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THE GOOD CORPORATION

AND ITS ROLE IN MODERN SOCIETY

Agenda

- 18:30** Networking
- 19:00** Welcome from Merryn Somerset Webb
- 19:10** Alistair Phillips-Davies
- 19:25** Colin Temple
- 19:35** Panel discussion with Merryn, Alistair and Colin
- 20:30** End

To get involved in the
online debate, tweet using
#GoodCorp

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The business case for the good corporation

Welcome to this debate on the nature of the good corporation. It is the second of such events organised by SSE. I don't claim to know the answer to what makes a good corporation in modern society but I am certain the question needs asked.

It might be easier to ask what makes a bad corporation? To customers, bad corporations damage the environment, avoid their taxes and pay poverty wages. But if a corporation does no harm, does it make them a good corporation? I suspect that might not be enough.

For me, decent companies abide by the law but responsible companies contribute positively to the society and the environment that enabled them to be successful in the first place. So, in theory, I understand that it is part of my job to add value in the widest sense. But in practice, what are the things we should focus on?

So far, we've come up with some answers to that. I am certain that SSE's customers want to receive first class service and affordable energy. I know they expect SSE to pay its taxes. I am also confident they want the people we employ to earn a decent living.

But I also think they want me to be mindful of some of society's greatest challenges. One of those challenges is the problem of long-term youth unemployment. SSE and Barnardo's have been working together since 2007 to give unemployed young people a supported opportunity to get on the career ladder. New research published by SSE demonstrates the overwhelming return on that investment – not just for the individual and society, but for SSE too.

Which brings me to my final point: the business case for responsible conduct.

It is true that SSE's Barnardo's programme tackles a societal problem but it also provides SSE with a rich pipeline of talent. If we didn't have that we'd lose out. We'd simply recruit from traditional pipelines and we'd end up with a workforce that looks and sounds exactly like the one we've already got. One that is nowhere near diverse enough to reflect the society we serve.

SSE's progressive anti-tax avoidance position tells investors that we manage risk and the Living Wage brings about a higher employee retention rate and lower absenteeism. In other words, each of these interventions has direct business benefit, and is giving SSE the chance for long-term, sustainable profit growth.

I hope you enjoy the contributions this evening and I look forward to hearing the debate that follows.

Alistair Phillips-Davies
Chief Executive, SSE

The Good Corporation Panel



Merryn Somerset Webb

Editor-in-chief, MoneyWeek

Merryn was a senior scholar at Gonville and Caius College, Cambridge, where she gained a first class degree in History and Economics. She then became a Daiwa scholar and spent a year studying Japanese at London University.

In 1992 Merryn moved to Japan to continue her Japanese studies and to produce business programmes for NHK, Japan's public TV station. In 1993 she became an institutional broker for SBC Warburg. Returning to the UK in 1998, Merryn became a financial writer for *The Week*. In 2000, *MoneyWeek* was launched and Merryn took the job of editor; she recently became *MoneyWeek's* Editor-in-chief.

Merryn has published a book on personal finance for women, *Love is Not Enough: The Smart Woman's Guide to Making (and Keeping) Money*. She also has columns in the *Financial Times*, the *Sunday Post* and *Saga* magazine and has contributed to *Marie Claire*, *Woman & Home* and the *Spectator*. Merryn is a regular and experienced TV and radio commentator on financial matters.



Colin Temple

Managing Director, schuh

Colin has been part of the successful fashion footwear chain for over 20 years. During this time he has experienced periods of both growth and decline in the high street.

He helped establish schuh's multi-channel credentials as an early e-commerce adopter and has been part of a number of management buyouts. More recently he managed the sale of schuh to Genesco/Journeys which has put company firmly on a global footing. He is also a great ambassador of youth, ensuring young people play a vital role within schuh.



Alistair Phillips-Davies

CEO, SSE

Alistair became Chief Executive of SSE on 1 July 2013. He has over 18 years service with the Group, having joined Southern Electric plc in 1997. Prior to that, he worked for HSBC and National Westminster Bank in corporate finance and business development roles in London and New York.

As Chief Executive, Alistair is responsible for delivering the strategy of the Group and leading on safety; operational performance; and development of the people and culture agendas in SSE.

He has extensive experience in the energy sector and in growing businesses in the Wholesale, Retail and Enterprise and other commercial areas of SSE. In addition he has led many of the Group's most significant transactions since the merger in 1998 which formed the Group.

He is a chartered accountant and former Chairman of the Energy Retail Association. He became Vice-President of Eurelectric last year and is a Director of Energy UK, as well as a member of the Accenture Global Energy Board.

Money Talks:

Investing in responsible companies adds up



SSE asked MoneyWeek Editor-in-chief, Merryn Somerset Webb, to give her independent perspective on the role of the investor.

There is one thing on which almost all private investors now agree: too many listed companies behave pretty badly.

They focus on nothing but the short-term. They have incentivised their top management to care more about quarterly profits than about long-term durable success. They take advantage of the UK's super generous welfare state to pay pathetically low wages (knowing the taxpayer will make up the difference to survival levels). They spend far too much time and energy figuring out how to avoid paying anything like what most consider a "fair share" of corporation tax. And when challenged on anything and everything they either bury protestors in corporate guff or they point out that they are working within the existing legal framework.

This isn't how shareholder capitalism is supposed to work. After all, technically speaking, private investors are the major end owners of listed companies. And those companies should therefore behave as those private investors would like them to behave. So why don't they? The answer – and the problem – is one of middlemen.

In 1969, 47 per cent of the UK stock market was directly held by individuals and 30 per cent was held by institutions (unit and investment trusts plus pension funds and insurance companies). By the mid-1990s those numbers were 20 per cent and 60 per cent respectively. The latest numbers from the Office for National Statistics show the percentage held by individuals down to 12 per cent.

So big fund management companies have become the effective owners – and the new controllers – of listed companies. And their incentives aren't the same as those of private investors.

In far too many cases they want to outperform in the short-term, not the long-term (their bonuses are paid annually – not every 10 years). They don't want to see companies spending lots of money investing for the future. They don't want to see big wage bills (employee loyalty is an

issue for the long-term). They aren't much bothered about a company's environmental policy (not having a good one is a long-term risk) and they'd rather take a quick pay out from seeing firms merge with each other than encourage the competition that makes economies healthy in the long-term. There are exceptions to these rules of course – some fund managers are clever, long-term and fully conscious of their obligations to their end investors. It's just that most aren't.

So how can we work to change this?

There are various initiatives underway. Reports have been written (the Kay Report has been the big one in the UK). Groups have been formed (The 300 Club is a mega powerful group of global investment managers who claim to be working for "immediate action" to change the behaviour of their industry). Companies have started paying a little lip service to being good citizens (Google "Corporate Social Responsibility" and prepare to be bored). And grassroots lobbying organisations have popped up everywhere (I like this one <http://www.asyousow.org>).

But the truth is that none of this do-goodery will help much in the end. Only one thing can do that: money. If fund managers figure they can make more money out of

companies that behave well they might really start putting pressure on companies to behave well.

So here's some good news for you. There is now a reasonable amount of data to suggest that good behaviour is rewarded by the markets. A Harvard Business School study of the 16 years from 1996 showed that companies that adopted sustainability policies outperformed those that did not by nearly five percentage points a year. That's real money (and hence real bonus money).

At the same time there is a strong demand from investors for funds that invest in companies with good environmental, social and governance (ESG) approaches: globally some 30% of institutionally managed portfolios now have some kind of ESG mandate.

With passive investing on the rise and fees in the industry under pressure, the big fund managers may find they can charge a little more for activist ESG investing than for ordinary investing. That's a win for them. If they then find that they can perform better by focusing on it properly too, we will all win.

Valuable People

Understanding SSE's human capital

The total value of SSE's human capital has been valued at:

£3.4bn

This corresponds to an average per employee of:

£173,000

Most companies claim their people are their greatest asset. Last year SSE became the first company in the UK to measure the economic value of the people they employ.

SSE's human capital report 'Valuable people' estimates the value of the skills, talent and capabilities of employees – their productive capacity – while they are employed by SSE. This value was estimated at £3.4bn using an approach developed by SSE alongside professional services firm PwC.

Valuing the total human capital of all SSE employees is interesting, but it should be instructive too. SSE's human capital analysis has helped the company create new understanding of how to develop and grow its human capital value.

There are a large number of factors which will impact an organisation's human capital over time. Some of these variables can be directly influenced by human resource strategies, for example recruitment drives and investment in training programmes, whereas others can only be partially influenced by the organisation, for example retention rates and the productivity of employees.

As part of the 'Valuable people' analysis, SSE also measured the return on investment from two key training schemes: the Technical Staff Trainee (TST) and the apprenticeship programmes. Training increases the skills and knowledge of individuals, and consequently their productivity, but it's more than just the company that benefits from this associated higher level of human capital. The return on investment is split between three groups: individuals, through higher earnings; employers, through higher productivity; and wider society, through increased income taxes.



Barnardo's Works

Changing lives, growing value

There are many different ways to grow the talent and skills of employees. New research by SSE highlights the value of investing in a typically undervalued group in society: unemployed young people.

SSE has invested over £1m and helped more than 230 individuals join the Barnardo's Works youth employability programme. With around 70% of participants going on to employment, training or further education after their placement at SSE, it is one of the most successful youth employment programmes in Scotland.

The initiative gives unemployed young people, most of whom have been claiming Job Seekers Allowance for more than six months, the opportunity to get back into the labour force on a six month work placement. The participants come from a wide range of backgrounds, facing many different barriers to employment including a lack of opportunities, insufficient skills and qualifications, and extremely challenging personal circumstances. The individuals get the chance to demonstrate their ability and talents, receiving higher wages as a result, and society gains from a reduced fiscal bill and an increase in income tax payments. For SSE, we gain the value of different experience, perspectives and knowledge – a more productive and profitable workforce.

SSE estimated the return on investment over a five year period for each of these three groups from every £1 invested in the programme:



The results make a very compelling case for business to intervene in one of society's bigger challenges. Diverse and inclusive organisations are more likely to be effective, innovative and commercially successful. This means diversity of every kind at every level, from the gender or race of employees, right through to their backgrounds and the paths that led them to SSE.

SSE's 'Valuable people' report and the new Barnardo's Works report, 'Changing lives, growing value', can be found online at: www.sse.com/beingresponsible/reportinganddata/

What is Fair Tax?

The Fair Tax Mark is about UK business leading the world in setting a new independent standard for responsible tax behaviour – from the smallest shop to the biggest multinational.

The Fair Tax Mark is a label for companies and organisations that are proud to pay their fair share of tax. Whenever consumers see the Fair Tax Mark they can be assured that an organisation is open and transparent about its tax affairs and seeks to pay the right amount of corporation tax (but no more) at the right time in the right place.

Fair Tax businesses acknowledge, assume responsibility for, and are transparent about the impact of their taxation decision-making and policy. When it comes to tax, they are accountable to stakeholders as well as shareholders. Businesses say Fair Tax Mark is: popular with their employees and customers; has been useful when dealing with HMRC and bidding for contracts; demonstrates that their organisation is socially responsible; and shows their business's commitment to giving back to the community.

Find out more about accreditation at www.fairtaxmark.net or get in touch: info@fairtaxmark.net, 0161 226 2929

Playing by the same rules when it comes to tax

Brandon Rennet, Managing Director of Finance, SSE

Today's consumers are savvier than ever before. In an increasingly connected world, the way companies behave is under the spotlight more than ever. Customers want the best deals, but equally want to be sure these aren't the result of businesses exploiting their position within society.

After all, taxes pay for public services and businesses rely on public services to function and thrive. Within my industry for example, we benefit from our engineers having access to a high quality public education system. We gain from having policed communities where our meter readers and boiler repair people can carry out their work safely. We travel thousands of miles each year on public roads which enables us to sustain a healthy electricity network and make sure the lights remain on. And, of course, we value the security of knowing we have the NHS to help our employees when they need it most.

So if we all benefit from strong public services, why should hard working people pay their fair share of taxes if some businesses search for loopholes to duck their corporate tax responsibilities? And

what can responsible businesses do to show this isn't their approach to paying tax? This is where the Fair Tax Mark comes in.

The Fair Tax Mark provides an independent stamp of approval which demonstrates businesses pay their fair share of tax. These businesses must have publicly ruled out the use of tax havens or creation of artificial profit shifting arrangements, must publish a 'country by country' report to show how much they earn in each market and how much they pay to each tax authority, and lastly must publish – so it's open to scrutiny – all the detail behind their tax liabilities.

SSE does all of those things and as a result we are the only FTSE100 company to have gained the Fair Tax Mark accreditation. For SSE, paying tax on our profits is simply the appropriate way to pay back into the society that enabled us to earn the profit in the first place. The Fair Tax Mark is an attitude of mind as much as a set of tax rules to obey.

It's easy to get lost in the complexities of tax legislation, but the guiding principles of the Fair Tax Mark ensure a level playing field the public can have confidence in. 2016 is an opportunity for big business to earn back trust and show we are not only in it for ourselves.

WHAT IS THE LIVING WAGE?



The Living Wage is £8.25 per hour for the UK, outside of London. It is calculated according to the cost of living.

The Scottish Living Wage Accreditation Initiative provides employers in Scotland with free and confidential information and advice on implementing the Living Wage, as well as formal recognition via accreditation as a Living Wage Employer.

Employers who commit to the Living Wage can be offered accreditation as a Living Wage Employer. Accreditation awards the 'Living Wage Employer' mark and other positive reputational benefits.

Accredited Employers have reported improvements in staff retention, productivity, absence rates as well as positive impacts on recruitment, after implementing the Living Wage.

Find out more:

Tel: 0141 353 0440

Email: accreditation@povertyalliance.org

Web: www.scottishlivingwage.org

CASE STUDY

“A GROWING MOVEMENT”

Rachel McEwen, Director of Sustainability, SSE, and Chair of the Scottish Living Wage Leadership Group

When SSE became an accredited Living Wage employer in September 2013 there were 322 companies and organisations signed up in the UK. But in Scotland there wasn't even ten – SSE was the eighth.

There was a clear need to create an additional Scottish focus, so the Scottish Living Wage Accreditation Initiative (SLWAI) was born in April 2014.

In the first year things took off and it was a struggle to keep up with demand. By January 2015 there were 100 Living Wage employers in Scotland. Now, just over a year on, we are tantalisingly close – within 5% – to reaching our March 2016 target of 500 Scottish Living Wage employers.

Scotland: the fastest growing Living Wage region

This means, with about 22% of the UK total, Scotland has become the fastest growing region for Living Wage accreditation in the UK – by

miles. We have moved from Scotland accounting for around a quarter of its proportionate share to about two and a half times it. There are now Scottish Living Wage restaurants, bars, call centres, nurseries, universities, city councils and even science festivals.

This has all been achieved by the culture of celebration the Living Wage has worked so hard to establish – in Scotland as well as right across the UK. The relentlessly positive nature of the Living Wage makes this a movement employers want to join. And from my perspective in Scotland, it is clear the SLWAI has handled potential Living Wage employers well. Confidential support and advice, with no strings attached, has allowed nervous employers to make the first steps with confidence.

Watching the Living Wage in Scotland develop at such a rate has been remarkable but, with around 6 million workers in the UK still earning below the Living Wage, there's a long way to go. The way employees are treated matters to consumers and it needs to matter to businesses too. Companies like ours that can pay the Living Wage, should.

NUMBER OF SCOTTISH LIVING WAGE EMPLOYERS:



Productivity and diversity in the emerging economy



SSE invited Scottish Council for Development & Industry (SCDI) CEO, Ross Martin, to provide independent comment on the economy-wide perspective.

What will a sustainable growth economy look like over the next 20 years? That question is a bit of an unknown, with the only certainty that it will not look like it has over the past 50-60 years.

Influential people are now talking about the dangers of short-termism in ways we haven't heard before. People are waking up to the need for long-term thinking and creating a more stable platform for the economy. That inevitably leads to sustainability and a place sometimes called 'the emerging economy'.

"People are waking up to the need for long-term thinking and creating a more stable platform for the economy."

Two factors will help to shape the future of the UK economy and by extension the Scottish economy. Firstly, a policy change which recognises that different parts of the economy have different roles to play. The second change is a people change. The referendum turn-out in Scotland, for example, showed that people

want to get involved in shaping the country and the future of the economy.

So you have a policy approach of decentralisation and a people approach of involvement at a grass roots level. The big question for policy makers and corporations is matching those things up in actions. We begin to see the bigger picture, but must also acknowledge the underlying UK economic structural weaknesses.

"There is a slow but growing understanding that we are not utilizing all of our human capital, that we have been neglecting a lot of untapped skills and talent out there... By turning to traditionally overlooked sections of society, like unemployed youth, there are massive sources of potential opportunity."

Up to now, the underlying weaknesses of the UK economy have been masked beneath policy changes and structural transformations. At the core we have extremely poor productivity – the UK is 20-30% behind OECD competitors – as well as a lack of innovation despite our world class universities and institutions. Underpinning all this, the emerging economy will need low carbon infrastructure and digitisation to equip us with the kind of sustainable tools needed to take on these big challenges.

I want to focus on the productivity puzzle. In the private sector, there is a slow but growing

understanding that we are not utilizing all of our human capital, that we have been neglecting a lot of untapped skills and talent out there. Businesses like SSE are essentially throwing that old way of thinking up in the air and, with things like their human capital valuation study and their investment in Barnardo's Works, seeing the bigger picture – to me that seems fabulously enlightened.

So the penny has dropped: by turning to traditionally overlooked sections of society, like unemployed youth, there are massive sources of potential opportunity. This realisation has been driven partly by competitive nature, partly by scarcity of resource, and partly by Corporate Social Responsibility. Over time though, this "do-good" factor is becoming less important – recognising the value of growing your human capital and the value in having a workforce from all sorts of backgrounds makes business sense. And this, in turn, makes sense for wider society and everyone in it too.

"Whether it is education, sport, public services, or private corporations – where you have a mix of people and backgrounds you get higher performance."

We're moving away from an economic system designed for mass production which denies differences and treats individuals as cogs in the machine. Slowly we are getting democratisation of knowledge, increased personalisation and

a realisation that diversity in any setting is a good thing.

If you look at schooling then there is evidence that a mix of individuals and backgrounds creates the conditions for more people to achieve better grades. So whether it is education, sport, public services, or private corporations – where you have a mix of people and backgrounds you get higher performance.

What SCDI has realised for a long time is that on-the-job skills development, building up other personal and corporate capacity, is an essential part of business. Things like modern apprenticeship programmes and other employability schemes – at SSE and elsewhere – are helping to establish the vocational track as a robust alternative to higher education. These twin track routes need to have equal status.

So, to conclude, this all sheds light on the answer to my initial question on the transition to long-term sustainable thinking – a huge part of it is targeting the productivity puzzle through diversity, and with it we reduce the prevalence of the other big "P" in our economy, poverty.

Ross Martin is CEO of the SCDI, an independent and inclusive economic development network which seeks to influence and inspire Government and key stakeholders with their vision to create sustainable economic growth for Scotland.