The Cooperatition Incubator

Helping nurture a co-regulating, responsible economy

# BEYOND THE OFR: THE 'OPEN BUSINESS' RESPONSIBILITY DEAL

***Response to the Department for Business, Innovation & Skills Consultation on the Future of Narrative Reporting***

**October 2010**

**SITUATION: THE OFR DOES NOT COVER SMEs – THE MAJORITY OF UK WORKING POPULATION**

In these tough times it is more important than ever for companies to engage with their responsibilities and help the UK meet carbon targets, ensure a healthier workforce, invest in skills and their local communities, as well as improve their competitiveness. Responsible business practices also make good business sense as they often reduce costs. Yet, assuming that post-consultation the Coalition Government implements the Operating and Financial Review (OFR), this will only institute more challenging reporting requirements (than those of the current Business Review) for companies that have a turnover higher than £6.5m or have a balance sheet of more than £3.26m.

Furthermore the OFR may not deliver its desired outcome with this target group of companies. Government will have to keep a close eye on the concern raised by some that strengthening the reporting requirements risks driving a compliance approach, rather than either a business strategic or Big Society-inspired approach, to the role an enterprise plays in its social and environmental context.

What is clear however is that the current OFR proposals will still leave the vast majority of the 1.25m UK private and public companies without a government-recognised voluntary or mandatory Corporate Responsibility (CR) reporting framework.[i] Large enterprises, those with 250 or more employees, account for only 0.4% of UK companies.[ii] The majority – about 60% – of the UK working population are employed by SMEs. SMEs deliver about 50% of the economy's turnover.[iii] This is why if the Government wants actual social and environmental impact from its responsible business policies it is essential that it reaches SMEs. The OFR may also still leave reduced CR reporting expectations for large unquoted, versus quoted, companies. All this falls short of rising to the responsibility and sustainability challenges of our time.

**TARGET: SMEs VOLUNTARILY SUBMIT SELF-CERTIFIED ANNUAL CORPORATE RESPONSIBILITY REPORT USING SIMPLE GOVERNMENT-ENDORSED FRAMEWORK**

The Big Society and a new era of responsibility should mean that *all* businesses have the opportunity to voluntarily use a simple system of self-certified online reporting to share openly their responsible business practices (process and performance), at the same time as their annual financial return to Companies House.

The most community minded SMEs/ micro-enterprises already report briefly, often through a page on their websites or more sophisticated mechanisms. However a short CR report (equivalent to 1-2 sides of A4) – using a Government-endorsed reporting framework – submitted online each year to Companies House might inspire the SMEs/micro-enterprises that have been slow to respond to the responsible business agenda and start to level the playing field for businesses that already proactively invest in people and planet.

Responsible business practices have the potential to increase the performance and competitiveness of UK business[iv], as well as trust[v] – and a stronger emphasis on CR transparency by Government, as promised in the Coalition Agreement, has the potential to remind some small companies of the need to balance how they exercise their rights and responsibilities. Most importantly, with small businesses most under pressure at the moment, an 'Open Business' Responsibility Deal could help SMEs regenerate ideas, skills and competitiveness to better build for the future – thus boosting the resilience of the British economy.

**PROPOSAL: LAUNCH 'OPEN BUSINESS' LABEL AND ONLINE TOOL PROMOTED BY COMPANIES HOUSE**

1. Companies House send out **Annual Return reminder to all companies that includes link/ promotion for a voluntary web-based corporate responsibility report**.

2. **Companies complete a light touch, online 'Open Business' report** with optional boxes for additional narrative. This would be along the lines of the 'London Better Together' model assessment[vi] (figure 1), with online advice if required from the Small Business Journey[vii] (figure 2) – or professional advisors. *Establishing this web-based tool is the one unavoidable cost of the proposal but it is estimated the website could be developed for £50-100k.*

**Figure 1: London Better Together**

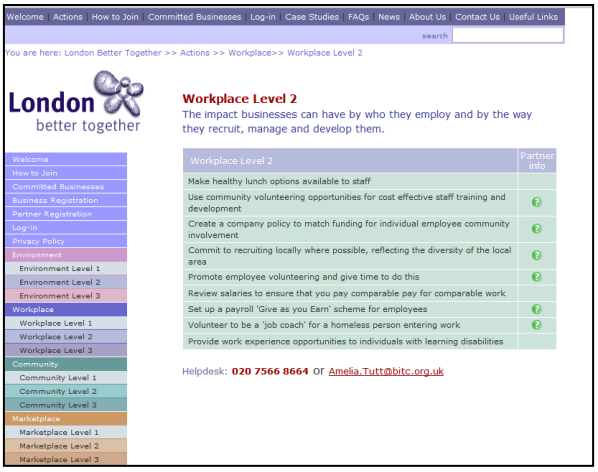


**Figure 2: Better Business Journey resource**

3. **An 'Open Business' label could incentivise companies** to complete the voluntary report by enabling them to put the label on stationery/ websites celebrating their completion of the CR report and/or financial incentives could be considered (for example waiving annual return submission fee to Companies House or making the time required to complete the form a tax deductible expense). Recognition of the label and companies that have completed the submission by **public sector procurers** would also act as an incentive.

4. To maintain credibility of the scheme **an assurance mechanism might be required**. This could be a year two development and an optional extra. It would undoubtedly require an extra fee and network of independent auditors around the country qualified and approved to review companies' reports, as well as a distinction between the label that companies with unaudited versus audited submissions can use. However it is worth noting that given companies would be signing off their submissions as a statement of fact, they might fall foul of the Trade Descriptions Act 1968 if any of the information submitted before using the label was later found to be false by a consumer. This could be highlighted at the point of submission and provide an incentive for companies to ensure their reports are true and accurate.


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## Appendix – Sample Labels

Self-certified

Audited

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[i] The exception is Community Interest Companies (CICs) that already complete a light touch Corporate Responsibility report through their CIC34 annual return: http://www.cicregulator.gov.uk/CICforms/Example%20CIC34%20small%20cos-%20final%20version.pdf

[ii] Inter Departmental Business Register (IDBR), Office for National Statistics, http://www.statistics.gov.uk/cci/nugget.asp?id=1238

[iii] Small and medium-sized enterprise (SME) statistics, Whitehall Pages, http://www.whitehallpages.net/news/archive/4282

[iv] Ipsos MORI/ BITC research on performance against FTSE350 peers of companies participating in BITC's Corporate Responsibility Index (CRI) each year between 2002 and 2009, http://www.bitc.org.uk/media_centre/bitc_news_press_releases/lg_research_2010.html

[v] Edelman Trust Barometer 2010, http://www.edelman.com/trust/2010/

[vi] London Better Together, http://www.londonbettertogether.org.uk/menus.jsp

[vii] Small Business Journey, http://www.smallbusinessjourney.com