



the inside track #02

Highlighting CSR Issues of the moment

UK and European legislation zeros in on Company Reporting

The Operating and Financial Review (OFR) for publicly quoted companies is intended to be the directors' overview of their company which gives shareholders key information as to objectives, strategy, past performance and future prospects.

The Government view is that the key driver of good corporate governance will be increased shareholder engagement. It believes it will be through shareholders exercising increasingly informed influence over companies that their expectations and those of the wider community will best be met. Yet, shareholders can only bring their influence to bear if they have clear and meaningful information about the main drivers of a company's past – and - future performance. The OFR is designed to arm shareholders with that information

Where directors believe it is relevant to the future prospects of the company, they can also choose to include information on the company's policies towards its employees, customers, suppliers and on its impacts environmentally, socially and within the wider community.

The OFR will not only impart important information about the company, it will also be a basis for assisting people to take decisions; as members buying, selling or holding their shares; exercising voting rights; or seeking to influence the decisions of management. Or, they may be decisions others – employees, customers, suppliers, and society more widely – would wish to consider that might affect a company's performance and thus its value.

So, in deciding what should be included in their OFR, directors will want to ensure that they have explored and understood the agendas - not only of members, but also of any other stakeholders that are likely, directly or indirectly, to have an influence on the performance of the business and, as a result, its value. Compiling an OFR that will meet both their present and future expectations of a company represents a sea change in reporting.

It is a task that few companies will approach with complete confidence, always assuming the requisite data currently exists. Even for quoted companies that have been producing OFR equivalents for a while, the Regulations will impose some new requirements both in the detail and legislatively. The OFR will carry similar legal sanctions and penalties for directors as poor or dubious accounting practices do at present.

One thing is certain; the OFR cannot be viewed as merely a retrospective, box-ticking exercise. Whilst it moves reporting from simply covering historic information to now include future prospects, it also clearly seeks to place an emphasis on reporting a company's performance in discharging its responsibilities to society. Quality reporting to meet all these requirements will require very careful selection of the many key variables that need to be included as well as the appropriate level of detail.

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How might the OFR affect Corporate Social Responsibility (CSR) practitioners?

Firstly, there is a risk that some directors may take a blinkered view on what they regard as 'material' to their business. By way of example, one FTSE Finance Director we spoke to considered environmental issues as being largely irrelevant to his business. Others might take a similar view on the materiality of their community activities.

Secondly, Directors may adopt a "lowest common denominator" approach towards the OFR, leading to a debasing of CSR reporting. This may be particularly the case if a company operates in a market where its biggest competitors are overseas quoted companies, who would not be required to complete an OFR report. Equally the re-emergence of leveraged buyouts by venture capitalists could lead to quoted companies, who are CSR leaders, moving into private ownership without the need to produce an OFR report – although this may well change in the final version of the regulations.

Thirdly, data is often not collected on all the activities being undertaken by a business that could be material to the company's performance in this broader definition and, hence, to the OFR. Our experience shows that gathering the relevant information into a database has proved to be a significant task for many companies but that, once done, a broader picture of materiality can and often does emerge.

To prepare for the OFR, you should have a leadership plan developed in readiness for which we suggest the following strategy:

- Ensure a specific person has responsibility for identifying and collecting the non-financial information that will be required for your report - and has the support of the Board.
- Develop an engagement strategy/dialogue with key external bodies to ensure you are aware what they think is 'material' about your business – helping to offset any potentially adverse reactions.

- Undertake some sector and/or peer comparisons, to improve understanding how to best present and position your company. In particular, understand how your peers demonstrate their own understanding of materiality from their current reporting. This will help your dialogue with your directors about content, which needs to be incorporated in the OFR.

- Develop reporting mechanisms for OFR/CSR information. We are constantly surprised that, even now, many companies still struggle to pull together their information sources and content. The OFR provides a good platform for developing these mechanisms within a consistent corporate framework.

The OFR may well prove to be a challenge to implement completely in the short term, but given other pending developments, such as DEFRA's new Sustainable Development Strategy, and the DTI's consultation on "CSR – a draft international strategic framework", CSR issues are both here to stay and will have a growing profile.

In the Autumn we will be receiving the response form the EU Commission to the report from the EU's Multi-stakeholder Forum on CSR and TVC's Brussels office will be reporting on what this means for you. Expectations amongst close observers still indicate some form of regulations may be forthcoming

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