Business in the Community

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Jane Leavens
Corporate Law & Governance Directorate
Department for Business, Innovation and Skills
1 Victoria Street
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18 October 2010

Dear Ms Leavens,

I am delighted to attach Business in the Community's response to the BIS consultation on the Future of Narrative Reporting.

One of Business in the Community's areas of expertise is in successfully advocating for the adoption of high standards of governance, management and disclosure relating to material environmental, employee, social and environmental issues. Companies that properly consider and manage those issues perform better, have stronger management and create more value for communities.

For the past eight years the CR Index has inspired and challenged over 350 companies to continuously improve their impact on society and the environment.

Those who have consistently benchmarked have outperformed their FTSE 350 peers on total shareholder return in seven out of the last eight years. Further, the TSR of these companies recovered more quickly in 2009 compared with that of their peers. Please see the full reports at:

2008 study: http://www.bitc.org.uk/resources/publications/value_of_corp_gov.html

2010 study: http://www.bitc.org.uk/ft_responsible_business_supplement/the_value_of.html

Disclosure is one lever to drive change but our experience shows that learning and behaviour change are driven by appealing to the instinct to compare, compete and succeed. We have focused our response on the material issues that we believe would improve CR reporting that BITC can support.

We have included insight from leadership companies consulted on these questions through our membership network and a specially convened workshop chaired by Phil Hodkinson, the member of the BITC Trustee Board who has led on Benchmarking and Reporting over the past 8 years, with experience as a FTSE 100 Finance Director and non-executive Director. By leadership companies we mean those achieving the highest ranking in the annual benchmark survey of responsible business practice published as the CR Index. Please see http://www.bitc.org.uk/integration_and_advice/cr_index/results_and_rankings.html

President HRH The Prince of Wales
Chairman Sir Stuart Rose Chief Executive Stephen Howard

THE PRINCE'S

Twelve companies self selected to attend a discussion with BIS on the issues covered by the consultation convened by BITC, which targeted the invitation to leadership companies as measured by high scores in the Corporate Responsibility Index. Communication of Business in the Community's intention to respond on behalf of members was communicated to the full membership via a website comment piece. The discussion was held under the Chatham House rules and the views expressed here are those of BITC. Please see:

http://www.bitc.org.uk/media_centre/bitc_news_press_releases/future_of_reporting.html

Yours sincerely,

Stephen Howard
Chief Executive

BIS | Department for Business Innovation & Skills

Consultation response form: The Future of Narrative Reporting

A copy of the consultation available at: http://www.bis.gov.uk/consultations.

Responses to the Consultation by be received by 19 October 2010

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Please tick the box from the following list of options that best describes you:

	Quoted company
	Other company
	Investor or investment manager
	Business representative organisation
	Investor representative organisation
tick	**Non governmental organisation (NGO)**
	Trade Union
	Lawyer or accountant
	Other (e.g. consultant or private individual)

Value of narrative reporting

Question 1: Are company directors providing useful and relevant information on the company's:

i) forward-looking strategy and

ii) principal risks and opportunities?

Comments
Where companies have allocated responsibility at Board level on responsibility issues they are, in our members' experience, better equipped to report on related forward looking strategy and principal risks and opportunities. The 100 + businesses which report annually through the CR Index report this information. This is useful to an assessment of the extent to which their forward looking strategy and principal risks and opportunities take account of wider stakeholders. Where Directors have put resource and reporting requirements around the management of corporate responsibilities, they draw on useful and relevant information in making strategy and identifying risks and opportunities. The best companies have an active process of stakeholder engagement to understand the most material issues that should be included within their reporting. Leadership companies report limited social environmental and governance engagement by investors. PwC has identified overlap between Business in the Community leadership companies (highest performing in corporate responsibility benchmarking) and the Integrated Reporting leadership companies. BITC has identified the better share price performance of leadership companies. By leadership companies we mean those achieving the highest ranking in the annual benchmark survey of responsible business practice published as the CR Index.

Question 2: What are the constraints on companies providing information on these issues?

Comments
Corporate Responsibility content is very organisation specific but is frequently only appreciated and challenged by some Board members who have relevant experience or where there is good benchmarking evidence available. Much of the information disclosed tends to focus on the company's processes and activities, rather than the outcomes of such activities. The quality of data available on CR activities varies considerably by company, and is generally less reliable than financial or risk information. The CR Index rewards companies that have high data standards and external assurance of such data.

Question 3: Does the information provided reflect the issues discussed by the directors in board meetings?

Comments
Boards manage their responsibilities through their committee structures in large companies. Where there is systematic management of corporate responsibility the reporting relationship for the purposes of the Business Review tends to be to the Audit Committee for risk consideration and the CR committee for the purposes of the separate CSR report. Leadership companies ensure that Directors have access to pertinent and regular briefing affecting reputation and risk management including the results of company engagement with stakeholders.

Question 4: Does the information help shareholders to press directors on key issues relating to strategy and risk, or inform their business decisions?

Comments
Companies we consulted directly on this topic that currently provide extensive reporting on social, environmental and governance issues reported limited engagement by investors despite the information provided. The level of engagement from other stakeholders was patchy but generally of a better quality.

Question 5: If a company does not provide sufficient or material information to you, do you challenge it? Is there anything which could help you to do so?

Comments
In reviewing company submissions to the CR Index we review the public disclosure sources they refer to or the internal documentation they provide as evidence for their self assessment on the scale of good practice. The Index gives companies some choice about the social and environmental impact areas they report. if there is mismatch between what they select to report on and where they direct their resources this is picked up in the membership engagement.

Question 6: What other sources of company information do you use and how valuable are they (e.g. information provided on the website, analysts' briefings, dialogue with the company, corporate social responsibility report)?

Comments
As in the answer above, we review information put forward by the company whether public domain or confidential. Voluntary disclosure of such information is rewarded.

Question 7: Is there scope to reduce or simplify the requirements on which companies report?

Comments
The companies we consulted on this question referred to competing guidance notably from Defra, the Carbon Reduction Commitment and Mayday Network. Sectoral guidance (e.g.from trade bodies such as the ABI) was seen as very helpful where available because specific reporting requirements tend to be industry related

Question 8: Is there scope to arrange the information in a more useful way?

Comments

Business Review

Question 9: Looking at an Operating & Financial Review and the existing business review (see Annex D), do you see value in reinstating elements of an OFR and if so what would they be? In particular, would a statutory reporting standard help to improve the quality of reporting?

Comments

Question 10: The business review provisions require quoted companies to report, to the extent necessary, on:

- main trends and factors likely to affect the future development, performance and position of the company's business
- information on environmental matters
- information on employees
- information on social and community matters
- persons with whom the company has essential contractual and other relationships
  - i) is this information useful to you? How do you use it?
  - ii) Could disclosure be improved? If so, how?
  - iii) Are there key issues which are missing? If so, please explain?

Comments

The core issues covered by the CR Index map closely on to this list.

We would like to see this described not as 'information on' but 'outcomes from engagement on or with'.

It is insight from stakeholder engagement which enables Directors to exercise their full duty of care to promote the success of the company.

Where companies have allocated responsibility at Board level for understanding and managing their corporate impact in relation to employees, communities, the environment, suppliers and customers they are better able to report on related forward looking strategy and principal risks and opportunities.

The 100 + businesses which report annually through the CR Index report this information. This is useful to an assessment of the extent to which their forward looking strategy and principal risks and opportunities take account of stakeholder interests and impact assessment

Question 11: Would more guidance be helpful? If so, what form should this take? For example, best practice example, sample Key Performance Indicators, etc?

Comments

Leadership companies consulted reported that The Accounting Standards Board Statement is commonly used as a best practice reference although without the formality of a sign off procedure. The guidance might require a refresh but is largely still relevant today.

BITC 's view is that the elements of a reporting standard exist in the data available from 8 years of benchmarking on responsible business practice. We recommend analysis of this data to help strike a balance between standardisation and what is relevant to a particular business/sector. More generic reporting guidance is likely to detract from quality as the detail becomes increasingly less relevant to specific company issues.

Question 12: Should there be a shareholder's advisory vote on the Business Review?

Comments
No. A vote on the Business Review is equivalent to a vote of confidence in the Board, which shareholders already have via the annual election of Directors.

Question 13: Are there non-regulatory solutions to increasing quality through better guidance or publicising excellence in business reports? If so, what?

Comments
We recommend consideration of a requirement that the directors of companies report to shareholders on whether or not they have benchmarked their CR performance and if so how they have gone about it. In addition, companies should also be required to report whether or not, and how, they have consulted with key stakeholders on the scope, materiality, clarity and content of their report. Although good guidance is helpful and necessary to good reporting, we also know that in practice it has limitations because it cannot cope with the multitude of variations that companies face. More valuable beyond the core principles offered by guidance is good practice and process ... the nuts and bolts of how you seek stakeholder views, how you decide what information is important, how you get it together, how you offer relative as well as absolute data, and how you present it well. The real win is to raise the participation and standards amongst the majority of smaller/medium size organisations. A means to benchmark corporate responsibility performance for smaller business has been developed and is in pilot phase by Business in the Community. This tests policy and process around these behaviours: • Having clear leadership governance and values • Developing employees and the future workforce to build successful and healthy working lives • Respecting customers and influencing consumer behaviour through products and services

- Managing social environmental and economic impacts in your supply chain
- Investing in the communities in which you operate and those communities in greatest need
- Taking action to reduce climate change and prepare for a low carbon economy

Business in the Community has a very successful track record in changing behaviours within business – particularly in the management practices that influence the Corporate Responsibility agenda. A subset of these practices includes reporting. Our model for improvement is tried and tested and continues to drive change in the behaviours of business leaders. Our model consists of two main elements – providing a Challenge Framework and providing Support to deliver improvement. These two elements are outlined below:

Challenge

- Engage the competitive spirit within most businesses through publicising awards, or rankings based on the CR Index – promotes good practices and develops incentives among management to do better. Also raises awareness and communicates the importance of a topic through publicising the actions and results of peers or competitors.
- The CR index provides a ranking of businesses based on their CR practices. The ranking is published annually in the Financial Times. The very best Businesses are awarded Platinum Plus and others are ranked as: Platinum, Gold, Silver, or Bronze. The CR Index explicitly provides guidance as to good practices, with clear feedback to each company on where the gaps are. It acts as a Management Tool, encompassing both risk filter and performance benchmark.
- The BITC National Awards also engage the competitive instincts of business leaders. Although we do not have an award that is focused on reporting, we have successfully delivered improved behaviours across a range of other topics across the Corporate Responsibility agenda. The awards complement the CR Index, are decided through a strict process including peer review and are particularly competitive as there can only be one winner.
- Both The CR Index and the Awards programme are vehicles to drive changes in behaviour, presenting a challenge and giving recognition for good performance. Both also provide vehicles for communicating to managers what they can do, and what are current good and best practices in particular areas.

Support

- The challenge mechanism described above supports the development of a desire to change and to deliver improvement – but it is not sufficient without the necessary support.
- The CR Academy provides a range of training for management and practitioners in various areas across CR. This builds skills, awareness and capacity to support the individuals to deliver the desired improvements.
- We offer Advisory Services, where we work with the client organisation to drive improvement – our core services include CR Strategy, Benchmarking, Stakeholder Engagement and Embedding CR. We have conducted a number

of assignments to support businesses in delivering improvements, including review and commentary on sustainability reports

- Private benchmarking – allows an organisation to assess their current practices, receiving a comprehensive report, without them necessarily committing to their results being published, this provides a low risk entry point to new businesses who are worried that at their initial attempt they may not score well but at least wish to take the first steps.

Combined this model of providing both challenge and support has demonstrated an effective record of delivering improvements.

We would be very interested in working with the Department to explore and develop a non-regulatory framework that would support improved practices in narrative reporting in the UK.

Directors' Remuneration Report

Question 14: Do the current disclosure requirements provide clear and usable information about:

- **the total remuneration paid to directors, and how this is made up;**
- **the performance criteria for payments to directors, and how these relate to the company's strategic objectives;**
- **company performance against these criteria, so that there is a demonstrable link between pay and performance.;**
- **the process by which directors' remuneration is decided?**

Comments

Costs

Question 15:

If you can provide any information on costs associated either with the existing narrative reporting requirements eg preparing your business review or your views on potential costs and benefits in relation to any of the ideas in this consultation, please give details

Comments

The cost of participating in the CR Index is reported by members as about one person for eight weeks full time equivalent reducing to a third of that in subsequent years.
This is an investment in coordinating information within the business and typically involves a project lead, backed by a senior champion to secure the buy in and contribution from typically HR, procurement, environment, community and risk.

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