



the inside track #21

Highlighting CSR Issues of the moment

CR challenges for 2011 and beyond?

Before considering how the year ahead might shape up, it is beneficial to consider events taking place in 2010. From a potentially long list, we identified those reasonably high profile events offering some insights and learning opportunities for the future.

- **A new UK government and a new focus** - taking an apolitical stance, it is clear the coalition government has a different approach to the previous administration and has clearly signalled the need for restraint in the public sector and for a devolvement of power away from the centre. The 'Big Society' concept, whilst currently perhaps ill-defined, seems to encourage the principal of more community responsibility. It will strengthen with the Localism Bill, whose aim is to shift power from central government back into the hands of individuals, communities and councils. The combination of these themes focus on people and organisations taking greater responsibility for local issues.
 - **BP Oil Disaster in the Gulf of Mexico** - probably one of the most newsworthy events, and cited by everyone with an interest in challenging companies' behaviour. We know BP spends a lot of time and money on sustainability issues but despite this, the event has had an impact on their reputation and that of the oil exploration business. To their credit though, BP undertook the bill for recompense. Whilst the causes are attributed to several sources, clearly there was a breakdown in communication about the operating standards that BP expected.
 - **WikiLeaks** - whatever views one may have on this organisation and the information it is releasing; there can be little argument that this is probably the biggest whistle blowing incident ever. It highlights the issue of whistleblowing and the wider area of security but in particular the demand for greater transparency.
 - **Carbon Reduction Commitment**- there was a lot of discussion on this subject but in essence the status quo of the process remains; although the profit impact is larger. The government postponed the cash impact of the scheme for a year; but to the shock of many the scheme changed, from a redistribution of moneys collected, to a tax. Carbon management and energy efficiency are permanent themes that will not go away, even though the government promises some simplification in 2014.
 - **Bribery** - the Bribery Act was due to come into force in April 2011. The big concern is the Act has far reaching powers but lacks clarity in defining a bribe or facilitation. A strong element of the Act is that any successful defence is likely to rely on being able to demonstrate that an organisation has taken reasonable steps to prevent bribery taking place. Currently the Government has said it will re-look at the guidance and give 3 months notice before implementation. The Obama administration is making soundings suggesting displeasure if this Act were not to be fully implemented
 - **Non financial reporting** - one of the more surprising announcements of 2010 was the commitment in the new government's manifesto to reintroduce the Operating and Financial Review. They promised a consultation, and the outcome is that proposals on the corporate agenda are promised by Budget 2011. At the same time, the EU issued a consultation on non financial reporting which has just been closed. Questions covered human rights, risk reporting, as well as whether the "include or explain" approach is satisfactory or should all reporting be made mandatory. Both consultations referred to the concept of "integrated reporting", and noted that developments on this will affect non financial reporting.
- Whilst the events generally appear unrelated, they do provide some themes which should be considered for 2011.

TVC comment overleaf >



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Emerging trends for 2011 and beyond

Key phrases emerging from 2010 include:

- Big society/more community responsibility
- Company values and standards - are they properly embedded and risk assessed?
- Transparency
- Environmental issues
- Bribery
- Continued focus on non financial reporting

But what challenges may affect your organisation?

Big society/more community responsibility

Pressure will grow on companies to demonstrate responsible behaviour due both to the Coalition Government's approach and discussions in Brussels, which include ongoing consideration about the transparency of corporate reporting.

Companies may decide to review reporting quality, especially regarding transparency, referred to later. Equally they should review UK community activities in the light of localism, especially if they wish to be seen to be having a strong UK community presence. For some, these changes could represent business opportunities to step in where local government cuts are hitting services.

Risk Assessment

Companies may have to give a more detailed focus on their reporting of risk, including non financial risks, following the Financial Reporting Council's (FRC) January statement that directors should give a clearer, more detailed view of their business's principal risks in annual reports. The concern, from research by the Accounting Standards Board, is current reporting is cluttered with unnecessary, meaningless and overly promotional statements - the research claims over 60% of companies provided insufficient detail about their greatest risks.

Companies should consider how they report in this area and look to expand on current content. Particularly they will need to focus on the non financial risk area, where many companies need to be more comprehensive.

Transparency

The expectation of companies to be transparent in what they do prevails. The FRC position on risk is clear evidence of that. There is likely to be a continuing focus on the manner in which companies

report and undertake their activity. One way companies can improve the way they act (and report) is by undertaking third party reviews. This may involve verification of CSR and non financial reporting, but our experience shows that clients value even a simple review of what they are doing from an independent and objective perspective.

Environmental Issues

There will inevitably be the continued focus on carbon and its reporting. The Climate Change Act's stated intention is to introduce mandatory reporting of Green House Gas Emissions from 2012. Consultation on this is still expected but companies would be wise to review their planning and data collection in 2011 with this in mind.

In addition there is growing interest in water consumption. Water foot printing can be expected to have a higher profile during 2011, particularly in industries where usage is significant either for direct use or in the supply chain.

Bribery

There has recently been coverage in the Press about how the Act would be interpreted, particularly with regard to entertainment and gifts. It was due to come into force in April this year but with this uncertainty, the Government indicate they will review the Act's guidance. The pressure from the USA not to weaken the legislation means companies still need to be sure that they can demonstrate they have taken reasonable steps to prevent bribery taking place in their organisation. Such actions should be in place now. Our view is that a third party review may be an effective approach, as just an internal review runs the risk of accepting what is there and would not ask 'the difficult questions'.

Clearly, whilst 2011 may face economic challenges, for those focusing on reputation and risk in the corporate responsibility world, it will require them to be very alert about CR developments where potential challenges may have significant impacts.

If you would like an objective and impartial view on the items discussed in this newsletter, contact Tony Hoskins - thoskins@thevirtuouscircle.co.uk or Ian Redington - iredington@thevirtuouscircle.co.uk