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September 2011

Managed environment

Demystifying corporate
social responsibility

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Managed environment

As a movement, corporate social responsibility (CSR) is still a relatively new force in the business world, even if the principles that underpin its key themes – responsibility, probity, sustainability – are not in themselves particularly novel. And, as with the field of corporate governance, this labelled gathering of attributes has become of academic interest to many.

Consequently, these two factors, novelty and academic interest, have conspired to render many CSR debates unintelligible to those unfamiliar with the field. Many in the world of business are prevented from embracing CSR for fear they will be dragged into endless meetings about the ethics of this and that policy or initiative.

The driving force behind this issue of *ICSA Focus* is to demonstrate that the principles which underpin CSR have always been key to the proper running of any good business. All that is needed is to recognise, enhance and properly report on these principles in order for any company to successfully satisfy of the demands of CSR. The fact that many of these demands are in the process of being enshrined in law is further reason to quickly establish or adopt best practice in your own organisation.

Gareth Pearce

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As the concept of CSR gains momentum and popularity, company secretaries have a unique opportunity to help drive the issue with their boards. The key has to be in a change in mindset and an understanding of the potential benefits to a business. The whole area of CSR can then be viewed as an opportunity for investment and not a cost attributable to a compliance exercise.

The implementation of efficient systems, policies and training to obtain useful data and embed CSR throughout an organisation has become more important, with sustainable development reporting considered best practice for large companies and the likelihood that carbon reporting will become compulsory. Companies who take steps now to engage with the subject will benefit, as it seems inevitable that additional regulatory obligations will follow.

This issue of *ICSA Focus* discusses the impact of CSR on the company secretary's role and highlights some of the areas where we are well-positioned to bring real benefit to our organisations.

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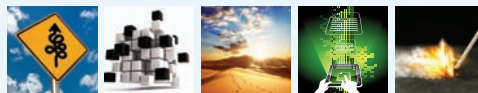


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ICSA FOCUS

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Finding your way



Getting started in the jargon-rich world of corporate social responsibility can be difficult. **Hannah Blackmore, Marco Murray and Jackie Granger** look at the basics.

Corporate social responsibility (CSR) is increasingly gaining attention from both governments and investors. As observed by the Association of British Insurers in their practical guide, 'demonstrating a response to CSR in its entirety remains voluntary, however, pressure from a side range of stakeholders is making it almost implicitly essential to maintaining a license to operate.'

Beginnings

The term 'corporate social responsibility' came into widespread use in the early 1970s, although various aspects of social responsibility were the subject of action by organisations and governments as far back as the late 19th century, and in some instances even earlier. The view that social responsibility is applicable to all social bodies emerged as different types of organisation, not just those in the business world, recognised that they had responsibilities for contributing to sustainable development.

The key principles of CSR are accountability, transparency, ethical behaviour, respect for stakeholder interests, respect for the rule of law, respect for international norms of behaviour and respect for human rights. The elements of CSR reflect the expectations of society at a particular

time, and are therefore liable to change as society's concerns and expectations of businesses change. Early notions of CSR centred on philanthropic activities such as giving to charity, policies relating to labour practices and fair operating practices which emerged a century or more ago. Other areas,

such as human rights, the environment, consumer protection and countering fraud and corruption, were given more emphasis over time, as they received greater attention.

The amount of material is available on the subject of CSR is overwhelming, making it a difficult concept to define. Emphasis on CSR for business has increased over time as a result of domestic legislation such as the Companies Act 2006, and driven at a global level by instruments including the Rio Declaration on Environment and Development, the Johannesburg Declaration on Sustainable Development, the Millennium Development Goals and the International Labour Organization Declaration of Fundamental Principles and Rights at Work.

The multiplicity of regulations, initiatives and trends involved with CSR have led to a large body of jargon related to the subject – even official reports fail to capture consistent definitions of CSR. The concept has been expressed in a variety of different ways: corporate citizenship, business ethics, or the Triple Bottom Line (TBL). This is further compounded by the differing approaches, challenges and opportunities that are faced by individual companies and how CSR contributes to that company's goals.

CSR has been variously defined by many organisations:

- **European Commission:** 'A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.'
- **Department for Business Innovation and Skills:** 'Corporate Responsibility can be defined as how companies address the social, environmental and economic impacts of their operations and so help to meet our sustainable development goals.'
- **Microsoft:** 'We recognise that Corporate Citizenship involves the voluntary integration of economic, social and environmental considerations into a company's operations.'
- **Tesco:** 'Corporate responsibility at Tesco is about doing business in a socially responsible and sustainable way.'

The definition of CSR has evolved over time, as companies, governments, institutions and pressure groups all add their own input. It could be said that CSR has taken on a life of its own in this respect. Unfortunately, while this healthy rate of involvement and input has meant that CSR is constantly renewing

CSR has taken on a life of its own.

and re-examining its goals and purpose, it does mean that new comers to the field are often overwhelmed with jargon. To help you get over this, we've put together a quick guide to some of the more frequently used terms, which you can find in the boxout on the page opposite. ■

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Jargon buster

Article 13: the 13th Article of the Convention on Biological Diversity, Rio Earth Summit (1992), which describes the right that everyone has to freedom of movement and residence within the borders of each state.

Balanced scorecard (BSC): the balanced scorecard is a strategic management tool that mixes succinct financial and non-financial data to provide an overview of the businesses' performance against predetermined performance targets.

Benchmarking: the comparison, ranking or rating of the performance of different business processes, units or companies against similar activities elsewhere, often external organisations, with the aim of identifying ways of improving performance.

Business ethics: also known as corporate ethics, this is a catch-all term that describes the behaviours and attitudes of a company in relation to peer businesses, social groups and other elements of the company's operating environment.

Corporate citizenship: an approach that emphasises the social responsibilities of an organisation towards its business environment above and beyond those mandatory responsibilities specified by law (i.e. paying tax, reporting and so on).

Environmental or economic impact assessment (EIA): the identification and assessment the environmental or economic impact of a project. Best practice is to ensure that the public's opinion is also heard before the authorisation of a project takes place.

Environment, social and governance (ESG): shorthand term for the three main areas of concern when measuring the sustainability and ethical impact of a company, business or investment.

Fair operating practices: concerns ethical conduct of an organisation's

dealings with other organisations, e.g. relationships between organisations and their partners, suppliers, contractors, competitors and the associations of which they are members.

Full cost accounting (FCA): accounting that aims to develop methods that include all the key costs of a project or activity including, for example, the social cost as well as the economic costs.

Globalisation: the process by which the world's economic concerns are unified through reduction of barriers to international trade such as tariffs, export fees, and import quotas. It also describes the process by which regional economies, societies, and cultures have become integrated.

Greenwashing: the deceptive or misleading use of green marketing in order to promote the perception that a company's policies or products are environmentally friendly.

ISO 26000: an International Standard developed to provide guidelines for organisations that wish to act in a socially responsible way.

Kyoto Protocol: an international agreement, linked to the United Nations Framework Convention on Climate Change, that requires signatory countries to reduce greenhouse gas emissions.

Millennium Development Goals (MDGs): a set of benchmarks to be achieved by 2015, the MDGs provide concrete, numerical benchmarks for tackling extreme poverty in its many dimensions. The eight MDGs are split into 21 quantifiable targets that are measured via 60 indicators.

Non-financial audit: a process by which a company reviews and ensures the quality of the non- or extra-financial information it provides both internally and externally. Often used in support

of, or to otherwise guarantee accurate disclosure and transparency.

Renewable energy: any energy that comes from natural resources that are not depleted through use such as sunlight, wind, tidal energy or geothermal heat.

Social performance indicators: common social performance indicators include: workforce by employment type, employment contract and region; number and rate of employee turnover by age group, gender and region; percentage of employees covered by collective bargaining agreements; or rate of injuries, occupational diseases, lost days, absenteeism and work-related fatalities.

Sustainable and responsible investment (SRI): taking account of social, environmental and corporate governance issues when making investment decisions.

Sustainable development: a strategy in which a group tries to develop without harming or depleting those economic, social or environmental resources it requires to sustain itself.

Stakeholder: any person, group or organisation that affects or is affected by an organisation and its actions. This includes people both inside and outside the organisation such as shareholders, customers, employees, the local community, as well as suppliers and other business partners.

Transparency: ensuring that the decisions, actions and strategy of an organisation are clearly communicated to all, both in and outside the company, while ensuring that accountability is maintained.

Triple bottom line (TBL): performance of a company no longer aiming for just the financial single bottom line but the pursuit of financial goals, environmental quality and social equity, i.e. the triple bottom line.

» **Further reading** – you can get more detailed information on CSR and related topics from the following websites:

European Commission:
tiny.cc/dbgw

CSR Europe:
www.csreurope.org

Global Reporting Initiative:
www.globalreporting.org

ISO 26000:
www.iso.org/iso/social_responsibility

Department for Business, sustainable development: tiny.cc/nte6s

Rio Declaration
tiny.cc/n0hat

Johannesburg Declaration on Innovation and Skills: tiny.cc/v3hu9

Making the change



With CSR now showing up in legislation, what are your obligations and how can you get it on the agenda? **Sally Porter, Helen Elliott and Jon Carslake** investigate.

Corporate Social Responsibility (CSR) is concerned with how companies take account of the social, environmental and economic impacts of their operations. CSR is not just limited to headline-grabbing issues such as climate change and industrial waste – it is much more than that. It also encompasses, amongst other things, competition, ethics, diversity, human rights, integrity, accountability, sustainability, fair trade, community investment and wellbeing in the workplace.

The Government has an ambitious vision for CSR: 'To see UK businesses taking account of their economic, social and environmental impacts, and acting to address the key sustainable development challenges based on their core competences wherever they operate – locally, regionally and internationally.' With increasing amounts of public attention directed toward CSR, the behaviour of companies, particularly the larger multinationals, is inevitably coming under greater scrutiny. A company is no longer judged merely on its results, but on how it achieves these results. Failing to meet these expectations will directly impact upon a

company's reputation and, as a consequence, its bottom line.

It is not just a question of making the right noises about CSR, but ensuring that CSR becomes embedded in the business strategy, policies and decision-making processes of the company, from the top down. As Gordon Brown said when he was Chancellor of the Exchequer, 'Today, corporate social responsibility goes far beyond the old philanthropy of the past – donating money to good causes at the end of the financial year – and is instead an all-year-round responsibility that companies accept for the environment around them, for the best working practices, for their engagement in their local communities and for their recognition that brand names depend not only on quality, price and uniqueness but on how, cumulatively, they interact with companies' workforce, community and environment.'

This responsibility must be accompanied by accountability through clear reporting, including measurable CSR-related performance targets. This will reinforce transparent and ethical behaviour and encourage the kind of business practices that global investors and other stakeholders have come to expect.

Approach

The approach that an organisation takes to CSR and the relevant reporting requirements will obviously depend on its size, nature and sphere of operation. A multinational mining company will have very different CSR obligations to a small retail company – proportionality and relevance are key concepts. Nor should it be forgotten that CSR can pay dividends; effective CSR practices will bring positive outcomes for organisations, for example, closer links with customers will lead to a greater awareness of their requirements and therefore increase sales. Similarly, investing in the well-being of a workforce will improve productivity.

The UK is increasingly seen as one of the leading contributors internationally on thinking and practice in CSR. Our regulatory framework has long advocated the importance of CSR; the Turnbull Guidance on Internal Control, originally introduced in 1999, makes clear that risk assessment should not be limited to financial risks but also detail those risks related to 'health, safety and environmental, reputation and business probity issues.' Recent developments in UK law and regulations take this further.

The Government, through the Department for Business, Innovation and Skills, has stated its commitment to providing policy through best practice guidance and, where appropriate, regulation and fiscal incentives for companies to report on their economic,

Mapping the system

Before implementing any new CSR policy, it is important to establish what is already in place. The following questions should provide a good start to the process.

- What policies and procedures are already in place? This should include looking at all business units and group companies.
- Are the policies consistent throughout the organisation? Given the broad nature of CSR, this could be a daunting task for a larger, multinational company, with operations across the globe and potentially different CSR requirements in different countries of operation.
- Are these policies and procedures being adhered to throughout the organisation and how is this measured?
- What reporting has been established – by who and to whom? How frequently? Is follow-up action taken on issues highlighted in these reports? Are the communication flows working?
- Are CSR considerations embedded into boardroom practices and processes, such as the risk management process and strategic discussions?

social and environmental impacts. CSR is a central theme within the Companies Act 2006, including the principle of 'enlightened shareholder value', the duty of directors to promote the success of the company, and the requirements of the enhanced business review. The UK Corporate Governance Code includes the principle that, 'the board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met.' This focus is also evident through the introduction of similar ideas in other recent pieces of legislation, including the Climate Change Act 2009, the Bribery Act 2010 and the Equality Act 2010.

Consideration

Having established that it is not sufficient to merely pay lip service to CSR, the big question is how can the company secretary ensure that CSR receives due attention and consideration by the board?

A good starting point is for the company secretary to map out what is already in place in relation to CSR. They will be vital in this process, given their knowledge of the organisation as a whole. See the *Mapping the System* boxout for the kinds of questions you should be asking in order to establish what processes and policies are in place.

Mapping the current position will then enable management to identify what the organisation is not doing and to carry out a full risk assessment. The company secretary will then be able to assist in the determination of whether the organisation needs to take particular action in order to comply with the regulatory requirements, and also to consider any additional, voluntary CSR activities that may be implemented.

Larger organisations may delegate CSR to a risk management committee or appoint

a specific CSR group to develop guidelines and initiatives. Alternatively, a number of smaller CSR committees could be created for different areas, such as ethics, health and safety, or social or environmental issues. Within the organisation, there will need to

- provide positive public exposure for the company; and
- getting a lead on competitors – this could either make it a trailblazer (more positive PR) or, if other companies are already ahead, showing that you can keep up.

The company secretary has a key role in the production of the annual report and should guide the board on the appropriate disclosures in relation to CSR. In addition to ensuring that the obligatory disclosure requirements are met, the company secretary should encourage the board to focus on those elements of CSR that are most relevant to the company and of real interest to shareholders and stakeholders. Care should be taken to avoid, in the words of the Financial Reporting Council (FRC) 'padding' and 'immaterial clutter' that is not essential to providing an understanding of the company. While thorough reporting is not being discouraged, the FRC's recent guidance, *Cutting Clutter*, reinforces the message that additional non-obligatory disclosures should be avoided unless these truly add value.

The AGM can also provide a forum for a company to demonstrate the importance

You need to set out the benefits of having CSR policies in place.

be responsibility for aligning and overseeing the various CSR projects developed by the organisation and its business units to ensure co-ordination, coherence, conformity of approach and reporting of those initiatives. In smaller companies, the company secretary is likely to have a more direct role in a company's CSR activities.

The implementation of CSR requires engagement from the board level if it is to be recognised as an opportunity for investment and not a cost. There have been many studies that suggest those companies that do invest in CSR do see a return on their investment. To this end, the company secretary should set out the benefits to the company of having appropriate CSR policies in place, including:

- consideration of energy usage, waste management and reducing the 'carbon footprint' could all have positive financial benefits to the company;
- increased positive profile with investors/potential investors and other stakeholders (asset managers are increasingly disclosing that a company's CSR policies are one of the things they look at when making investment decisions);

that it places upon its CSR responsibilities. Interestingly, two FTSE 100 companies have recently taken this a step further by seeking shareholder approval of their CSR reports in a separate resolution at their AGMs. Obviously a company needs to be very confident in both its CSR activities and reporting practices to take this approach!

■ ■ ■

The company secretary can add real value to a company by ensuring that CSR is truly embedded in the board's agenda and decision-making practices, and by offering support and guidance on translating these agenda items into practice. This should foster a strategic and fully integrated approach to CSR. Without this kind of integration, there is a real risk that CSR will become merely a voluntary compliance exercise. ■

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Keeping track

With carbon reporting likely to become compulsory for all companies in the medium-term, **Ben Murray** and **Karen Mecz** look at best practice in the field.



Ten years ago, was anyone asking for your businesses' carbon footprint? These days, companies simply cannot avoid questions about environmental performance.

Mandatory reporting regimes such as the Carbon Reduction Commitment (CRC) and European Union's Emission Trading Scheme (EU-ETS) require public disclosure, and UK regulation on mandatory carbon reporting for the rest of the business community is looking likely. Clients need to know that your business manages its environmental performance responsibly, and questions about a company's carbon footprint are becoming increasingly common in tenders and public ranking schemes. Carbon is no longer a niche topic, and most businesses are expected to report on it with due care and attention.

As a consultancy specialising in carbon reporting, we at Carbon Smart have seen both the good and the bad sides of carbon footprinting. Standards do exist and should be followed, but they all allow quite a degree of flexibility. Knowing what is good to do and what should be avoided can be difficult – some of the lessons we've learned from this are included below to help you find your way to best practice reporting.

The basics

If you've never done any reporting before, the World Resources Institute's *Greenhouse Gas Reporting Protocol* (2004) is recognised as the leading publication providing guidance on how to approach your carbon footprint. The first critical aspect of your carbon footprint is setting the right reporting boundaries. This means choosing which parts of your business will be included in your report and which won't. Three approaches are widely accepted:

- **Equity share approach:** you report on the operations that are owned by the business.
- **Financial control approach:** you report on the operations that your business controls financially or from which your business gains financial benefit.
- **Operational control approach:** you report on those operations over which your business exerts operational control.

Choosing the right approach can be tricky – in companies with a more complex

organisational structure, difficulties can often arise with assets or operations which are jointly owned, or operated by third parties or partner organisations. It can be difficult to determine whether or not they fall outside of your boundary. We have frequently found reports that mix approaches and, while the approach you take is up to you, it is critical to remain consistent. We generally find that as you move down the list of approaches your carbon footprint will get bigger – if you're unsure which approach is right then for most, the financial control approach is a good place to start.

With the boundary set, it still may not be possible to report on 100 per cent of the operations included – when starting out in carbon reporting or when reporting for organisations that are in flux, it can be difficult to gather good data for the whole business. If this is the case, it is better to report on parts of the business for which you can get good data and 'hold your hands up' and admit where data is missing. Stating that you are reporting only on 90 per cent of your organisation and setting out the reasons does not harm your reputation, quite the opposite – transparency is a very important principle in all the reporting standards.

Which emissions?

The standards require a minimum disclosure. Your carbon footprint must include those emissions from sources that your business owns or controls (e.g. emission from an industrial process, on-site boilers, or from company vehicles) and those emissions released as a result of your consumption of purchased electricity, heat, steam or cooling. These are called Scope 1 (direct) and Scope 2 (indirect) emissions, respectively.

Many companies also choose to extend their reporting into a further set of indirect emissions (Scope 3), reporting on activities outside their direct control, but which result in emissions. This can include emissions caused by the production of purchased goods, by the use of sold products and services, from waste generated by your company, or those from business travel and so on. We recommend that you simply report on those activities that are representative of a significant part of your business. For example, an office-based business with lots of international client travel may choose to include flights emissions. Conversely, an association publishing research papers may report paper-based emissions. A number of initiatives exist to help businesses report their Scope 3 emissions – both the Department for Environment, Food and Rural Affairs (Defra) and the World Resources Institute can provide further guidance.

Pitfalls

Quite simply, the most difficult part of carbon reporting is data collection. It is easy to underestimate how difficult it is to get good quality, reliable data from across an organisation. In our experience it can often take three or four years of reporting for an organisation to really get to grips with its data collection. The key challenges are poor data sources and lack of ownership.

Poor data

This is a reality in many organisations – it's often simply very difficult to get the right numbers – missing bills or partial data are commonplace; staff sometimes want to help and guess at numbers; or you have to rely on data from less reliable sources such as building agents or suppliers. Getting a straightforward system in place and training key staff is vital. Consider collecting data throughout the year, not just in a flurry at year-end. Your system should allow your staff

about and in fact, we find that companies that explain how they are improving their process get plaudits for openness.

Consider having your internal work reviewed or verified externally. Early on this can help avoid common pitfalls and once your system is working, external verification can add real credibility – you wouldn't report unaudited financial data, why would you report unverified carbon data?

Putting your carbon footprint to work

Taking your carbon footprint into the public domain is the next step. Placing a carbon footprint in an annual report sends a clear message that you take your environmental impacts seriously and reporting to the Carbon Disclosure Project is becoming an obligatory step for many public companies. However, including your carbon footprint in your sustainability report may allow you to expand your carbon story and discuss what actions you're taking to manage it. Don't blow your

It can be difficult to gather good data for the whole business.

to rate the quality of their data source and to spot-check, verify and correct the data provided. Having done all that, adding data quality information to your carbon report is something we would highly recommend.

Lack of ownership


It requires many people from across the organisation to help – the finance team, transport, building managers, procurement, sales, operations and so on. Successful data collection needs to be driven from the centre, but many companies give the task to a junior member of staff, often with little prior experience with carbon footprinting and even less leverage. As with most company-wide projects – carbon reporting needs clear, visible leadership to ensure cooperation at all levels.

The calculation

Ensuring that your company's carbon footprint is being calculated according to the correct guidance and using the right emissions factors is often an area where reporting teams can become unstuck. Practice does make perfect – it can take a few years to get the whole data collection and reporting system up and working. As a result, in the first few years it is likely that your carbon footprint will change significantly as you improve your data sources, reporting procedures, and transparency. This is not something to worry

own green trumpet too hard – everyone finds it difficult to report well and an honest appraisal of your company's environmental performance will generate a positive environmental perception of your company, without drifting into the treacherous waters of greenwash.



Innovative means of communicating your carbon footprint can also support your marketing efforts and transform your service delivery into a sustainability-forward approach. Web-based reporting offers opportunities to customise your environmental message by placing reported metrics next to relevant sections of your service offerings, or providing supporting data to environmental claims. All this can help you to step ahead of competitors to demonstrate to your clients a full and responsible business approach. Armed with this best practice approach, it's time to look at your reporting programme and consider how you're going to start measuring your carbon footprint. ■ 

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CARBON SMART CASE STUDY

Rathbone Brothers PLC



Rathbones is a leading independent provider of investment and wealth management services for private investors, charities and trustees. As part of their commitment to improve their corporate responsibility reporting process, Rathbones undertook to calculate and publish their carbon footprint in their annual *Corporate Responsibility* report.

Rathbones recognised that setting in place the right processes was critical for achieving good data quality. Consequently, the first few years of calculations were conducted on a materiality basis to include the majority of regional offices, but exclude some very small leased premises, for which little data was available.

Data for Scope 1 and 2 emissions was improved through site visits to the main regional centres, which evaluated energy use on site and helped to establish data collection procedures. For Scope 3 emissions, Rathbones chose to report on business travel. The data for travel was initially quite varied, with different offices collecting travel expenses in different ways.

The team working on the data collection of the carbon footprint included a variety of staff throughout the organisation – senior management, regional office directors, and facilities managers were involved. With the help of Carbon Smart, Rathbones engaged with staff in reporting offices to develop a standardised data collection process, creating templates and establishing procedures for each year's data collection.

As the programme has continued, the data quality has measurably improved year-on-year, testament to the efforts and focus of the team. This has allowed Rathbones to include smaller offices in the scope of reporting, and begin to robustly measure their progress in all areas.

Metrics

To report on their carbon footprint, Rathbones use a mixture of visual and written information. A graph of the current year's overall carbon footprint allows readers to visualise the contribution of each emissions source, and a table breaks down key carbon metrics according to scope, allowing performance comparison in each area to previous years. Rathbones also provides a series of intensity metrics, which allows readers to understand the carbon footprint in relation to the business' size and operations over the past year. This clear approach is recommended by the Department for Environment, Food and Rural Affairs, and provides easy access to the company's complex carbon footprint.

The organisation has changed size and shape over the past few years, presenting new challenges in how to record and monitor comparable changes in Rathbones' carbon footprint. By following internationally recognised carbon reporting guidelines from the World Resources Institute, and always being both honest and transparent in their approach to carbon footprinting, Rathbones have maintained a sound reporting process. This has been independently recognised by being twice nominated for the ICSA Hermes Transparency in Governance Award for best sustainability and stakeholder disclosure by a FTSE 250 company.

The bigger story, however, is that by placing public value on their carbon footprint, Rathbones now have additional information and incentives to help improve the environmental outcomes of their everyday actions. The carbon footprint figure has been an influencing factor in the decision to outsource the central IT servers to a more efficient data centre. Benefits are felt from small changes in staff travel choices, and Rathbones are reviewing alternatives to paper reports which would help the company communicate to stakeholders in a more carbon friendly manner.

Rathbones is an example of a company that has embraced best practice in carbon footprinting. By taking time to get the data right, ensuring the process is robust and adheres to international standards, it is able to publish a sound dataset which can be used to communicate their environmental performance, and to measure their own progress year on year.

	2009/10	2008/9	2007/8 (Base year)
Office floor space (m ²)	11,461	11,461	10,496
Number of employees as at 31 December	689	683	673
Scope 1 (Gas, company cars)	261	267	308
Scope 2 (Electricity)	1,745	1,763	1,688
Scope 3 (Business travel)	433	491	505
Total CO ₂ e (tonnes)	2,439	2,521	2,501
Intensity measurement CO ₂ e (tonnes) per employee	3.54	3.69	3.72

Doing more with less

Capita is working hard to reduce its carbon emissions – improving its environmental management, and trying to make a real difference.



Action

Capita has launched an energy reduction programme – working hard on reducing business travel, waste and energy usage while improving its energy efficiency. In 2010, the company managed to reduce the carbon intensity of its

UK operations by 3 per cent, and for its Group operations by 1.7 per cent, including its Indian operations.

Capita's facilities managers have taken on the role of 'energy champions', improving the energy efficiency of its buildings and monitoring the progress of its energy savings. Where buildings

are not under its direct control, Capita is working with the landlords to step-up energy efficiency in any way possible.

These efforts are not confined to Capita's own offices. Through our annual 'green week', staff are encouraged to think about small changes they can make that add up to a big difference. The company works closely with its suppliers, helping them cut their impact through initiatives like data centre consolidation.

Achievements to date include:

- energy savings of 28 per cent since 2006;
- inclusion in the Global 100 Most Sustainable Corporations in the World;
- two divisions have been awarded the Carbon Trust Standard; and
- recognised as a Brand Emissions Leader by ENDS Carbon.

Capita's work has been recognised by the Carbon Trust Standard Company. In 2009, one of its divisions achieved the Carbon Trust standard, which recognises not just sustained emissions reduction, but effective overall carbon management.

Working with the World Land Trust, Capita has already offset 618 tonnes of CO₂ since the start of 2011. The World Land Trust balances carbon emissions through buying ecologically important areas of natural forests under imminent threat of clearance. The land is then used for conservation and biodiversity projects in these threatened habitats.

CAPITA

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Capita Company Secretarial Services have partnered with Thomson Reuters to provide an online Bribery Act training solution. The course requires no previous knowledge or experience of anti-bribery law and regulation and it is appropriate for all employees, at all levels.

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Let's talk

To arrange a demonstration of our online Bribery Act training course, please contact **Madeleine Cordes**, madeleine.cordes@capita.co.uk or call +44 (0) 20 7954 9530

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Future stories



Simon Hodgson and Paul Burke divine the future of sustainability reporting.

It now seems universally agreed that large companies should produce a report on their sustainable development (SD) programmes. By the end of the last decade over 3,000 reports were being produced each year, and that figure was rising fast. But ask the questions ‘why?’ and ‘how?’ and things become much less clear. Are they intended to tell shareholders about the fuzziest types of risk that lie over the horizon? Or should they be an honest disclosure of the company’s global footprint? Should they make employees feel proud to work there?

Or are they a document of record, capturing impact data in forensic detail?

The answer – for most companies at least – is ‘all of the above’. As such, today’s SD report is typically a multi-purpose, multi-user, 60-page document – read cover to cover by only the most dedicated. SD reports may work well enough as a ‘document of record’ but they are much less successful when judged as an exercise in communication. And in a world where communication matters more and more, this suggests that the practice has not yet evolved to its final state. So what will tomorrow’s SD report look like?

Pressures

That is the question posed in a new research report published recently by specialist SD advisors Acona, with support from global brewing giant SABMiller. *Multiple Messages: sustainability reporting in transparent times* set out to investigate all the factors driving non-financial reporting today – from legislation to stakeholder demands – and project them forward to a likely future model. Based on discussions with experts, detailed literature reviews and Acona’s direct experience, the plan was to predict tomorrow’s SD report by identifying the ‘future’ towards which today’s drivers point.

Or so went the theory. In practice the team found a web of competing pressures and demands. For example, should all companies report on a standard set of non-financial indicators (favoured by those wanting to cross-compare and hold to account) or should each define the limited few which might make a material difference to their strategy or performance? Should reporting be integrated with the financials (often seen to give it greater weight and presence) or separated, allowing a more discursive style and a larger readership?

There was surprising little agreement on these and other big questions. For example, even the purpose of SD reporting is not clearly agreed. There are three connected schools of thought: the first is that SD reports are a way of holding companies to account by forcing them to disclose that which they would not otherwise do. The second is that SD reports are a means for companies to explain how they are managing non-financial issues in pursuit of long-term commercial agendas. Finally, the SD teams in companies have identified a set of benefits from the practice of reporting – rigour, internal engagement, stock-taking – that are so strong as to have become almost a third purpose in themselves. Unsurprisingly, one’s perspective on the most desirable report format is strongly influenced by which of these views one takes.

To try and bring some sense from the confusion, the report identifies five possible ‘futures’ for SD reporting:

Boilerplate

The set-piece SD report becomes a formal legal requirement in most major markets with a formalised and standardised structure.

Technology

Increasingly sophisticated applications allow users to pull the data they want from central repositories and the narrative element occurs in real time with users receiving live data feeds via syndication tools, social media and mobile applications.

Investment

Each company has distilled the idea of SD into a handful of strategic or financially material issues. This means that, effectively, the SD and annual report become one and the same thing.

Partnerships

The principal means of SD communication is via partners and other third party schemes, and a company's engagement with such initiatives is seen as the measure of its commitment.

Global

The big question stops being 'what is material for the group?' and becomes 'what matters to our local business in a market?' and companies produce multiple individual reports tailored to the local context.

The report could have simply stopped there, but it became clear that these rather esoteric debates over practice are taking place in the shadow of a tidal wave of social and technological change that is fundamentally transforming the way we communicate. Social media, instant access, handheld devices, syndication, and all-powerful search engines have enabled users to find the content they want, when they want it. At the same time, the fast-rising BRIC economies are developing their own views on the role of companies in society and affecting the way global corporations think.

Acona concluded that the most likely future would contain elements from all five of the models it proposed. The proliferation of channels, the explosive development in technology and the immediacy of new media will lead to a future that is plural, bespoke and continuous – 'plural' in that content will be spread through multiple documents and channels; 'bespoke' in that different audiences

Enter the matrix

SABMiller is a seasoned SD reporter, having produced such disclosures since 1997. One of its SD priorities relates to transparency and ethics, and effective communication with stakeholders. As such the company co-sponsored this research as a spur to improve reporting practice and understand how its own approach should evolve over the coming years. This year's SD reporting has already started down the path mapped out in the report. SABMiller used information from its Sustainable Development Assessment Matrix to enhance its online reporting tool

(www.sabmiller.com/sdreporting) allowing users to explore the performance of individual businesses around the world. At the same time, it produced fewer copies of its SD Report, and slimmed it down, as the majority of content moved online. This online content will be supplemented throughout the year with tailored communications to key stakeholders. In this way, SABMiller is providing a hierarchy of information to stakeholders, in a level of detail that suits them, relating to the issues in which they are interested.

it must ensure that stakeholders' needs for information are being met other ways; only then can it innovate without being accused of backsliding on transparency. Many leading reporters are moving towards dedicated, searchable websites containing footprint data, key policies, processes, and so on. But such reports are never read from beginning to end in a linear fashion, so are unsuitable for purely narrative statements. So if the company wants to tell a story, or present an analysis, it must supplement these models with a narrative element written with the audience in mind. Investors need a crisp discussion of the key non-financial risks and the strategies in place to mitigate them. Fine – put it into the annual report. Employees want to know what the company has done in their locality. Great – put it into the site newsletter. And an environmental non-governmental association wants a thorough run-down on tracing the forest sources of wood and paper. Supply it directly to them.

already a matter of much debate. But the findings of *Multiple Messages* present an even bigger challenge: if there is no single SD report, what is there for the assurer to assure?



Acona's answer is to deconstruct the assurance process by asking what value it provides. Their answer is threefold: assurers provide external credibility, they check the facts, and they are a 'critical friend' suggesting ways for the reporting company to improve.

These three functions do not need to be found in the same provider, and the assurance itself can also be plural. Key disclosures on financially material topics should be subject to the same level of audit as the annual report in which they are included. But other communications could gain credibility from the direct comment of independent stakeholders; perhaps posting their views alongside the company's write up of a particular case study or partnership. Fact-checking could be done internally, by making better use of internal audit, or structured management sign-off and attestation.

Multiple Messages does not aim to be the final word on assurance – or indeed on the topic of SD Reporting in general – but it does aim to start a debate. Large corporations are at the forefront of many social and environmental problems and have many innovative and exciting responses. But their communications on the topic can be stodgy and dull. Acona hopes that this report will encourage those companies that wish to innovate in pursuit of a better more effective future. ■

Leading reporters are moving towards dedicated, searchable websites.

will require different content; and 'continuous' in that companies will be expected to communicate regularly and the development of the story over time will become as important as the facts themselves.

Radical

So what should those of us charged with overseeing the production of an SD report do differently next year? *Multiple Messages* ends by exploring some of the implications. It first suggests that before any company can step away from a single annual set-piece report,

One immediate question that this model presents is over the future of assurance. A view exists that to be credible, a company's SD report must conclude with an 'assurance' or 'verification' statement; a commentary by a suitable third party on the report's contents. Precisely what such commentary should contain, or what constitutes 'suitable' was

» About the authors

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Up in smoke

Could dematerialisation finally put a match to share certificates, or are shareholders still bound to paper?

Gareth Pearce investigates.

We've been living with the idea of a paperless office since the term was first coined back in 1975. That's 36 years we've dreamt of offices free of teetering stacks, and 36 years we've had to come to terms with the idea that if we're honest, that dream is a utopia, never to be achieved. But that's not to say we haven't made great steps in the right direction. Or have we? A recent report estimated that London offices get through as

much 3.25 million tonnes of paper every year. That's a quarter of all UK paper consumption, contributing to the UK's position as the world's fifth-largest consumer of paper and board. If anything, businesses are now using more paper than they were when the idea of the paperless office was first mooted.

This is not good news for businesses trying to cut their carbon footprint. There are steps that listed companies, in particular, can take to cut their paper usage and improve their carbon footprint. We spoke to David Cooper,

Associate Director, Executive Projects at Capita Registrars, about some of the benefits of going paperless.

Against the grain

Just how many mailings does the average issuer have to send out every year?

'Starting from the top,' says David, 'the first thing they'll get is a share certificate which arrives through the post. Then, they may get a welcome pack from the company that will contain other good things about the company. They're one-offs. The regular mailings that you get are going to be dividends, and your proxy card together with, possibly the annual report and accounts. Effectively, you're likely to receive about three to four mailings a year.'

'Of course, from the company's point of view, you then have to multiply that by the number of shareholders. Now, this varies,' continues David. 'If you look at our client base, we've got companies with over a million shareholders, down to some very small companies where you've got 50 to 100 shareholders. The average is probably a few thousand shareholders.'

'And paper's not getting any cheaper,' argues David. 'Paper costs rose by about 50 per cent last year. Add to that the costs of printing and postage means that the costs can start to stack up.'

Are you finding that many companies are moving across to electronic means?

'I think you'll see companies wanting to shift gradually,' replies David. 'Companies will want to move their shareholders towards electronic communications for two reasons. One is the environmental considerations; the second is that it considerably cuts down costs. For the larger companies there are some significant savings to be made by organising your mailings in a more efficient and electronic way. There can be some barriers to collecting e-mail addresses from shareholders, but companies are trying a lot of different methods to get shareholders to sign up. For instance, at their AGM this year Barclays did not send out proxy cards to some of their shareholders. They told them that if they wanted to vote they had to go online or ask for a proxy voting card. While this may seem a surprising move, you have to remember that in terms of AGM communication, outside of the regular dividend notices, the postage costs are huge. I'd estimate that it costs around a pound or to so send the deemed consent letter, the proxy cards and all the other bits that go with the notice of AGM. In terms of the benefit for the client companies, if you actually switched that cost to an e-mail then you're saving a huge amount of money, not to mention increasing the number of shareholders who you communicate with electronically. There can be some resistance, of course, but since electronic communications can be tied to electronic payments of dividends, I don't see that being a problem.'

per cent reliable, it's simpler, its safer, why not do it?'

'The benefits are there for both the issuer and the shareholder,' continues David. 'It's the accuracy – both the issuer and the shareholders can be sure the money's there on the due date. You don't get it a week or so later. You don't have to travel to the bank, pay in your cheque and hope it will clear in a reasonable amount of time. And there's no reason that companies should feel tied to one electronic payment system – there are choices. So we needn't actually stick within some of the more traditional payment systems like BACS, there are other payment systems out there, like CREST for example, that are certainly worth looking at.'

Paper tiger

If we can move away from paper in regards to communications and dividends, – has the time of dematerialisation arrived?

'I think there are still some issues around mandatory dematerialisation,' contends David. 'The basic issue for me is that at the moment for the individual shareholder, the certificate-based system is actually a very low cost option. CREST, identified a very simple, relatively cheap way of getting people interfacing with a dematerialised environment – albeit that the proceeds of a trade takes a few more days to actually come through. However, any other dematerialised system that I've come across involves an element of security, which requires a certain amount of communication with shareholders or introduces levels of intermediation that makes communications with shareholders more difficult. So, in order to save the cost of one piece of paper – the share certificate – you can expect several pieces of paper such as notifications of security codes, annual statements and so on.

all electronically. Certificates are now there for investors who don't want to pay broker fees. It's not brilliant, but it works and it's relatively cheap.'

But surely other countries have removed share certificates entirely?

'The US chose to keep certificates and set up the Depositary Trust Company to immobilise the shares to make settlement easier. They have this giant vault in New Jersey, and nearly all the share certificates are held there – they never leave the building. Most of the share trading goes on through the shares that are held in nominee accounts for the immobilised stock, so they never need be moved.

'Now, the problem with the UK doing something like that is that, unfortunately, when the country went through the demutualisations and the privatisations of the 80s and 90s, millions of share certificates were issued – and a large number of those are still out there. If we had had some form of shareholder accounts back then, we wouldn't be having this debate now. Importantly, we had CREST which is a very good system for settlement and also is able to maintain shareholder visibility for issuers.'



Finally then, are there any other issues that you can see with dematerialisation?

'Well, Europe is keen on dematerialisation because there is systemic risk around settlement of rapidly-traded shares,' adds David, 'They argue that because we have share certificates, therefore it's a backward and antiquated system. We actually have a modern settlement system in Europe in CREST, as part of Euroclear.'

'We have a large number of people in the UK for whom share certificates are probably the most cost effective way of doing it at the moment,' continues David. 'You could move them into electronic nominee accounts, but there'll be a lot of resistance around it because politically, there's no will in the UK to do it. The cost benefits, as we see it, are marginal. On a purely idealistic basis, yes, it's a good idea to get rid of paper wherever we can. However, there will be a lot of systems to build, and I'm not sure that the cost of developing them will outweigh the savings that can be achieved. I'm not convinced at the moment. There are better things we can do, in terms of changing shareholder communications, to make them yet more efficient, so that it really does benefit everyone.' ■

I think companies assume that shareholders may resist.

Are electronic payment methods becoming more popular with shareholders, too?

'Yes, but again, I think companies assume that shareholders may resist,' says David. 'I think it's actually more shareholder inertia. It's the same story, the question is how do we encourage shareholders to take this service up? It's how to make shareholders aware of the facilities that we do provide. We're just looking at revamping the dividend stationary that the shareholders receive to making it more obvious. We need to be saying 'Look, you can get your dividend this way. It's 100

'However, what we've seen is that shareholders are moving to broker nominees accounts, because it's simpler for them if they actively trade. So we've seen reductions in the number of certificates we've got coming through our processing office everyday.'

Are you saying that only people who are going to hold shares for a long time will want their share certificates?

'Not necessarily as, most of the big players are already fully electronic,' says David. 'They've got their systems for holding it

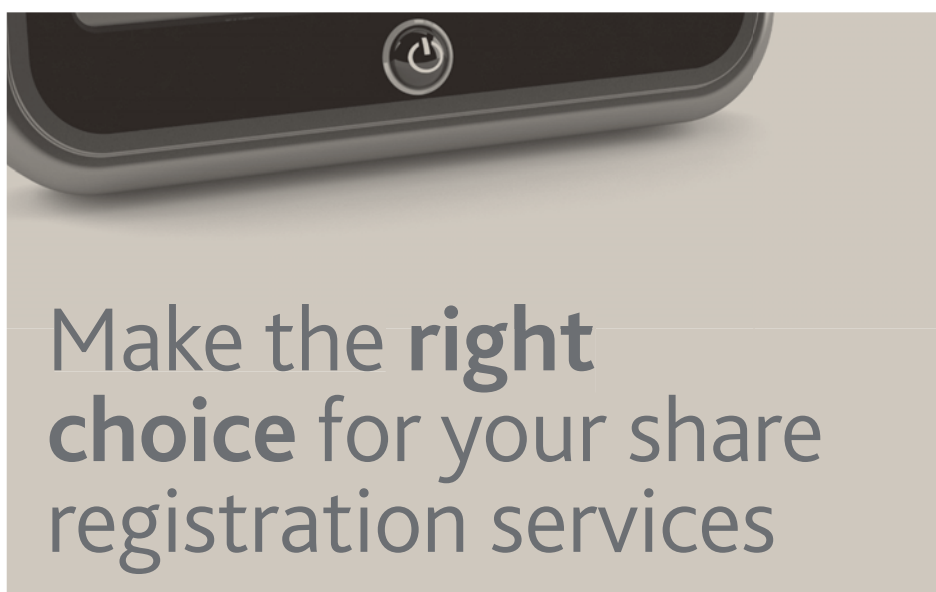
» About the author

David Cooper was speaking to Gareth Pearce.



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