THE SOCIETY FOR THE ENVIRONMENT
RESPONSE TO THE
CORPORATE GOVERNANCE REFORM GREEN PAPER.

Introduction

1. The Society is a partnership of 24 professional bodies representing individuals practicing in environmental and natural resources management, ranging from chemists and engineers to ecologists and biologists, and ranging from front delivery to the very highest levels of leadership. Our Royal Charter provides us with the responsibility to oversee the award of the status of Chartered Environmentalist, of which there are over 7000. Through the professional bodies licensed to award the Chartered Environmentalist and Registered Environmental Technician professional qualifications, the Society has access to some 500,000 individual members. It is our focus to raise the common standards of competence in individual professionals practicing in natural resources management, to bring a harmony of understanding, but not necessarily uniformity of the diverse views within the bodies belonging to the Society, and to provide leadership in the green cultural contribution to the delivery of sustainable natural resources management.

2. The Society has chosen to answer three questions. However, many of our answers are applicable to questions that we have no specified we are answering. We would also like to draw the Committee's attention to our [previously submitted evidence to this inquiry](#).

Question 9. How should reform be taken forward? Should a legislative, code-based or voluntary approach be used to drive change? Please explain your reasons, including any evidence on likely costs and benefits.

3. Reform should primarily be code-based. We have outlined in the rest of our answers our reasoning for this and how it should be implemented. Wherever possible, the Society would like to see code-based and voluntary approaches to implementing reform and a change in culture. The Society is of the belief that not everything can be achieved through legislation and that culture is a major part of achieving aspirations, especially in regards to the environment.

Question 12. If you think that strengthening is needed how should this be achieved? Should legislation be used or would a voluntary approach be preferable? How could compliance be monitored?

4. [The Camden model](#), focusses the decisions on what is left to personal behaviour, enabling legislation and prescriptive legislation with associated penalties. It would appear that the current boundaries are not enough to constrain behaviours, particularly in privately owned companies. The Society recognises that the Camden boundaries will be different across sectors, sizes and ownership of organisations.

5. We suggest that there is a case for a multi-body review of all governance codes to determine if there is a common best practice which can be applied universally. If this is possible it would make inappropriate behaviour by one sector even more difficult. Such best practice might set the core requirements for all directors but also require that sectoral and even local organisational requirements are defined clearly in addition.

6. By incorporating universal best practice into corporate governance codes, there would be less scope for application of the "comply or explain" framework and in theory, a reduction in risk. For example, if best practice is identified as being universal, then the majority of companies can comply and will be covered by governance codes. There will be less companies having to explain why they are not following the code, and so less companies best practicing.

7. However, burdens should not be reduced just for the sake of reduction.

8. The Society explained this in more depth in our initial response to this inquiry. This can be located [here].

9. The Society would be more than willing to assist in this review.

10. The Society has been strong advocates of adding sustainability to the existing seven Nolan principles of public life. We are using this opportunity to advocate for the extension of these principles to be included in all corporate governance.

11. By extending these principles to corporate governance, the Society believes that this will help foster a better culture within corporate governance without the need for further legislation and burden. The inclusion of sustainability would also see a shift in business practices towards more sustainable ways of working. This would help further bolster any inclusion of sustainability within the future Industrial Strategy of the UK, and set a global standard through our businesses that work internationally.

12. A 2014 study of 180 companies in America over 18-years showed that 'high sustainability' firms have been shown to outperform 'low sustainability' ones in terms of both stock market and accounting measures. A key characteristic in 'high sustainability' companies is that that they have distinct governance mechanisms which directly involve the board in sustainability issues; in 53% of these firms, formal responsibility around sustainability were assigned to the board of directors. In these 'high sustainability' firms, social and environmental issues are not considered to be externalities[1]

13. Alongside how embedding of social and environmental policies and board responsibility for sustainability issues leads to better performance, a key take away from this study is that companies can adopt environmentally responsible policies without sacrificing shareholder

---

[1] Eccles, Robert G. and Ioannou, Ioannis and Serafeim, George, The Impact of Corporate Sustainability on Organizational Processes and Performance (December 23, 2014). Management Science, Volume 60, Issue 11, pp. 2835-2857, February 2014. Available at SSRN: https://ssrn.com/abstract=1964011 or http://dx.doi.org/10.2139/ssrn.1964011

wealth creation. Business to customer, brand driven and natural resources companies which exhibit a high level of environmental and social responsibility are the highest performing sectors from the study.

14. The Society believes that if directors are committed to the principles of sustainability, they are less likely to lack commitment to other issues such as customer and employee care. The aforementioned study confirms our belief. Furthermore, having a Comprehensive Corporate Social Responsibility has been seen to attract employees to businesses.[2] Surveys have also shown that 83% of employees who believe that their organisation has a strong sense of purpose think that their organisation will deliver strong growth and returns, a 34% differential when compared to employees who don't believe their organisation has a strong sense of purpose.[3]

15. We would strongly recommend reading the study, footnote 1, and considering the lessons learned and space for further research.

Question 13. Should non-financial reporting requirements in the future be applied on the basis of a size threshold rather than based on the legal form of a business.

16. The Society believes that all companies, regardless of legal form, should be required to report upon their environmental footprint. Business leaders should be able to be held to account for the potential consequences of their actions.

17. Additionally, the number of companies publishing sustainability reports is indicator 12.6.1 of the Sustainable Development Goals. This shows progress towards Goal 12 (Ensure sustainable consumption and production patterns). The Society believes that Goal 12 is of great importance to the UK.

18. The Society believes that data collected from across businesses in a uniform way will greatly assist Government in planning future policy based on a wide bed of evidence.

19. Furthermore, non-financial reporting by industry can help Government in its reporting of its progress of domestically implementing the SDGs.

   19.1   For example, the Water Industry would be the best placed to report on several of the indicators of Goal 6 (Ensure available and sustainable management of water and sanitation for all). The indicators relevant to the UK that they would be best placed to report upon are:
   6.3.1   Proportion of wastewater safely treated
   6.4.2   Level of water stress: freshwater withdrawal as a proportion of available

---

[2] http://www.pwc.com/m1/en/services/consulting/documents/millennials-at-work.pdf pg.15
[3] https://www2.deloitte.com/content/dam/Deloitte/us/Documents/about-deloitte/us-leadership-2014-core-beliefs-culture-survey-040414.pdf pg.6

freshwater resources

    6.6.1   Change in the extent of water-related ecosystems over time.

20. By utilising the skills and expertise in industry, we can make reporting upon the domestic progress of implementing the SDGs more effective and accurate. The Society identified 49 indicators which industry could provide data for.

21. However, the Society understands that additional reporting is costly and might put too much of a strain upon SMEs. In this case, it might hinder productivity and stifle business. As such, non-financial reporting requirements should be based upon a size threshold reflective of organisational capacity.

22. With support from the Government in making reporting a quick and simple process, whilst maintaining legitimacy in data collected, the size threshold can be significantly reduced. This would require the Government to identify which data should be collected and reported upon (with particular attention being paid to the results of the ONS inquiry).