ShareAction
the movement for Responsible Investment

Formerly FairPensions
Fairshare Educational Foundation
Ground Floor, 16 Crucifix Lane
London SE1 3JW | 020 7403 7800

Business Environment Directorate
Department for Business, Innovation & Skills
Level 3, 1 Victoria Street
London, SW1H 0ET

For the attention of Edward Greatrex
By email to: corporate.responsibility@bis.gsi.gov.uk

25th September 2013

To whom it may concern,

ShareAction (FairShare Educational Foundation) welcomes this opportunity to respond to the Department for Business, Innovation and Skills' Call for Views on Corporate Responsibility.

ShareAction (formerly FairPensions) is the UK's leading charity campaigning for Responsible Investment. We monitor and engage with institutional investors and our goal is an investment system that serves savers, society and the environment. In particular, we work to encourage effective management of environmental, social and governance (ESG) risks, and active stewardship of listed companies through the informed exercise of shareholder rights. ShareAction also champions greater transparency and accountability to the millions of people whose long-term savings are entrusted to the capital markets.

ShareAction is a member organisation and we count amongst our members a growing number of globally recognised NGOs and trade unions, as well as over 8000 individual supporters.

We have addressed below the points raised in the paper to the extent that these fall within our area of expertise.

An approach to corporate responsibility

We note the definition of corporate responsibility in the Introduction as "*the responsibility of an organisation for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour above and beyond its statutory requirements*". We understand that the focus of this consultation is the voluntary measures which businesses may take to contribute to society and the environment.

ShareAction works within the investment industry, focussing in particular on institutional shareholders such as pension funds and their agents, to promote Responsible Investment. Responsible Investment is investment which takes account of long-term ESG risks which may affect investment returns. Institutional shareholders, and the ordinary savers whose

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money they manage, have an interest in well-run responsible companies and companies have an interest in addressing the concerns of their shareholders.

The government could approach the question of how to encourage businesses to adopt corporate responsibility initiatives by harnessing the interest and power of shareholders. We draw an analogy with our work on the Living Wage. By working with shareholders (particularly with fund managers) who appreciate the business case for the Living Wage, we have helped to encourage a significant number of public companies to adopt the Living Wage (see our website for more details - http://www.shareaction.org/justpay/successes).

Government could encourage shareholders to engage with companies on their social and environmental impacts. Ways in which this could be done include:

- Encouraging institutional shareholders to comply with the UK Stewardship Code, thus promoting good practice for engagement with their investee companies.
- Ensuring that the Stewardship Code itself is clear and robust in relation to how shareholders should address ESG concerns in companies.
- Clarifying that institutional investors' fiduciary duties do not prevent them from taking into account social and environmental considerations when investing in and engaging with companies. At the moment the law is too often narrowly interpreted as requiring these shareholders to pursue only the maximisation of short-term returns[1].

Q1: What more could Government do to encourage a greater number of companies to adopt internationally recognised principles and guidelines in their own corporate responsibility policies? How might Government, in a light touch way, measure this take-up?

In light of the above suggested approach, there may be value in companies adopting internationally recognised principles and guidelines, especially if these provide standardised and quantifiable principles which shareholders can use to assess companies' compliance and to compare companies' relative performance. The measures suggested in the bullets above would also help to create a framework in which shareholders felt able to encourage companies to adopt principles and guidelines addressing corporate responsibility.

Q3: Are comparable, voluntary metrics on social and environmental aspects desirable? What might be the costs and benefits of this? What role should Government play in determining what these metrics might be and how might we encourage more businesses to adopt them?

We note the expressed intention for Government to establish "*a set of simple, voluntary metrics*" (paragraph 21) to overcome the use of different "*measuring sticks*" by companies. Comparable metrics on social and environmental aspects of companies' business practices are desirable. Without comparability, the information produced is very difficult for the stakeholders listed at paragraph 20 (customers, government, the media and society) to use. It also makes the information difficult for shareholders to use.

The introduction of green-house gas emissions reporting is a positive step. There would also be value in voluntary metrics for companies to report against resource-use indicators

[1] As a result of the recommendations made in the Kay Review, the Law Commission is currently reviewing the law surrounding investors' fiduciary duties, including this question as to scope.

such as land, water and raw materials so that their environmental footprint can be assessed. There are a number of existing initiatives which seek to address key aspects of this and which could be used as a basis for any new metrics, e.g. the Forest Footprint Network and CDP's Water Disclosure framework.

We also note the reference to the new narrative reporting rules coming into force in October 2013 which will apply to quoted companies. A summary of our concerns about the approach taken to these reporting requirements is set out below: we do not think that the Government should consider the upcoming regulations as having fully addressed non-financial reporting by quoted companies. There is still a role for companies to comply with other initiatives and the Government should also consider how it might avoid similar issues when developing any voluntary metrics:

- The lack of a requirement for an "enhanced audit", as opposed to auditors just stating that companies' narrative reports are consistent with their accounts, means that it will be difficult for shareholders (and other stakeholders) to rely on the information released by companies.
- The regulations do nothing to ensure that supply chain impacts are covered in company reporting. In fact, they remove a clause in the Business Review required under previous regulations which had companies provide information about their main contractors. In light of the horsemeat scandal and the recent tragedy in Bangladesh, this seems like a step in the wrong direction.
- Engagement with the Financial Reporting Council (FRC) indicates that there is no appetite to give more substantive guidance on social and environmental reporting as part of its current review of existing guidance. The FRC has also been slow to engage with civil society, with no civil society representatives included on the working group established to help develop the new guidance.

Q4: How might businesses demonstrate that the information they voluntarily capture and present is externally verifiable? What might be the costs and benefits of this?

As set out above, one of our concerns about the new narrative reporting rules is the lack of a requirement for external, independent auditing of companies' claims. Without such an audit, the information disclosed is arguably of limited value to shareholders and other stakeholders as they cannot verify the truth of the claims nor can they use it to compare companies' performance.

One way of addressing this issue would be to require businesses to have the information they release on corporate responsibility audited externally so that those accessing the information know it has been externally verified. Although this may add a cost for companies, the alternative is that they spend money producing information of limited use, which represents a waste of their resources. Furthermore, if companies are not required to have their information externally audited, the cost of this lack of verification is passed on, either to shareholders who have to verify it themselves or to society, which will bear the cost of imperfect risk management by companies.

Q5: How might companies best manage their supply chains more effectively? How might Government help with this?

Responsible supply chain management by companies is important to shareholders as issues with supply chains can have a significant impact on companies' reputations and value, as noted in paragraph 24. We note the references in paragraph 26 to measures

which companies may already be taking to address supply chain issues. One measure which would help shareholders (and other stakeholders) assess the steps which companies are taking to tackle supply chain problems is for large UK companies to be required to make annual statements of the measures taken to eliminate supply chain issues such as modern slavery, human trafficking and abusive child labour.

Q10: What are the main barriers to businesses contributing more to social outcomes?

As explained above, we believe that there is great potential for institutional shareholders to encourage their investee companies to act in a more socially responsible way. However, there are perceived barriers to shareholders taking steps to do so. These include the misinterpretation of institutional investors' fiduciary duties as requiring the maximisation of short-term profit and prohibiting the consideration of the social and environmental impact of companies. This in turn means that, notwithstanding section 172 of the Companies Act 2006, company directors often feel obliged to focus excessively on short-term share price movements at the expense of longer-term drivers of sustainable shareholder value.

Other barriers include those faced by the individual savers whose money is managed by institutional investors such as pension funds. Savers have no or limited rights to know where their money is invested, how the money is being managed or key decisions which are being taken on their behalf. They also have limited rights to participate in investment decisions through processes such as consultations and asking questions of those managing their money. If these barriers were removed, it would be easier for the concerns of individuals about the social impact of companies to be communicated to, and reflected in, company practice.

Q12: How might the relationship between business and society be strengthened? How might Government support this?

Government could remove the barriers to savers accessing information about how their money is being invested and could strengthen savers' voices within the market. This could be done by guaranteeing savers basic rights to information about their savings and to participation in how their money is managed and by actively seeking to educate savers about what it means for their money to be invested so that they are better equipped to push for better company practices. The new curriculum on personal financial education offers one possible vehicle for such education.

We remain at your disposal and would be pleased to meet with officials to discuss the issues raised in this response.

Yours sincerely,

Bethan Livesey, Policy Officer