

APPENDIX B: USS LTD'S POLICIES ON SOCIAL, ENVIRONMENTAL AND ETHICAL (SEE) ISSUES

When USS Ltd adopted a “learning by doing” approach, it recognised that there would be an on-going cycle of testing things out and making policies on the basis of lessons learned. Thus, one recommendation from the Learning Review was to systematise USS Ltd’s policy approach to social, environmental and ethical (SEE) issues.

The primary advantage of a more systematic approach is more consistency to USS Ltd’s interaction with investee companies by its fund managers. A secondary advantage is that by making public what it has learnt, USS Ltd may assist other fund managers short-circuit their own learning process and help ensure that companies are not faced with multiple and competing investor expectations.

Recommendation

- USS Ltd should review its corporate governance policy on SEE management to include reference to the OECD guidelines for multinationals.

New draft

Social, Environmental and Ethical (SEE) Management

USS Ltd believes that in order for a company to be run in the long-term interests of its shareholders, it should have good relationships with its employees, suppliers and customers, and behave responsibly towards the environment and society as a whole.

Conversely, companies that fail to manage in an adequate manner their material social, environmental and ethical (SEE) risks, are vulnerable to reputational damage and consequent negative effects on factors that can directly affect their financial performance including staff morale, investor confidence, regulatory action and consumer confidence.

USS Ltd therefore requests its fund managers to take company policies and practices on material social, environmental and ethical matters into consideration when undertaking investment research and making investment or governance decisions.

USS Ltd will also seek to use its influence to encourage the companies in which it invests to operate at good practice standards of SEE management in order to protect and enhance the value of its investments.

In undertaking these assessments, USS Ltd will consider companies in context, in relation to their own past performance, the performance of their peers, and with consideration for the particular circumstances, industries and locations in which they operate.

USS Ltd considers it is the role of the board to:

- Make a strategic assessment of the impact of SEE issues on the long and short term value of the business, looking to both areas of maximum risk and maximum benefit;

- Have SEE policies by which the business operations should be managed, together with clear standards which should be in line with national or international laws and standards (including the OECD Guidelines for Multinational Enterprises) and industry best practice standards, whichever are higher;
- Have clear targets and timetables for improvement with appropriate resource allocation;
- Ensure that implementation and ongoing compliance with the policies is audited and, where appropriate, independently verified;
- Be fully transparent in disclosing its material SEE actions and impacts; and
- Appoint a named board member or members to have overall responsibility for this function.

USS Ltd expects FTSE 100 companies, and encourages all other companies, to report on their policies, impact and progress on any material SEE issues to analysts and investors at least once a year. Where FTSE 100 companies do not have such a report and do not have plans to produce one in the near future, USS Ltd will vote against accepting the report and accounts.

Company management is best placed to decide what material means for a particular company at a particular stage of development and there are many sources of professional guidance. USS Ltd is of the view that, in general and when considering FTSE 100 companies in particular, there should be a presumption in favour of reporting on policies and performance with regard to the following:

- employee relations (including health and safety, core labour standards and human capital issues);
- major environmental issues (including environmental pollution and carbon exposure);
- major reputational issues (including bribery/corruption, corporate political influence and environment, social, human rights or economic impact on local communities).

It may well be that company management do not consider one or more of these to be material risks, in which case USS Ltd would be pleased to hear from companies as to their reasoning why.

Where companies do not fully disclose their material policies and practices or where USS Ltd has questions or concerns about the approach management is taking, USS Ltd will engage in a prioritised manner, to re-assure itself that there are no grounds for concern or to encourage best practice standards.

OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises (the Guidelines) are recommendations addressed by governments to multinational enterprises. Although they are “voluntary” principles and standards for responsible business conduct, they have been endorsed by all OECD countries (and some non OECD countries). Moreover, the OECD is developing “soft” implementation processes, including a dispute resolution process. They are, in legal terms, the most authoritative statement of what OECD governments expect from their companies and have more formal status than the OECD corporate governance principles.

The guidelines state that “Enterprises should take fully into account established policies in the countries in which they operate, and consider the views of other stakeholders. In this regard, enterprises should:

1. Contribute to economic, social and environmental progress with a view to achieving sustainable development.
2. Respect the human rights of those affected by their activities consistent with the host government’s international obligations and commitments.
3. Encourage local capacity building through close co-operation with the local community, including business interests, as well as developing the enterprise’s activities in domestic and foreign markets, consistent with the need for sound commercial practice.
4. Encourage human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees.
5. Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to environmental, health, safety, labour, taxation, financial incentives, or other issues.
6. Support and uphold good corporate governance principles and develop and apply good corporate governance practices.
7. Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate.
8. Promote employee awareness of, and compliance with, company policies through appropriate dissemination of these policies, including through training programmes.
9. Refrain from discriminatory or disciplinary action against employees who make bona fide reports to management or, as appropriate, to the competent public authorities, on practices that contravene the law, the Guidelines or the enterprise’s policies.
10. Encourage, where practicable, business partners, including suppliers and sub-contractors, to apply principles of corporate conduct compatible with the Guidelines.
11. Abstain from any improper involvement in local political activities.”