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By email: corporate.responsibility@bis.gsi.gov.uk

Dear Mr Greatrex

Corporate responsibility: a call for views

ICAEW is pleased to respond to your request for comments on *Corporate responsibility: a call for views*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

CORPORATE RESPONSIBILITY: A CALL FOR VIEWS

Memorandum of comment submitted in October 2013 by ICAEW, in response to the Department for Business, Innovation and Skills consultation paper *Corporate responsibility: a call for views* published in June 2013

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation paper *Corporate responsibility: a call for views* published by Department for Business, Innovation and Skills on 27 June 2013, a copy of which is available from this [link](#).

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. ICAEW believes that sustainability is one of the biggest challenges facing business today. Our sustainable business thought leadership work examines the action, activities, and obligations of businesses in achieving a sustainable world. We work at the forefront of debate around how markets can promote sustainable business and how this creates opportunities for our members and the wider business community.
5. This response reflects consultation with four ICAEW committees, comprised mainly of ICAEW members, which support specific aspects of ICAEW's technical strategy work: the Sustainability Committee, Corporate Governance Committee, Business Law Committee and Financial Reporting Committee.

MAJOR POINTS

6. We support the UK Government's priority to achieve sustainable and balanced economic activity across the UK, as well as building a stronger, fairer society. We believe the Government's role should be to facilitate this through a supportive legislative framework and by leading by example, not only in its own practices but also through its procurement processes.
7. 'Corporate responsibility' tends to be viewed narrowly, with the social contribution of business seen as an optional side-benefit. However, business can be viewed instead as a mechanism for delivering the goods and services that society needs. A responsible business is then one that does this in a fair and sustainable manner. We would welcome greater dialogue about the role of business in society and what 'responsible' means in this context.
8. Further consideration should be given to the language used, in particular whether 'corporate responsibility' conveys the right message. 'Corporate responsibility' has become associated with modest improvements to existing business practice, whereas the scale of sustainability challenges requires more fundamental changes in the way business is done. The emphasis and language must convey this, and in a way that resonates with business. The idea that 'this is the way business is done' and that there are ways to do it better (such as turning down the heating or recycling paper) has its place, but is in the end an efficiency and operational argument. What is needed is an understanding of where there are environmental and societal limits that are being exceeded and where business models have to change. This is a strategic argument. It is most definitely not about not doing business, but doing it differently and better.
9. Our view is that sustainability/corporate responsibility should not be differentiated as a specialism but should be embedded within an organisation. We believe there is scope for further training and development opportunities for all business professionals, whatever their

role or level of seniority, to help them embrace sustainability/corporate responsibility. We do not support the recognition of sustainability/corporate responsibility as a separate profession as this encourages the notion that it is for specialists.

RESPONSES TO SPECIFIC QUESTIONS

Question 1: 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?

10. The Government could encourage take-up of internationally recognised principles and guidelines by:

- Providing a directory of such initiatives, incorporating an overview of each one, that helps companies identify those that are relevant to them.
- Adopting them in all government/public owned businesses and act on them: the challenge is not the principles but the action that does or does not result.
- Requiring companies supplying the public sector to have signed up to internationally recognised principles and guidelines and demonstrate compliance with them or their equivalent.
- Providing case studies demonstrating how adoption and compliance have improved business performance.
- Encouraging companies to put it on the boardroom agenda.
- Creating a set of champions from across the economy and from large and small organisations.

11. In the specific case of natural capital (ie, the natural resources and ecosystem services which underpin economic activity), research commissioned by the [TEEB for Business Coalition](#), of which ICAEW is a founding member, suggests that lack of harmonisation of methods, lack of government regulation and a lack of customer demand discourage business from changing its approach. A copy of this research is attached and is also available at this [link](#).

Question 2: Should Government encourage more sector-specific initiatives and, if so, how might it do that? Do different sectors need different levels of Government support and involvement?

12. Sector-specific initiatives should only be encouraged if they supplement or provide guidance for existing frameworks. We strongly caution against new initiatives as there is already a large number of them and our understanding is that the business world is looking for consolidation of initiatives.

Question 3: 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?

13. While the idea of a set of metrics common to all businesses might seem appealing, there are a number of challenges associated with it. An examination of other processes that develop common metrics shows how difficult it can be to achieve this, not least as is evidenced by the number of sector-specific sets of metrics that are produced.

14. We do not support a requirement to include social and environmental metrics in companies' annual reports – other than where management deem them relevant 'for an understanding of the development, performance or position of the company's business'¹ – as we believe financial reporting should not be further removed from its primary purpose of clear concise information for investors.

¹ Companies Act 2006 Part 2 s414C

15. The problem with starting from metrics defined by government is that it requires a government department to determine what is material in each context. This approach could also result in companies focusing on improving outputs to meet 'government targets' rather than on actual environmental performance, unless the metrics are carefully designed. For example, a company could simply improve its greenhouse gas emissions KPI by outsourcing its transportation requirements unless the KPI definition precluded this. The fact that this third party operator might be less efficient and create more greenhouse gases would be irrelevant to the company; its reported KPI would have improved.
16. It is unlikely that a set of common metrics is achievable in the near term. Developing metrics should be the end result of a bottom-up process of performance assessment by the management of individual businesses. Each business will have its own unique circumstances, including its own strategy and management approach, and the extent to which it makes use of particular performance management methodologies for social and environmental impacts will vary. It is of course desirable that quantification and valuation methodologies converge over time. ICAEW is a founder of the TEEB for Business Coalition, formally supported by the UK Government in its 2011 natural capital white paper, which is committed to developing common approaches for natural capital reporting. We referred earlier to the lack of harmonisation of methodologies as a challenge for business; over time we see convergence happening, but we believe this will be market driven.
17. We advocate that the UK Government continues to support organisations like the TEEB for Business Coalition that seek to bring together businesses to find answers to the issues this consultation poses.

Question 4: How might businesses demonstrate that the information they voluntarily capture and present is externally verifiable? What might be the costs and benefits of this?

18. Professional accountants are already providing assurance opinions over information that companies are voluntarily including in their annual reports, but not in the financial statements. One good example is the assurance [report](#) provided by EY over the sustainability information published by BP online in 2012. Another is the [report](#) provided by KPMG for Channel 4, the television company, over some of the performance information included in its annual report. In both the Channel 4 and BP examples the same international assurance standard has provided a technical framework for the engagement. The sustainability assurance market has also benefitted from the presence of widely known principles developed in the AccountAbility assurance standard.
19. Companies have engaged in this activity as they believe that the benefits of assurance outweigh the costs and this underlies their commitment to achieving improvements in these areas which legislation commonly cannot engender. ICAEW's [re:Assurance](#) thought leadership programme aims include finding out where assurance services could strengthen confidence in business in these and other areas.

Question 5: How might companies best manage their supply chains more effectively? How might Government help with this?

20. It is not for government to tell companies how best to manage their supply chains. Government can drive responsible behaviour by ensuring that they adhere to best practice in their own supply chain management; by ensuring that regulations are enforced; and by promoting examples of best practice.

Question 6: Should companies be obliged to be more responsible for actions within their supply chain? If yes, how could this be achieved without legislation? What would the costs and benefits be?

21. It is hard to picture how companies could be 'obliged' from a governmental perspective without legislation and similarly hard to picture how this would be put into legislation or enforced, although the Bribery Act potentially provides a precedent whereby a company could be held to

account legally for the actions of a separate organisation. Alternatively, companies could be 'obliged' by shareholders – but to date little has been achieved here. Equally consumers can drive behaviour through their purchasing decisions. The TEEB for Business Coalition research referred to earlier identified consumer behaviour as a major obstacle for businesses acting on environmental issues. However, as consumers themselves, the Government and public bodies could have tremendous force through setting supply chain standards of behaviour for procurement and commissioning contracts. Other non-legislative routes to driving responsible supply chain activity could be through civil society groups, rating agencies and indices (building in to ratings the risks of poor behaviour) but for the most part it is achieved by companies recognising that strategically responsible supply chain management makes business sense.

Question 7: How might Government best support small business to adopt responsible business practices? What particular challenges does Government face in trying to achieve this? How might it overcome such challenges?

22. As the consultation document recognises, many SMEs already have responsible practices, often because they are naturally and better embedded into their communities and geographies than bigger businesses. One significant contribution the Government could make would be to not add to their cost and regulatory burdens. We would strongly warn against additional regulation or reporting requirements for SMEs.
23. In as far as SMEs are suppliers to public bodies and government – and our interpretation of the Social Value Act is that the Government wishes to encourage the proliferation of social enterprises and community companies as suppliers, especially of the health service – then government and public bodies should be working with such SMEs to help build capacity and competency in sustainability.

Question 8: How might Government help SMEs publicise their responsible business behaviour?

24. One way in which government can support SMEs is through celebrating their successes. This could be through case studies and awards. Many sets of awards, competitions and so on already exist and so we are wary of introducing more. However, the Government could review existing ones with a view to endorsing those that recognise SME achievements. For example, ICAEW and Accounting for Sustainability host the [Finance for the Future Awards](#) that has categories for both small and medium-sized businesses, as well as a category devoted to a compelling new idea.
25. Our sense is also that there is a bewildering array of toolkits, frameworks, and initiatives in the market place for companies. What organisations need in particular is something to help them make sense of them.

Question 9: What role does larger business have in supporting smaller business? Is there an imperative for larger businesses to support smaller businesses? How might Government enable this?

26. One key way larger businesses can help is by providing capacity building to SMEs, for example by working with SMEs in their supply chains, but also by being prepared to learn from them. In addition it is important, that large businesses resist the temptation to pass the costs of their own sustainability activities along the supply chain to SMEs. This might be through: charging more for goods and services to offset sustainability investments; placing additional burdens on suppliers to improve products' overall sustainability footprint; or squeezing the margins suppliers make in order to preserve their own. The Government and public bodies can ensure that, in their own procurement and commissioning from big businesses, benefits are passed on along supply chains.

Question 10: What are the main barriers to businesses contributing more to social outcomes?

27. The key barrier is one of mind-set about the role of business. Generating profits and delivering social outcomes need to be seen as going hand-in-hand. Businesses can achieve both objectives by producing goods and services that people need for a high quality of life, and doing this in an efficient, effective and sustainable way (a way that preserves the ability of the environment and society to go on delivering these goods and services into the long-term). This requires a change in the perceived purpose of business, alongside the development and widespread adoption of innovative approaches to doing business. At present, positive social outcomes are often seen as an additional and optional side-benefit of business activities, rather than as an integral part of them.
28. We are increasingly witnessing a narrative that talks about social outcomes as well as or in place of profit when assessing performance of a business. The Social Value Act might be identified as one example of this. Such an approach involves asking challenging questions about companies' business models, ie, are they producing things that people need and want, in an efficient, effective and sustainable way? It involves looking at alternative models that already exist for delivering goods and services – such as those of social enterprise, state provision and not-for-profit organisations – and using these as a starting point for developing new business models that deliver both social outcomes and profits.
29. Other areas of relevance include the duties of company directors and the fiduciary duties of those who manage others' money. The Companies Act 2006 requires directors to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the likely consequences of any decision in the long term and the impact of the company's operations on the community and the environment. While these duties are designed to cater for changing the expectations of society, there remains a popular perception that ultimately the focus of directors will be maximising shareholder profits. If this perception is shared by company directors, it could act as a barrier to businesses contributing more to social outcomes. Some education to address this misperception may be desirable. There is also some confusion around the interpretation of fiduciary duties of investment intermediaries. We welcome the review of this subject that the Law Commission is currently undertaking for Department for Business, Innovation and Skills.
30. Another potential barrier is the legal doctrine that rules that criminal liability for corporate bodies depends on establishing that the 'directing mind and will' of an organisation was at fault. This can prevent businesses from being held responsible for their actions under the law, in the way that individuals are held responsible. Removing this doctrine could result in a lot less anti-social (and indeed criminal) activity being carried out by or for companies or their people. We understand that removing it would be relatively easy and is arguably well overdue. The Bribery Act provides a good (if partial) model to follow.

Question 11: What more could Government do to make it easier for businesses to support social initiatives? How might Government showcase innovative approaches that others might consider adopting?

31. What we are talking about is changing some of the fundamental norms of business practice. While legislative changes might be part of the answer to taking account of society's needs becoming standard practice, governments must also have consistent messaging on this in its different policies and across departments. Governments also must act in the way it invites business to behave. So, for example, there is little point in one department emphasising socially and environmentally responsible behaviour as central to the business model and key to business success, when other areas appear to be trapped in the either/or debate on sustainability, saying that that the country can't afford to go green yet and maintaining tax breaks for fossil fuel companies. Furthermore, do government departments and public bodies in their business affairs – purchasing and commissioning decisions – take account of social outcomes?

Question 12: How might the relationship between business and society be strengthened? How might Government support this?

32. The perception that business and society are separate needs to be addressed. Business is a social activity. It is impossible to imagine society without business or the reverse. We think this question is alluding to the view that this sense of the two being part of the same whole has somehow been lost and that people are increasingly seeing business as self-serving or serving the interests of a few. Business is, in some cases, seen as exploiting the resources of the whole for the few, for example in the media and public reaction to various companies minimising their UK corporation tax liabilities.
33. Public trust in business and in the finance sector is low. Public trust in government is also very low. In particular, there is a loss of faith in leadership² and this is in danger of becoming a crisis. This is, we believe, not only socially and economically corrosive but is a systemic issue that we need to address: are the market arrangements in place driving sustainable and socially desired outcomes or are they failing to achieve these and by some way? Addressing these requires a holistic and systemic response. Rebuilding trust is going to be key to rebuilding social capital and economic success.
34. ICAEW has sought to raise these issues in the thought leadership programme of its Financial Services Faculty *Inspiring Confidence in Financial Services*; the *Finance Innovation Lab* project with WWF-UK; *Audit Futures*; our symposium series *Crisis without a legacy?*; and the work of its Tax Faculty. Changing attitudes to business are also reflected in our recent corporate governance paper *What should companies be responsible for?*. This emphasises the importance to companies of achieving a business purpose and behaving in a socially acceptable way rather than just generating profits and shareholder value. We believe that the Government should be encouraging a wider and more inclusive discussion of these issues, seeking to build consensus around change and action. It should encourage greater interaction and better communication between businesses and their stakeholders, including local communities and the general public, to build understanding between them, and celebrate and publicise successful initiatives.

Question 13: Is there any comment you wish to make on UK business and human rights generally?

35. We expect the UK to be leading best practice on human rights and for the UK Government to hold businesses to account for any breaches in practice. The highest standards of behaviour should be applied.

Question 14: Should corporate responsibility be recognised as a profession?

36. Paragraphs 39 to 41 of the consultation document relate to two different aspects of professionalism. The first two paragraphs seem to be referring to continuing professional development and we support that. ICAEW currently provides corporate responsibility resources in various forms, including webinars, e-learning, seminars and thought leadership on sustainability. We have also gone to great lengths to build sustainability in to the ICAEW Chartered Accountant (ACA) qualification, embedding it across the curriculum rather than in a separate paper. This accords with our view that sustainability/corporate responsibility should not be differentiated as a separate activity but should be embedded within an organisation.
37. Professional development is key to corporate responsibility being successfully embedded in business. It is relevant to business people of all specialisms and levels of seniority, including those at Board level. For example, professional development activities can foster a holistic understanding of the society we live in, individuals' place within it, the importance of the natural environment, and the role of business in delivering desirable, sustainable social outcomes. In

² <http://edelmaneditions.com/wp-content/uploads/2013/01/Edelman-Trust-Barometer-2013-UK-Press-Release-FINAL.pdf>

addition, knowledge of environmental and resource constraints and risks, and the skills to factor social and environmental considerations into decision making, are relevant for many business people. This may not have been delivered by their previous education and training, given the emerging importance of this area.

38. Paragraph 41 focuses on building a sustainability or corporate responsibility profession, which we do not support. On the one hand the idea of what is a profession and a professional is not straightforward. From our perspective, for this to have true meaning it would involve three elements: the acquisition of knowledge and provision of training; standards of behaviour such as ethics and a commitment to the public good; and belonging to a membership organisation guaranteeing the first two. Otherwise 'profession' is really just a collective noun and not particularly meaningful, or it describes something akin to a private members' club that is purely self-interested and we believe that to be socially and economically corrosive. A further challenge to this is that there is a distinct danger that a corporate responsibility profession encourages the notion that corporate responsibility is for specialists. While specialist expertise is vital, corporate responsibility is relevant and important for everyone working in business.

Question 15: What more can Government, business and others do to improve information available to consumers who want to take ethical considerations in to account? Does this differ between sectors?

39. Perhaps the more relevant question is: how can consumers become more conscious of the needs of society and the planet and reflect these in their buying decisions? In as far as there are consumers who do make such decisions, we would warn against over-loading them with information and against developing new streams of information without first discovering what consumers find decision-useful and what is already being provided. Certainly, with technological advances over the past decade, there are new and effective ways of shaping and delivering such information. The development of mobile phone apps is just one example.

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