

# Corporate responsibility: Management, governance and stakeholder review: 2012

## INTRODUCTION

This section describes both how Pearson manages corporate responsibility, its relations with stakeholders along with some key corporate issues.

### CR Governance

Corporate responsibility cannot be separated from our business and reputation. Our board of directors has ultimate responsibility for considering issues of responsibility in setting business strategy.

The board received a report on corporate responsibility progress at the April 2013 meeting. This followed a detailed review of the strategy at the recently established reputation and responsibility committee which operates with board input. The remit of the reputation and responsibility committee is to have oversight of Pearson's strategy and plans to build and protect our corporate reputation and the reputation of our major brands.

The Pearson Management Committee drives implementation of business strategy including our response to the key issues and opportunities we face.

Pearson's corporate responsibility steering group oversees the development of our corporate responsibility strategy on behalf of the board. It is chaired by Robin Freestone, the board member responsible for corporate responsibility. The group meets quarterly, with a remit to support and challenge the operating divisions both to grasp relevant commercial opportunities and to mitigate the risks inherent in the issues we track as part of our responsible business practice framework.

### Risk management

Pearson has an established risk assessment process for identifying and managing Social, Environmental and Ethical (SEE) risk. We believe SEE risks are no different from other types of business risk, so their consideration is integrated into our normal risk procedures. Operating companies formally review their SEE risk profile twice a year updating Group Internal Audit. Material SEE risks are reported to the audit committee and to the board.

### Tax strategy and governance

The Pearson Code of conduct sets the context in which we develop our tax strategy. Our code requires all Pearson companies to comply with the laws and regulations of the countries in which we operate and this includes taxation payments to governments.

We paid £65m in corporation tax globally in 2012 compared to £151m in 2011. The reduction in tax paid is largely the result of the permitted deferral of US tax payments into 2013 following Hurricane Sandy.

We also pay significant amounts of other types of tax to local, regional and national governments; these include employer taxes, VAT, sales taxes, and customs duties as well as other local taxes.

In addition to complying with our Code of conduct, tax strategy reflects our business strategy and the locations and financing needs of our operations. In common with many companies, we seek to manage our tax affairs in order to maximise the value of the company. We are committed to comply with all statutory obligations, to undertake full disclosure to tax authorities and to follow agreed policies and procedures with regard to tax planning and strategy.

Oversight of tax strategy is within the remit of the audit committee, which receives a report on this topic at least once a year. All of the audit committee members are independent non-executive directors. The chief financial officer is responsible for tax strategy; the conduct of our tax affairs and the management of tax risk are delegated to a global team of tax professionals.

The chief financial officer is also the board member responsible for corporate responsibility matters.

### **Political contributions and public policy debate**

Our company is not partisan. This position reflects our company values and heritage. Editorial integrity and independence are fundamental to the way that the Financial Times reports the news. Penguin has a long and proud history of championing free speech and publishes authors drawn from across the political spectrum. Political neutrality means that we do not make corporate political contributions to parties, candidates for public office or to election campaigns.

The term political contribution includes loans, the advance or deposit of money or anything else of value given directly to a candidate campaign or political party. Company employees can and do get involved in the political process and make personal contributions, but decisions to do so are entirely personal and voluntary.

Pearson has dedicated Government Relations employees who lobby on issues where the company can contribute our insight and knowledge or which impact on our ability to do business. Members of the Government Relations team are responsible for responding to global legislative agendas, being the public face of the company with elected officials around the world and for tracking how political and legislative trends might impact on our business. In all our work, we are guided by the company purpose which is to help people to progress through their lives through learning and by the code of conduct which set out the standards of integrity and professionalism we expect of all our employees. Our purpose overrides the short-term commercial interests of a particular business product. We have public policy professionals at our Head Office and in our businesses supported as needed by external lobbyists that act directly on our behalf. We comply with applicable laws and public disclosure obligations and are clear that elected officials have sole responsibility to decide on what changes are needed to the regulatory and legislative environment in which we operate.

We participate in various trade associations relevant to our business. During 2011, we contributed to education policy discussion around the world through these associations. Pearson has also made individual submissions on the issues of intellectual property, press ethics, improving future standards in examinations and assessment in the UK as well as the role of the private sector in contributing to improved access to education in low-income countries. We compete for contracts and to offer services for Governments, states and school districts around the world. We always try to compete fairly and honestly in securing those contracts,

observing all laws that relate to us. When we are successful, our commercial teams may be required to inform and brief elected officials in order to fulfil the terms of any contract.

### **Stakeholder engagement**

Public and private sector customers regularly seek information from us about how we go about our business, while learners, authors and employees want to understand our approach to sustainability. Socially responsible investors and non-governmental organisations look at issues such as supply chain standards and ethics.

Our approach is informed by the priorities and views of our many stakeholders. So, in deciding on our main issues (or assessing materiality), we took into account:

- Our business strategy and wider developments in public policy;
- What our investors, particularly the Socially Responsible Investment (SRI) community, ask us about. We participate in or are rated by DJSI, FTSE4Good, the Carbon Disclosure Project and many others;
- What stakeholders are telling us. We get feedback from customers and employees in lots of ways including surveys, discussion groups and meetings;
- Assurance and third party assessments;
- Benchmarking against competitors, peers and leaders. We are members of the Corporate Responsibility Group, Business in the Community and the Media CSR Forum.

As our thinking and business strategy evolves, so we will ask stakeholders how we can improve our broad responsible business practice strategy.