop the Australian Treasury Laws Amendment (Mutual Reforms) Act 2019, the first renewal of Australian mutuals legislation for 20 years.



Peter Hunt
Managing Partner,
Mutuo



info@bccm.coop
GPO Box 5166, Wynyard 2001
+61 (02) 8279 6050

BCCM |