Climate Change and Democratic Representation

Can Select Committees influence a company's environmental, social and governance credentials?

Stanley Kwong

Executive Summary

The House of Commons Select Committees (Committees) are a group of MPs from different political parties tasked with examining policy issues, holding the government and companies to account, and making proposals for new laws. An area where Committee assertiveness is particularly evident is in relation to topics concerning sustainability. This is in part driven by large scale environmental disasters that warranted Committee investigation. For example, inquiries concerning BP's oil rig catastrophe (by the Energy and Climate Change Committee) and Volkswagen's diesel emissions scandal (by the Environmental Audit Committee) drew widespread public and media interest. Public awareness on climate change issues has further elevated Committee work in this area, with a particular emphasis on scrutinising companies that hold poor sustainability practices that affect wider society. From an economic perspective this is typical of a negative externality, with Professor Stern (2008) calling global warming '*the greatest market failure of all time*'. However, the climate crisis may be more pronounced than a solely economic failure. In particular, it may also highlight fundamental deficiencies and systemic failures in the governance of liberal democracies. In this context, the emergence of mechanisms of deliberative democracy, such as the Climate Assembly UK, have grown in popularity as formats that aim to cultivate citizen representation and participation. Nevertheless, the public continue to look to elected representatives for action, particularly on the gap that remains on private sector company oversight.

This is where the Committees' distinctive investigative approach can be a key component in driving forward the climate dialogue, by adding a unique layer of public and investigative pressure on companies. This paper discusses the potential role that Committees play in providing public accountability on climate issues, with an examination of their current capacity to influence a private sector company's sustainability credentials. Moreover, the paper explores how Committees can adopt industry best practice sustainability principles, such as environmental, social and governance (ESG) frameworks, in their targeted investigation of companies. Besides enhancing inquiry investigations, this opens up the possibility that Committees can directly, and positively, influence a company's ESG credentials. The mapping of ESG factors to various Committee inquiries showed clear overlapping objectives, and a recent EAC oral hearing has demonstrated early signs of ESG effectiveness in company scrutiny. Just as Committees have played an important role in

pushing social reform historically, such as in the abolition of the slave trade, contemporary societal demands around climate change now present an opportune time for Parliament to demonstrate leadership.

About the author

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Part 1: Representation in a Climate Change Era

Select Committees and Democratic Principles

1. '*There is hope - I've seen it - but it does not come from the governments or corporations, it comes from the people. […] And that is the hope, because we have democracy*'.[1] These are not the words of a seasoned politician but from a 16-year-old climate activist, Greta Thunberg, at the 2019 United Nations Climate Change Conference in Madrid. Her presence as a young voice in the climate dialogue not only highlights increasing intergenerational issues of climate change, but also the current dearth in climate leadership. Whilst she actively advances the notion that democracy can help tackle climate change, others have disputed this position. James Lovelock, a prominent environmental scientist, said '*Even the best democracies agree that when a major war approaches, democracy must be put on hold for the time being. I have a feeling that climate change may be an issue as severe as a war. It may be necessary to put democracy on hold for a while*'.[2] Nevertheless, the urgency of climate change may require the evolution of democratic institutions, such as the House of Commons (HoC), in order to meet these challenges.

2. The HoC is described as a body '*through which the people, through their representatives, speak to government and the body through which government speaks to the people*'.[3] Despite these principles, there is a rising public dissatisfaction towards how parliament has dealt with growing concerns relating to climate change. This frustration not only highlights deficiencies in public engagement, but also a fundamental gap that has emerged in society between democratic institutions, as representatives of the public, and modern sustainability challenges. In this context, Committees may have a critical role to play to ensure public engagement is maximized by '*[moving] beyond simply 'broadcasting' to the public, to listening to the views of the public*'.[4] Within the HoC, the Committees have gained increased prominence due to their capacity to provide both oversight of government as well as company activities. These Committees are typically composed of a small group of MPs with responsibility for scrutinising policy and topical issues. Unlike civil society

[1] (BBC, 2019)
[2] (Guardian, 2010)
[3] (Norton, 2019)
[4] (Institute for Government, 2020)

bodies, they have a strong focus on public accountability, which is played out through transparent public inquiries, a form of parliamentary investigation on specific topics. This is unique and the UK Committee system can be described as a deviant case amongst international parliamentary counterparts, such as Canada and Australia, due to their purely investigative role. UK Committees are known for their specialist and scrutiny role – attributes that have shaped their subject matter expertise on inquiry subjects. This has evolved through progressive reforms (e.g., the 2010 Wright Reforms) that have provided Committees greater transparency and influence. Ultimately, these transformations gave MPs a platform through which to '*exercise their parliamentary, rather than party, muscles by engaging in scrutiny activity geared towards better holding government to account'*.[5]

3. A key principle of Committee work is to base report recommendations primarily on evidence gathered through the inquiry process. As such, one of the main Committee functions is to gather evidence from wide-ranging stakeholders. These are often in the form of written or oral evidence submissions that are provided by various witness types including academics, NGOs, think-tanks, trade associations and private sector companies. The Committee's ability to pool diverse witness perspectives provides a balanced and comprehensive source of information, often leading to higher quality inquiry recommendations. MPs from the various different parties use Committees as a platform to collaborate on cross-governmental sustainability issues, and there is general recognition that cross-party consensus tends to have greater impact on these types of policies. Furthermore, oral hearings can serve the purpose of building a stronger consensus for improving environmental policy at a systematic level, leading to wider impacts across all the sustainability credentials of companies within a particular sector. In theory, these Committee practices and principles make them ideally suited for addressing cross-societal and long-term sustainability issues. However, in reality, the multifaceted and global nature of climate change reveal a number of insufficiencies in the current Committee system – particularly as they pertain to private sector companies.

[5] (Kelso, 2012)

Deficiencies in Climate Change Representation

4. A growing number of commentators view climate change as a prime example of the *Tragedy of the Commons* - the 'over-grazing' of collectively owned open lands by an unstructured group of people.[6] In a similar way, Professor Stern (2008) highlighted that global warming is '*the greatest market failure of all time*'.[7] However, the climate crisis may be more pronounced than a solely economic failure. Commentators also argue that it highlights fundamental deficiencies and systemic failures in liberal democracies.[8] As the physical impacts of climate change intensify, the public are increasing looking to elected representatives for action, particularly on the gap that remains on private sector company oversight. In this context, the Committee's investigative model may prove to be a critical component in engaging the public on their concerns. Their position as a representative platform within the UK can be harnessed to encapsulate the broader sentiments of the public in an era of increasing climate impact. To understand this perspective, one needs to look at some of the fundamental societal issues brought on by climate change. Whilst commonly described as '*a long-term change in the average weather patterns that have come to define Earth's local, regional and global climates*'[9], the catch-all term of climate change frequently includes the plethora of negative impacts on society resulting from these temperature changes. This myriad of impacts affects land biodiversity, marine-based ecosystems and human civilisation (health, security and the economy), and can be felt at global and national level. This makes efforts to reduce global emissions from governments critical to solving this challenge. One of the pinnacle moments in addressing this was in 2015, where an agreement was signed by 195 nations, committing them to '*holding the increase in the global average temperature to well below 2°C above pre-industrial levels*'.[10] This is commonly known as the Paris Climate Agreement.

5. Despite international government recognition of the scale of climate change impacts, there remains growing public discontent regarding how individual legislatures are responding to the urgency of the climate challenge. For example, the September 2019 environmental protests across the UK were perhaps one the largest recorded

[6] (Ansari et al., 2013)
[7] (Stern, 2008)
[8] (Shearman, & Smith, 2007)
[9] (NASA, 2020)
[10] (Intergovernmental Panel on Climate Change, 2020)

demonstrations on climate change, with an estimated 300,000 people taking part across the country.[11] This is not a solely UK phenomenon. A 2021 global poll of 1.2 million people ran by the United Nations Development Programme (UNDP) found that around two-thirds of respondents believed climate change was a '*global emergency*'.[12] This growing public backlash not only focuses on governments but has highlighted the large disconnect in the way private sector companies are acting on climate change, where unsustainable business practices continued to be carried out globally. In a recent analysis of the world's 125 largest fossil fuel companies, the London School of Economics' Transition Pathway Initiative found no major oil, gas or coal company was on track to align their business with the Paris Climate Agreement.[13] This is particularly crucial as any climate solution will require private sector company action. For example, a report attributed over 70% of total global emissions since 1988 were linked to just 100 fossil fuel companies.[14] These findings demonstrate that scrutiny of multinational corporations on their sustainability practices is an important role that Committees need to actively embrace.

6. This type of public-facing scrutiny role is not new to Committees, and historically, the Committee's investigative model has helped pushed social boundaries through integrating stakeholder perspectives directly into policy development. For example, the 1789 Privy Council Committee's inquiry into the slave trade gathered evidence from both slave owners and slave ship operators. The latter were critical in outlining the maltreatment of slaves, which ultimately led to the passing of the Abolition of the Slave Trade Act. In relation to environmental challenges, the Committees underwent multiple rounds of evidence gathering leading to the adoption of the UK Climate Change Act 2008. In recent years, Committees have become further aligned to the various activities of government, which have recognised the multifaceted nature of sustainability. For example, the establishment of the Environmental Audit Committee (EAC) in 1997 specifically recognised the overlapping sustainability challenges that cut across government. More recently, in response in part to climate campaigners such as the Extinction Rebellion group, Committees led the establishment of the Climate Assembly UK (see Figure 1). This was formed based on principles associated with deliberative democracy which emphasises the direct engagement of citizens

[11] (Guardian, 2019)
[12] UNPD, 2021)
[13] (FT, 2021)
[14] (Guardian, 2017)

with policy issues, providing a platform for reflection and deliberation from different stakeholders in society.[15] The direct engagement of citizens in a problem-solving manner has been argued to increase the effectiveness and accountability of representative institutions, ultimately leading to policy development that is more aligned with public values. Specific methods include the use of citizens' assemblies, where a representative group of people are brought together to learn about and discuss climate issues and reach conclusions about what they think should happen. This approach can also address key intergenerational issue of climate change – the idea that policy decisions (or indecisions) made today will fundamentally impact future generations.[16]

In 2019, six Committees jointly commissioned the Climate Assembly UK with the specific task of addressing the question '*how should the UK meet its target of net zero greenhouse gas emissions by 2050?*'. The Climate Assembly UK brought together people from all walks of life to discuss how the UK can reduce greenhouse gas emissions. The Assembly was composed of 108 individuals, who formed a representative sample of the population from a gender, age, education, ethnicity and location perspective. At the Assembly, participants learnt about climate change and how the UK can address it, took time to discuss this with one another, and then made recommendations about what should happen. The outcomes of their discussions were presented to the six Committees in a report in September 2020. The Committees used them as a basis for detailed work on implementing the Assembly's recommendations, with the Business, Energy and Industrial Strategy Committee launching an inquiry on the findings of the Assembly's report.

Figure 1 – The Climate Assembly UK[17]

Public Accountability of Private Companies

7. In upholding the HoC's function as a representative platform for the public, Committees should theoretically be well positioned to scrutinise companies that are not aligned to the climate change agenda. However, the growing footloose power of companies operating globally has highlighted potential deficiencies of Committee work in practice. Whilst their primary responsibility is to oversee government

[15] (Dryzek & Niemeyer, 2019)
[16] See more details from the House of Lords Library's Research Briefing on 'Protecting and Representing Future Generations in Policymaking' - https://lordslibrary.parliament.uk/research-briefings/lln-2019-0076/
[17] See more details at https://www.climateassembly.uk/

activity, there is a growing recognition that they need further scope in investigating private sector companies. This is highlighted by a HoC Liaison Committee report (2012) that stated:

'… *in a growing number of cases, third parties—including private sector bodies—can be the focus of committee inquiries. Increasingly, the private sector is involved in delivering public services, and committees have a legitimate interest in scrutinising how taxpayers' money is spent. And some private sector services are of such concern that the public expect the committee to intervene, filling the accountability gap*'.[18]

Despite progressive reforms, the specific Committee scope and mandate remains unclear in relation to private sector company scrutiny, engagement and influence. This is an evolving dynamic and the Institute for Government highlighted that '*increasingly committees are stretching the boundaries of their delegated role, for example, by investigating the behaviour of private companies beyond the public policy implications of what they have done*'.[19] In addition, the Hansard Society highlighted Committees increasingly act as '*an instrument of accountability in relation to concentrations of power and influence wherever that is found in the public or private sectors*'.[20] Despite this, ambiguity on the Committee's role arises from the mismatch between the Committee's purpose of public accountability and the current shift towards public issues that increasingly concern the private sector. These ambiguities can be traced back to 1979 when the HoC procedures established the modern Committee system and their core objectives. Improving public accountability through scrutiny was at the centre of the modern Committee's establishment as formulated in the HoC Standing Order Number 152 (SO No. 152), which stipulated the Committees objectives to examine the '*expenditure, administration and policy of the principal government departments [...] and associated public bodies*'.[21] In other words, the original conception was to mainly focus on government accountability, as opposed to private sector oversight. This is acknowledged in a recent report by the Liaison Committee (2019), which recommends an additional Committee task to review '*Matters of public concern*'. It recommends paragraph (1) of Standing Order No.152 should be amended to read as follows:

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18 Liaison Committee, Second Report of Session 2012–13, Select committee effectiveness, resources and powers, HC (2012–13) 697

19 Written evidence submitted by the Institute for Government (2019) to the HoC Liaison Committee (SCS0038)

20 Written evidence submitted by the Hansard Society (2019) to the HoC Liaison Committee (SCA0067)

21 Liaison Committee, Fourth Report of Session 2017–19, The effectiveness and influence of the select committee system, HC (2017–19) 1860

'Select committees shall be appointed to examine the expenditure, administration and policy of the principal government departments and their associated public bodies as set out in paragraph (2) of this order; together with matters of public concern falling within the area of competence of those departments and bodies.'

8. Challenges also arise from the various forms of Committee scrutiny, along with the flexibility for individual Committee interpretation of their mandate. For example, Evans (2019) outlined 8 forms of Committee scrutiny including, audit, inquest, research, engagement, career choice, campaigning, performance, and holding to account.[22] To add further complexity, Committees are also made up of various political party representatives and motives, with Geddes (2019) outlining 6 forms of scrutiny based on individual MP scrutiny styles.[23] These include specialists, lone wolves, constituency champions, party helpers, learners, and absentees. Without a consistent approach, there will inevitably be challenges in applying a broad sweeping definition of Committee scrutiny to the private sector. Further complications can arise when applied to climate change accountability, where issues are not easily attributed to either government or company responsibility. These are explored in the next section.

[22] (Evans, 2019)
[23] (Geddes, 2019)

Part 2: A Unique Sustainability Perspective

Shining a Light on Corporate Controversies

9. One of the most visible formats for witness evidence provision is through oral evidence sessions. These involve the Committee putting questions to witnesses in a live verbal format. An important feature of oral evidence hearings is the ability to broker multiple witnesses from different organisations to appear before the Committee simultaneously. For example, the EAC's approach to investigating cross-cutting sustainability issues means they regularly scrutinise Ministers alongside officials from associated public bodies. This brokering ability is also applied to companies and has proven particularly effective in addressing systemic sustainability issues. It provides instant cross-company comparability, which promotes consistency across the industry. For example, the Energy and Climate Change Committee's (2013) oral evidence session into energy prices scrutinised representatives from all the major utility companies simultaneously including, E.ON, SSE, Npower, Ovo Energy, ScottishPower, British Gas, EDF Energy, and Co-operative Energy.[24] Another example include the Environmental Audit Committee's oral evidence session into microplastics with major cosmetic brands including Procter & Gamble's, L'Oréal and Unilever, which ultimately led to the government adopting the Committee's recommendations to ban microbeads.[25]

10. Despite the successes in hosting oral evidence sessions, there remains limited studies specifically measuring sustainability impacts arising from Committee work.[26] This is despite increasing high-profile inquiries relating to sustainability issues, such as the phone-hacking scandal (e.g., Culture, Media and Sports Committee hearing with News of the World in 2011), data privacy by technology companies (e.g., Public Accounts Committee hearing with Google in 2016) and banking governance culture (e.g., Treasury Committee hearing with Barclays in 2012). In relation to UK environmental policy impact, one of the earlier studies by Hawes (1993) applied a case study approach to government responses which found interventions leading to

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[24] (Energy and Climate Change Committee, 2013)
[25] (Environmental Audit Committee, 2016)
[26] See other reports that cover wider Committee impact including the Liaison Committee's (2019) 'The effectiveness and influence of the select committee system' report and Russell and Benton's (2011) 'Selective Influence: The Policy Impact of House of Commons Select Committees' report

environmental policy improvements. Whilst he concluded that 60% of recommendations were accepted by government, there was a host of influences which were '*indirect, invisible and long term*'. A more recent study by Russel et al., (2013) specifically looked at the EAC, and found their influence were crucial as '*ex post mechanisms*', in other words, only to monitor existing policy. The longer timeframes involved in assessing sustainability impact, particularly in relation to climate change, make it challenging to accurately measure inquiry success. Furthermore, the level of acceptance of recommendations depends on the significance of the recommendation and environment-related improvements can be difficult to implement in a short time frame. Whilst existing studies measuring Committee impact on environmental policy have been limited, there are even less which have sought to measure the sustainability impact on companies. This may be attributed to the unclear formal remit for Committees to directly investigate companies, apart from through various instances of oral hearings. Despite this, the public are increasingly demanding that companies be fully accountable to stakeholders and society on sustainability issues.[27] In this context, the unique ability of Committees to hold transparent investigations of multiple companies simultaneously can help address long-term climate issues that go beyond a single company.

Contemporary Climate Issues and Committee Powers

11. In 2018, the Culture, Media and Sport Committee failed to summon Mark Zuckerberg, CEO of Facebook.[28] This highly publicised case highlighted a growing challenge for Committees in fully investigating private sector companies which choose not to attend oral evidence sessions. Despite this, Committees are given the power to send for *papers, persons and records* (PPR), which in theory should provide adequate powers to engage companies. PPR gives Committees the ability to summon a witness to attend an oral evidence session or to provide documents relating to an inquiry. However, complexities of enforcement have meant PPR has been limited in its application to private sector companies. Whilst rarely applied, it was recently used to compel the founder of a US-based software company (Six4Three) to provide documents relating to Facebook during his business trip to London.[29] This was

[27] (McKinsey, 2020)
[28] (BBC, 2018)
[29] (Guardian, 2018)

controversial and there remains uncertainty around how PPR can be used on the private sector.[30] There are also inadequate penalties available where a company chooses not to comply with a PPR summons. In theory, penalties are enforced through *Contempt of Parliament*, which is a fine or imprisonment related to an obstruction of parliament's duties. However, this has limited contemporary use as the last imprisonment on parliamentary grounds was in 1880, whilst the last parliamentary fine was in 1666.[31]

12. The ability to summon a company witness may be particularly challenging where Committees lack the power to successfully invoke this request on overseas multinational corporations. The issues of gathering appropriate oral evidence from companies has material implications in relation to generating effective scrutiny in the field of sustainability. The growing number of companies which operate internationally may increasingly require the reach of Committees to be extended. This creates a mismatch between Committees' objective to scrutinise matters of public concern, such as sustainability issues, and their ability to gather appropriate oral evidence from the correct companies. Inquiry recommendations may also have reduced influence due to inadequate recognition of the Committees' role beyond the UK. For example, in an inquiry on microplastics, the EAC success in influencing a ban on microbeads was limited to the UK, whilst the companies that manufactured this unsustainable product operated globally. [32] Nevertheless, there are promising signs of Committee collaboration with overseas partners to address these global issues. For example, the Committee on Culture, Media and Sport conducted an inquiry into data privacy and Facebook by hosting one of the first *International Grand Committees*, inviting parliamentarians from nine different countries.[33] More recently, nine Committees came together to jointly scrutinise preparations for the UN COP26 climate summit hosted by the UK.[34] As sustainability issues become more pertinent for companies worldwide, it will be equally important that overseas

[30] Note the HoCs Liaison Committee's report on *The effectiveness and influence of the select committee system*, highlights the use of legislation to enforce a parliament's powers via the courts is seen in Scotland and Wales. Both the Scottish Parliament and the National Assembly for Wales have powers to order the attendance of a witness or the production of documents and make it an offence to refuse to comply with an order. However, these powers have never been invoked.
[31] (White, 2016)
[32] (Environmental Audit Committee, 2016)
[33] Parliamentarians from Argentina, Belgium, Brazil, Canada, France, Ireland, Latvia, Singapore and UK (Digital, Culture, Media and Sport Committee, 2018)
[34] Business, Energy and Industrial Strategy; Environment, Food and Rural Affairs; Environmental Audit; Foreign Affairs; International Development; Science and Technology; Scottish Affairs; Transport; and Treasury

parliaments are able to use their Committee systems (or equivalent) to scrutinise effectively on climate change issues.

13. In the absence of adequate powers to request company evidence, indirect media influence has played a critical role in the Committees' application of pressure on companies. This was evident in the inquiry into the collapse of BHS, where a combination of Committee and media pressure forced Sir Philip Green to attend the oral hearing. In addition, the Business, Innovation and Skills Committee's inquiry into working conditions showed that media influences were more important than a formal summons to pressure Mike Ashley, the CEO of Sports Direct, to attend over staff employment practices. These cases show the power of the media in supporting Committee scrutiny, particularly in the case of topical issues where the public have a strong interest. However, having a media driven approach can limit the effectiveness to focus on the subject matter, particularly in the case of environmental policy development. Committee questioning may inadvertently be guided more by media interests. As one former MP once said, '*MPs know that a sound-bite dressed up as a question gets coverage, whereas detailed probing often does not. The flourish usually comes at the expense of the forensic'*.[35] As such, the use of media can be a double-edged sword as too much focus on the media can undermine both the quality and reputation of Committee work.[36] Whilst the media can help publicly elevate a Committee's investigation of a company, there may be additional levers that can be deployed in the field of sustainability. These are explored in the next section.

[35] (Schonhardt-Bailey, 2015)
[36] (Kubala, 2011)

Part 3: Elevating Committee Influence on Climate Change

Embracing Environmental, Social and Governance Frameworks

14. ‘*Companies have traditionally treated sustainability as a peripheral issue, focusing narrowly on the way they manage their impact on the environment. We don’t have the luxury of that limited perspective any more. The evidence of climate change is clear*’.[37] These are not the words of an environmental activist, but come from David Solomon, CEO of Goldman Sachs – one of the largest investment banks in the world. Solomon’s message is not uncommon, with a growing number of companies pushing forward their positive sustainability messages. In only 12 years since the 2008 financial crisis, companies, often from traditionally ‘unsustainable’ industries, have transformed their public image. This perhaps highlights a wider awakening of ‘corporate purpose’ and ‘stakeholder capitalism’, but can also be viewed sceptically as corporate ‘greenwashing’[38]. This is where companies use unsubstantiated information to enhance the perception of their sustainability profile. In this context, Committees that wish to remain effective, with targeted sustainability questions, will need to be provided with accurate and objective information on a company’s true sustainability credentials. The inclusion of sustainability standards, such as environmental, social and governance (ESG) ratings, may provide Committees with a route to having a measurable approach to engaging, and potentially influencing, a company. This can support the function of the Committee’s as a representative of society, providing effective scrutiny on sustainability issues of companies where effective oversight has so-far been lacking.

15. Besides media influences, Committees need to ensure they are adequately equipped to tackle the complex and multifaceted nature of contemporary sustainability issues, such as climate change. The Committee role, as prescribed in SO No. 152., has conventionally been to scrutinise government as opposed to the private sector. Whilst their remit has begun to include investigation of company sustainability issues, they have principally relied on informal media influences to exercise this power. However, the perception of this changing, and Committees are increasingly recognised to perform a dynamic role through their evolving interpretation of public accountability.

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[37] (FT, 2019)
[38] (WEF, 2021)

This is particularly the case in relation to sustainability issues, which are often related to factors that cut across both the public and private sector. Committees provide a distinctive angle on sustainability issues, one that is fundamentally driven through representation of broader societal views. As such, they act as a unique source of pressure, alongside other stakeholders, in the scrutiny of corporate sustainability controversies. This differs from the sustainability engagement adopted by other stakeholders (e.g., NGOs or investors), where there may be other financial or thematic components driving stewardship. Despite this, the Committee's role in sustainability investigation is yet to be clearly defined.

16. Nevertheless, Committees can seek to draw on best practice sustainability principles and information to improve the effectiveness of inquiries. This will help Committees directly investigate companies, and act as an additional indirect influence beyond the media. One of the growing industry-adopted sustainability classifications are environmental, social and governance (ESG) factors. These ESG factors provide a framework to objectively measure sustainability, and in-turn allow consistent scoring of companies on their non-financial business practices. Whilst still early in its industry adoption, ESG factors have proven increasingly popular as a means to engage private sector companies on a range of issues including climate change. The United Nations Principles for Responsible Investment (2021) highlights typical ESG categories that fall within these three pillars (see figure 2).

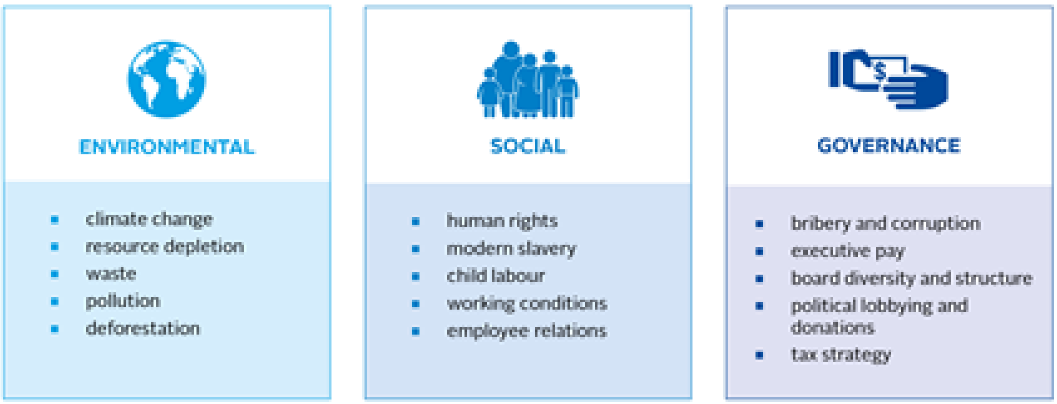

Figure 2 - Typical ESG Categories

Unlike previous metrics to measure corporate sustainability, ESG ratings are consolidated and measured by third-party rating agencies instead of self-reported by companies. This provides transparency and external validity. For example, the

Thomson Reuters ESG Rating is a publicly accessible dataset which scores all companies publicly listed based on their sustainability credentials.[39] This provides objectivity for stakeholders looking to compare between the sustainability credentials of different companies. Applying ESG information to existing Committee investigative approaches could be an important addition to oral hearings sessons, particularly in cases where evidence is provided by multiple companies simultaneously. Moreover, these ESG factors are shown to be highly similar to the types of investigative inquiries conducted by Committees. In the table below, various Committee oral hearings on sustainability-related issues are mapped to these ESG factors, showing clear similarities in various sectors. Adopting industry ESG frameworks can potentially provide additional information on a company's sustainability credentials, which can support more effective scrutiny of companies. As Committees seek to strengthen their role in scrutinising companies on their sustainability credentials, it is critical that they are equipped with up-to-date, robust and accurate information.

Select Committee	**Company**	**Sustainability Issue**	**ESG Categorisation Mapping**
Retail Sector			
Environmental Audit	ASOS	Fast Fashion	Labour standards (Social)
Environmental Audit	Boohoo Group	Fast Fashion	Labour standards (Social)
Environmental Audit	Procter & Gamble	Plastic Pollution	Air and water pollution (Environmental)
Environmental Audit	L'Oréal	Plastic Pollution	Air and water pollution (Environmental)
Food and Drinks Sector			
Environment, Food and Rural Affairs	Coca Cola	Plastic Packaging	Waste management (Environmental)
Environment, Food and Rural Affairs	Tesco	Horsemeat Scandal	Supply chain issues (social)
Business, Innovation and Skills	Sports Direct	Workers' rights	Labour standards (social)

[39] See more details at - https://www.refinitiv.com/en/sustainable-finance/esg-scores

Work and Pensions	BHS	Poor company management	Employment practices (governance)
Technology and Media Sectors			
Digital, Culture, Media and Sport	Facebook	Data Privacy	Date protection and privacy (social)
Public Accounts	Google	Poor Business Practices (Tax)	Tax contributions (governance)
Public Accounts	Amazon	Poor Business Practices (Tax)	Tax contributions (governance)
Culture, Media and Sport	News International	Phone Hacking	Bribery and corruption (governance)
Financial Sector			
Treasury	Barclays	Banking Culture	Executive compensation (governance)
Business, Innovation and Skills	Goldman Sachs	Poor Business Practices	Employment practices (governance)
Construction and Transport Sectors			
Energy and Climate Change	BP	Oil Spill	Waste management (environmental)
Home Affairs	G4S	Poor company management	Employment practices (governance)
Work and Pensions	Carillion	Poor company management	Employment practices (governance)
Transport	Volkswagen	Emissions Scandal	Climate change (environmental)
Business, Energy and Industrial Strategy	Thomas Cook	Poor company management	Employment practices (governance)

Figure 3 - Committee Oral Hearings Mapped to ESG Categories

Active Stewardship for Society

17. The implications for including ESG factors into a Committee's approach is particularly profound when considering the potential impact on companies that can arise. Numerous studies have highlighted that targeting improvement in ESG factors can directly lead to beneficial financial and non-financial performance.[40] For

[40] See more details at - https://www.unpri.org/academic-research/top-academic-resources-on-responsible-investment/4417.article

example, Flammer (2013) found that the financial markets punish companies that have negative environmental behaviour, whilst rewarding companies with eco-friendly practices. Similarly, Chava (2014) found that environmental factors have a material impact on the cost of equity and debt capital of companies. Extending this to potential Committee integration of ESG factors can open up a new avenue for public accountability – one which provides a direct role for Committees to be active stewards of society.

18. This paper seeks to open up the possibility that company sustainability engagement and influence may extend to wider stakeholders, such as Committees. This supports existing literature which point to the Committees' role in influencing direction as '*agents of change*' albeit with a specific focus on company engagement.[41] This also adds to the growing literature that argues that engagement with companies on ESG factors can positively influence a company's sustainability credentials. This is set to be a growing trend and Committees, such as the EAC, have already begun to integrate ESG questioning into their company scrutiny. In the EAC's 2020 *Fixing Fashion* inquiry that investigated sustainability issues within the fashion industry, the Chair directly referenced ESG in their questioning of Boohoo Group's Chairman, Mahmud Kamani.[42] In particular, he asked the company if they would be prepared to link ESG targets and performance with executive remuneration. If adopted, this would also have profound implications in terms of the influence of a Committee on a company's share price, which is increasingly linked to sustainability performance. This is shown in the oral evidence transcript extract below (figure 4). This case is unique in two ways. First, it highlights how a Committee can embrace an ESG framework to effectively target a company's poor sustainability credentials. Second, it demonstrates a Committee's capacity to directly influence a company's sustainability performance by suggesting executive remuneration to be linked to ESG improvements.

[41] (Mellow-Facer et al, 2019)

42 Oral evidence to the Environmental Audit Committee, Fixing Fashion: follow-up, HC 874, Session 2019-21, Q127-132

Question Number	Question (Philip Dunne MP, Chair of EAC)	Response (Mahmud Kamani, Chair of Boohoo Group)
Q128	**Chair:** [...] Would you be prepared to link your remuneration structures to measurable improvements in sustainability of your products and your ESG improvements?	**Mahmud Kamani:** What I would say is: it is performance-related, the bonuses, and this Agenda for Change. […]. We are committed to making good. That is what I would like to say, thank you.
Q129	**Chair:** That is a no, then, in relation to improving sustainability or ESG.	**Mahmud Kamani:** That is not correct. That is not a no.
Q130	**Chair:** You referred to the change in share price as the criteria.	**Mahmud Kamani:** That is one of the criteria. There are lots of performance criteria.
Q131	**Chair:** Does that include either sustainability or ESG improvement?	**Mahmud Kamani:** We will discuss it at the next Board meeting. That is what I would like to say.

Figure 4 - EAC's Oral Evidence Session with Boohoo Group Chairman[43]

19. ESG frameworks have also provided wider stakeholders the ability to examine sustainability impact through a measurable lens. Part of this adoption has been driven through a need by investors, with responsible investment strategies, to understand major corporate environmental scandals. This is because of the detrimental business performance and shareholder return impact that followed these controversies. However, the far-reaching societal impact of these company scandals also provided critical junctures for Committees to be involved. This has played out in certain oral evidence sessions, where the sustainability credentials of companies were explicitly examined. This was seen in the cases of Volkswagen's emissions cheating scandal and BP's oil spill catastrophe, where the oral hearings were targeted at scrutinising their environmental performance. For BP, the Energy and Climate Change Committee's oral evidence with the CEO (Tony Hayward) in 2010 directly related to the Deepwater Horizon oil spill in Mexico, and the resulting environmental and biodiversity impact. For Volkswagen, the Environmental Audit Committee's oral evidence session with the UK CEO (Paul Willis) in 2015 related to emissions test rigging, with resulting air quality and carbon emissions impact. In both cases, Committee scrutiny of company senior management followed on shortly from the environmental scandals (see timeline of key events below: figure 6). These cases again highlight the significant overlap between a Committee's existing work and the principles of the ESG factors.

43 Ibid

Date	**Description**
Apr' 2010	An explosion on the Deepwater Horizon drilling rig in the Gulf of Mexico
Apr' 2010	Deepwater Horizon sinks
Jun' 2010	US launches criminal inquiry into BP oil spill
Jun' 2010	BP announces $20bn fund to compensate victims
Jun' 2010	BP CEO (Tony Hayward) appears before US Congress' House Committee on Energy and Commerce
Jul' 2010	BP confirms CEO (Tony Hayward) will leave his post in October 2010
Sep' 2010	BP CEO (Tony Hayward) appears before the UK Energy and Climate Change Select Committee

Figure 5 - Timeline of key events on BP's oil spill controversy

Date	**Description**
Sep' 2015	VW is told to recall 482,000 cars in the US after it is caught deploying sophisticated software to cheat emissions tests
Sep' 2015	VW CEO (Martin Winterkorn) apologises for cheating
Sep' 2015	£11bn is wiped off VW's share price on Frankfurt stock exchange
Sep' 2015	VW admits 11 million cars globally fitted with cheat devices
Sep' 2015	1.2 million VW vehicles with cheat devices were confirmed to be in the UK
Oct' 2015	French and Italian authorities launch investigation into VW
Oct' 2015	VW UK CEO (Paul Willis) appears before the UK Environmental Audit Select Committee

Figure 6 - Timeline of key events on Volkswagen's emissions cheating controversy

20. It is clear there is an overlap between Committee scrutiny areas and the ESG considerations adopted by the industry. This commonality can provide an opportunity for enhanced scrutiny by Committees, particularly when conducting oral hearings with companies. In particular, it can provide Committees with an additional source of information to inform the questions posed to private sector witnesses during oral evidence sessions. The ESG frameworks can help identify areas of weakness on a company's sustainability credentials, offering targeted areas for engagement. For example, applying a well-known industry ESG tool (e.g., MSCI) to the two Committee cases concerning BP and Volkswagen would have yielded useful information that could have supported the oral hearings (see figures 7 and 8).[44] The ESG information not only provides high-level snapshots on a company's sustainability track record, but also reveals areas where the companies are considered industry laggards. For example, BP is poorly performing in areas relating to 'biodiversity & land use' and 'health & safety', whilst Volkswagen's 'product safety and quality' and 'product carbon footprint' are considered significant issues. This ESG information provides Committees with an additional lens to assess a company's sustainability credentials, drawing on real-time environmental, social and governance data.

[44] The MSCI ESG Ratings Corporate Search Tool is a public tool that searches over 2,800 companies on sustainability factors. See more details at - https://www.msci.com/our-solutions/esg-investing/esg-ratings/esg-ratings-corporate-search-tool

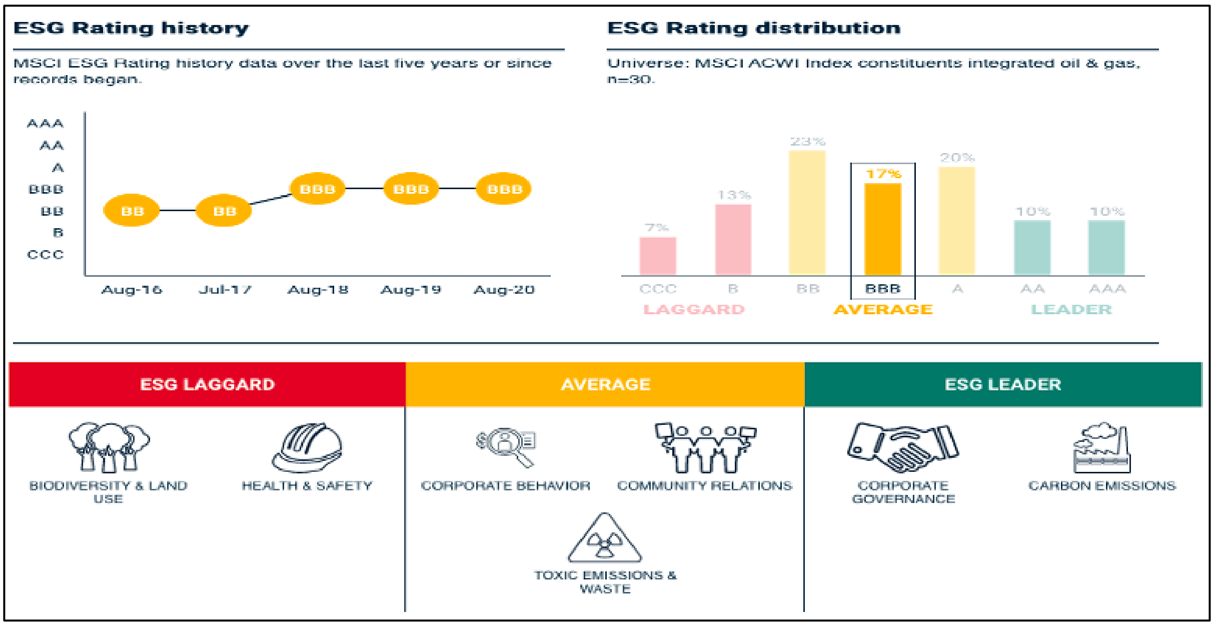

Figure 7 - BP ESG Rating[45]

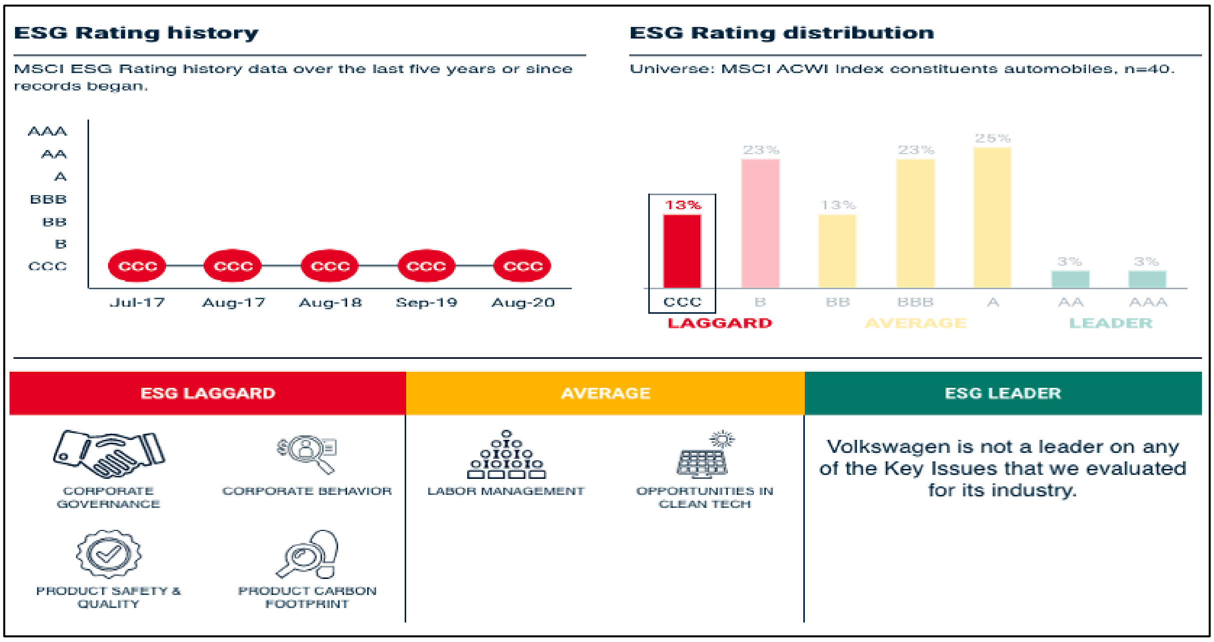

Figure 8 - Volkswagen ESG Rating[46]

45 (MSCI, 2021)
46 (MSCI, 2021)

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