# whose responsibility?

## the role of business in delivering social and environmental change

Edited by Amanda Jordan and Dr Amy Lunt
The SMART Company

DIAGEO

THE SMITH INSTITUTE

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# Preface
## Wilf Stevenson, Director, Smith Institute

The Smith Institute is an independent think tank which has been set up to undertake research and education in issues that flow from the changing relationship between social values and economic imperatives. In recent years the institute has centred its work on the policy implications arising from the interactions of equality, enterprise and equity.

To date, the government's approach to corporate social responsibility has been to encourage and incentivise its adoption by companies through best practice guidance and, where appropriate, intelligent regulation and fiscal incentives. However, the removal of the operating and financial review (which imposed, upon company directors, the duty to report information about the impact of an organisation upon the environment and society at large) represents an opportunity for policy makers to revisit ways of encouraging companies to behave responsibly. So, what is the way forward for CSR, particularly in the context of the Hampton review, which found that the burden of regulation should fall most on the highest-risk businesses and least on those with the best records of compliance? Is it possible simultaneously to adopt a light-touch approach to regulation while still incentivising all to behave responsibly? How should policy makers respond to the "lonely leadership" issue, whereby companies that are the first to demonstrate corporate responsibility face commercial disadvantage relative to those who show less of a commitment to society or to the environment?

This collection of essays by key experts in the field offers new thinking about what constitutes "good CSR". Focusing upon the range of "responsibilities" that a company could and should have, from the environment and health, to community impacts and educational concerns, the authors seek to draw out how far a company should be responsible for its impact across these areas, and offer accounts of how best such duties can be met. The contributors also look at the ways in which the environment in which companies operate – the regulatory and legal framework, and the investment structures – can be calibrated in a manner that encourages responsible activities. Overall, the essays offer a consideration of how corporate responsibility can become better integrated and embedded into corporate practice, rather than being seen as "a nice thing to do" or an add-on.

The Smith Institute thanks Amanda Jordan and Amy Lunt of the SMART Company for agreeing to edit this collection of essays, and gratefully acknowledges the support of Diageo plc towards this publication and the associated seminar.

## Foreword
Paul Walsh, Chief Executive, Diageo plc

One of my principal aims at Diageo is to create an enduring business: one that leaves a lasting legacy for the employees, investors and consumers who come after us. Being a good corporate citizen is an integral part of creating that legacy.

Of course, it makes good business sense. Diageo's predecessor companies – Guinness, GrandMet and Seagram – all recognised that fact. That is why I am delighted that Diageo is supporting this Smith Institute programme to reignite debate about how corporate social responsibility can be developed in the UK and beyond.

This eclectic series of essays brings together authors from a variety of stakeholder groups. They include industry leaders, academics and representatives from the NGO community. There are many different perspectives and a wide variety of points of view. I certainly don't agree with them all, but I do note that there is a consensus that CSR has progressed significantly over the past decade and now brings tangible benefits across all sections of society.

Embedding a real commitment to CSR in any organisation demands the sustained support of those at the top of the enterprise and the continued engagement of those at every level. That should be no surprise. It is the same with every element of a successful business strategy. Success will not be measured simply in terms of financial return. Rather, it will require the holistic view of a company's performance, including progress against social and environmental policy commitments.

There is no trade-off between financial success and being a good corporate citizen. Successful businesses both create value and live their values. They simultaneously encourage prosperity and sustainability.

There is no longer any debate about the place of sustainable development in the business agenda. It is a requirement, not an option. For example, Diageo's commitment to encouraging responsible drinking is absolute. Only the active pursuit of that commitment will ensure the future of our business as one that is respected and admired.

So promoting responsible drinking is at the heart of our strategy. We want consumers to enjoy our brands and if they drink to excess they won't do so. It is as simple as that.

If their behaviour alienates others, that is not in our interest. We use our consumer understanding and marketing skills, developed and proven in promoting our brands, to champion responsible drinking. We have seen first-hand, through our initiatives all over the world, that it is possible to develop responsibility programmes that also help alleviate the pressures of the regulatory environment.

But we also take an active role in the communities in which we are located at a global and a local level. We encourage our employees to volunteer in community activities and support organisations in the UK such as Tomorrow's People and the Foyer Federation to support the life chances of the long-term unemployed and disadvantaged young people. In a completely different vein, when Hurricane Katrina struck the southern United States, our people were among the first on the scene and for several days provided power for key hospitals before local government services were able to take over. From a business perspective, by demonstrating our commitment, being active and caring about the communities in which we operate, we demonstrate to all our stakeholders that we are responsive to the principal issues about which they care.

This pamphlet asks how CSR can be more firmly embedded in corporate cultures and communities across the UK. The pamphlet reflects on the drivers for CSR and respective roles of government, business and citizens in taking it forward. It also highlights some examples of best practice. I am sure that the debate it provokes will be welcomed across industry and I hope it will lead to broader discussions about how to make the UK a world-class centre for strong corporate citizenship.

# Introduction
## Amanda Jordan OBE, Chair of the SMART Company, and Dr Amy Lunt, Senior Consultant at the SMART Company

When corporate social responsibility began to emerge as a business concept in the mid-1990s, few would have predicted its development into the phenomenon we see today. The central concepts of CSR are not new. There are many companies with a long history of philanthropy, for example, and during the 1970s and 1980s attention started to turn towards the environmental impacts of primary industry. What is new, however, is the extent to which CSR – or, increasingly, just corporate responsibility – has become synonymous with "business as usual", the industry that has developed to support it, and the language that we use to talk about it.

A quick look at recent news stories sums up just how close business and social responsibility appear to have become. BP announces that it will invest $8 billion in renewable energy over the next 10 years, while Richard Branson has pledged Virgin profits worth $3 billion towards renewable energy initiatives. Marks & Spencer has seen a bigger positive impact on its brand from its ethical marketing drive, "Look behind the label", than from any of its previous advertising campaigns. HSBC and BSkyB are to become carbon neutral. In March 2006, every single constituent of the FTSE100 was publishing some level of information about their CSR activities, with 85% producing a standalone report.

Have these companies become more "responsible", or are they just adapting to a new market? Does introducing a new initiative that pre-empts inevitable regulation on energy efficiency, but that also happens to chime with our moral concerns for the future of the planet, count as CSR or just as good business sense? When a supermarket announces that its sales have increased to £17 billion, should we be praising its success or asking what impact such success has had on farmers, small shops and local communities?

As CSR becomes more prominent, these questions become more complex and our values more confused. The proliferation of CSR activity has not, unfortunately, led to more clarity in the discussion. Despite all those CSR reports and even, for the past few years, a minister for CSR, there is still no single agreed definition of the term, and perhaps that doesn't matter.

You will notice that we and our authors mostly use the term "CSR", and haven't dropped the "S" – that is not significant. We are not, in this publication, attempting to arrive at a definition, and we do not presume to answer some of those most intractable questions. What we have aimed to do is to examine some of the assumptions and inconsistencies at the heart of the CSR movement, particularly around where the boundaries of responsibility might lie, and so we hope to stimulate greater thought and discussion about what our expectations of business really are.

We have come at the CSR question from a number of angles. We look at the perspective of investors, who some believe should be the primary drivers of the CSR agenda. We pick up on two of the most prominent issues in public debate – climate change and food – and ask what the role of business should be in addressing these. We question what companies mean when they talk about their "communities". We look beneath the very concept of "corporate" social responsibility by considering whether there can be such a thing as collective responsibility, and what it means in practice. We ask what role business should and does play in the UK, in education, and elsewhere as an aid to international development. And crucially, we question whether CSR is something that could be subject to regulation, or whether this undermines the very nature of the concept.

Each of our authors has made a unique, considered and expert contribution to this publication, and we welcome their input into what we hope is a useful part of this public policy debate. We are extremely grateful to them for taking time out from their busy lives to share their thoughts with us.

## Chapter 1

# A responsibility for community – business as a local and global neighbour

Amanda Jordan OBE, Chair of the SMART Company, and
Dr Amy Lunt, Senior Consultant at the SMART Company

## A responsibility for community – business as a local and global neighbour

Most large UK companies have "community programmes", which are often the most visible manifestation of a company's acknowledgement of its social responsibilities. Much has been written about corporate community investment, and there are numerous case studies profiling good practice, awards schemes recognising excellence, and models to measure inputs, outputs and impacts. On closer inspection, however, a responsibility to community is not quite so straightforward.

Community itself is a fluid concept. It is commonly understood to mean a recognisable group of living things who share the same environment, but this could be a single house or an entire nation. Companies, like individuals, do not belong to one single community but to many different ones, and as a company grows and extends its networks across national and international boundaries, those networks evolve. Even within a single company, the way in which it interacts with and impacts on communities varies enormously, and between companies there is significant diversity in those activities which fall under the "community investment" banner.

So what is corporate community investment? Is there any difference between supporting and contributing to the community, and simply running an effective business that is responsive to current values and trends? And for what aspect of community are we expecting companies to take responsibility?

**Historic roots of community responsibility**
When exploring the history of corporate responsibility, it is usual to look back to the Victorian era and to some of the pioneers whose businesses are still strong brands today. Companies such as Boots, Cadbury's, Marks & Spencer and John Lewis, all founded in the 1800s, were each in different ways built on principles of social responsibility. What many of these principles really reflected, however, was a commitment to the *community*, in the sense of the people living in the area where the company operated and working in its factories and shops. This is perhaps most strongly expressed through the work of the Cadbury family, who developed a new factory and suburb of Bournville in the 1880s. As well as pioneering pension schemes, joint working committees and a staff medical service, the Cadburys developed and built a model village of good-quality houses with large gardens, designed to alleviate the traditionally cramped living conditions of the time.

This type of community commitment is most closely reflected today in the activities of oil and mining companies operating in developing countries. The 1980s and 1990s saw the liberalisation of many previously closed regimes and the privatisation of national resources, enabling multinational companies to access previously unexplored areas, bringing with them money and opportunities for development. For many of these companies, a licence to operate demands a real investment in the community where they are operating, and it is common for them to fund health centres, schools and housing. Extractive companies also must consider the life-cycle of their operations, and are aware that in any location mining is only a temporary activity. Providing sustainable support to local communities is therefore essential.

The introduction of a multinational company to an underdeveloped area brings rapid change and raised expectations, and plans must be put in place from the outset to ensure that the community and economy are sustainable after the primary industrial activity has finished. While there have in the past been many examples of bad practice, for leading extractive companies this sort of interaction with local communities has simply become part of how they operate their business.

**Community investment as add-on initiatives**

This type of fundamental support for the development of communities in the area where a company operates is quite different, however, from the majority of activities normally grouped under the term "corporate community investment". Most corporate community programmes involve a combination of employee volunteering, fundraising, support for a designated charity, and wider charitable giving, through methods such as Give As You Earn. The "community" in this sense encompasses a whole range of groups. These may include people living near to where a company operates, but also the wider charitable and voluntary sector and the individuals and groups on whom their work is focused.

These types of community programme have a mixture of objectives and motives. There is an element of "licence to operate", or at least to remain on good terms with the neighbouring community as well as motivating staff. Community programmes also offer a public expression of a company's responsibility and commitment – a visible indication that the company wants to do the right thing. Sometimes community programmes may link in with cause-related marketing initiatives. Tesco's Computers for Schools and Sainsbury's Active Kids programmes are both styled as community initiatives, but use a spend-related voucher system and therefore contain a strong commercial element. Increasingly, community programmes are focused on employees – finding different ways to provide personal and professional development opportunities, as well as demonstrating responsibility as an employer. Research suggests that job seekers, particularly new graduates, are concerned about a potential employer's record on corporate responsibility, and a community programme that encourages employee volunteering can be very appealing.

One of the most striking differences between these corporate community investment (CCI) programmes and the activities of the Victorian business founders, or today's extractive companies, is the extent to which the activity is part of business as usual. The Victorians developed their businesses on the principle of responsibility to the community; modern extractive companies work with communities as an integral part of their activities in a particular region. Corporate community investment programmes, however well they may be integrated into the *culture* of the business, always look from the outside like an added extra. They offer a highly visible and tangible way for a company to show that it is "socially responsible" by making an additional investment in the wider community.

The type of support offered through CCI programmes is undoubtedly important, and is welcomed by many community and voluntary groups. Research[1] conducted in 2005 showed that more than 60% of community, voluntary and charitable groups receive funding from companies, and 90% felt that cash was the most useful type of support they could receive. The research also showed that expectations of companies in tackling serious social problems are low. The most significant issues facing UK society at the moment were identified as poverty, climate change, and health and obesity, but only 2% of respondents felt that responsibility for tackling these issues rested with large companies. Such issues are deemed to be government's responsibility, while good corporate community investment is considered to be about providing cash funding, volunteering and gifts in kind to community and voluntary groups.

So if the community and voluntary sector are looking for the type of support traditionally delivered though a CCI programme, is this what we should focus on when talking about corporate responsibility for the community? In a society with a strong infrastructure and a system of welfare support, should companies have the same roles in communities as they might have in developing countries without such good infrastructure, or that they did in Victorian times?

1 Research conducted by the SMART Company in March 2005, with 200 members of the SMART Community Panel, a standing panel of community leaders drawn from voluntary and charitable groups across the UK.

One challenge to this approach to community investment is arising as corporate responsibility becomes embedded in daily business practice. Leadership in corporate responsibility means integration of corporate responsibility principles into all aspects of the business. Community programmes in the form of "add-ons" do not fit well with this new model, and companies struggle to justify traditional team volunteering and charity of the year initiatives as part of core business strategy.

**Changing expectations**

This is intensified by changing expectations of the role that companies should play in wider society. While the UK may have a strong social and economic infrastructure with a stable government and thriving voluntary sector, the last decade has seen a recognition that social improvement is more achievable if all sectors – public, private and voluntary – work together to effect change.

This positioning of the corporate sector as central to positive social change is reflected in the activities of a number of large companies, whose community programmes in this country reach some way beyond the traditional volunteering and fundraising. While addressing community needs, these programmes also reflect business priorities. A number of companies, including B&Q, ASDA and Marks & Spencer, have developed recruitment programmes to target previously excluded parts of the community, including older people, those with disabilities, the homeless and long-term unemployed. National Grid Transco pioneered a programme of training young offenders and guaranteeing employment for those who successfully completed the course. The recent "Tesco in the Community" initiative covers issues ranging from renewable energy and recycling to nutritional labelling and local sourcing, not just the conventional charity partnerships that the name might suggest.

All of these companies are, of course, also running traditional CCI programmes, and perhaps it is the combination of these different types of initiatives that demonstrates where corporate responsibility for the community lies. There is a role for companies to promote fundraising and volunteering – such support is welcomed by the voluntary sector and, when done well, provides beneficial opportunities for employee development. These activities may be an add-on to normal business practice, but it is precisely that difference that generates the feel-good factor. Involvement in volunteering and community projects has been shown to boost employee morale and lead to improved recruitment and retention rates – all providing a business case for continuing this kind of programme.

Companies do, however, have the expertise and resources to make contributions well beyond this and to become more deeply involved in delivering social change, and it is this type of activity that should be so well integrated that it is simply part of business as usual. Whether providing training and employment opportunities for local people, looking for ways to reduce carbon emissions, contributing to the delivery of high-quality essential services, or investing in the development and regeneration of deprived areas – all these activities show a commitment to the community in its widest sense. These types of activities also position a company as part of its community, rather than as a supporter of a community at one step removed.

This deeper integration is happening, albeit slowly, but perhaps what is really needed is some clarity in the debate. The terms "local community", "corporate community investment" and indeed "corporate responsibility" have become so ubiquitous as to be rendered almost meaningless. Companies report on their community programmes and community investment activities without appearing to give real thought to who forms this "community". The first step must be to define a business's "communities", be they geographic or communities of interest. This will largely be determined by recognising where material impacts are.

A more thorough examination of a company's different audiences, a stronger grasp of where its activities have impacts and on whom, and an honest assessment of its areas of expertise, could well lead to a clearer identification of its communities of interest. In turn, it is hoped that this better understanding will lead to a more constructive, meaningful engagement with immediate neighbours and civil society as a whole.

## Chapter 2

# A responsibility for health – the role of business in determining what we eat

Julia Unwin CBE, Deputy Chair of the Food Standards Agency
(writing in a personal capacity)

## A responsibility for health – the role of business in determining what we eat

The food culture in which we in the West live has changed dramatically in the last two decades.

- We are eating out much more – in 2005, for the first time, more money was spent in the UK on food consumed outside the home than on food consumed at home.[2]
- Diversity and choice of foods available has increased greatly – for instance, Sainsbury's food product range has grown from 7,000 items in 1980 to 23,000 in 2006.
- We spend much less time cooking – the average time to prepare a meal has reduced from 60 minutes in the 1980s to 12 minutes by 2003.[3]
- Cooking skills are in decline – teenagers had difficulty with shopping, planning and cooking tasks in a Food Standards Agency pilot study.[4]
- Families are eating together less and relying on processed and prepared foods more.[5, 6]

Any attempt to look into the future only identifies an intensification of these trends, with more niche markets for food and drink, the development of nutraceutical foods, and an ever greater reliance on prepared food.

While we can draw on a huge body of statistical evidence to describe these changes more fully, clear evidence of the effect they are having on society is less comprehensive. However, an impact can undoubtedly be identified in diet-related illnesses such as heart disease, diabetes and cancer, and in the poor nutritional status of many parts of the population.

In this context it is tempting to reach for simple solutions. Calls for greater regulatory intervention vie with attempts to change people's behaviour with appeals to individual self-interest. The danger is that demands for a heavier government hand or higher personal morality will drown out what is actually needed – a much more subtle, more nuanced and more effective set of interventions and responses.

2 *Spending on Eating Out Overtakes Meals at Home* (Office of National Statistics, 18 August 2006) (www.statistics.gov.uk/pdfdir/ioa0806.pdf).
3 Data provided by Taylor Nelson Sofres, from the TNS Worldpanel 2004.
4 *Evaluation of Food & Nutrition Competencies Amongst 14-16 Year Olds* (Food Standards Agency, May 2003) (www.food.gov.uk).
5 *The Evening Meal (UK)* (Mintel International Group, April 2006).
6 *Chilled Ready Meals (UK)* (Mintel International Group, May 2006).

Action on food and diet raises issues about personal choice and lifestyle, the privacy of family life, and the intimate choices people make about what they eat themselves and what they provide for the people they love and look after. For this reason, governments intervene at their peril.

**Why does it matter?**

What people eat matters to the health and well-being of the nation, and a case for intervention can be argued on grounds of altruism or self-interest. We now know with some confidence that poor diet contributes to well over 100,000 deaths a year in the UK from heart disease, stroke and cancer.[7] It would be a morally bankrupt society that did not respond by attempting to alleviate such losses and the concomitant pain and suffering of patients, their families and friends.

We could also be heading towards financial bankruptcy as a society, if we fail to address the future costs of treating people with a range of medical and psychological problems, from dental caries, through malnutrition, to diabetes and a host of other disorders to which poor diet is a contributory factor. The costs of obesity alone have been estimated at around £3 billion-£4 billion, plus as much again in welfare costs and lost earnings.[8]

The greatest burden of this diet-related ill health actually falls on those least equipped to deal with it because of their economic and socially disadvantaged circumstances. Voluntary strictures to improve diet may resonate with the motivated better-off, who may then exert ever greater control over their own health, but more sophisticated measures from the toolkit of possible interventions are needed to reach and persuade others.

In public health debates, the case for regulatory intervention is commonly based on categorisations of activities as either harmful to self, or harmful to others. Curbs both on personal freedom and corporate activity have been justified on the grounds that harm is caused to others. Thus, the ban on smoking in public places was fuelled by a concern about passive smoking. Similarly, interventions about drinking and driving – both in legislation and in campaigning – are justified in terms of preventing harm to others.

But when it comes to food and diet, the categorisations of harm cannot easily be applied. The health effects of poor diet are cumulative and long-term – so it is not possible to

7 *Strategic Plan 2005–2010* (Food Standards Agency Publications, March 2005) (www.food.gov.uk).
8 Dame Deirdre Hutton, BBC/Regeneration Institute lecture, May 2006 (www.food.gov.uk).

apportion risk to the consumption of a single chocolate bar. What is more, our personal consumption does not have a direct impact on the health of others – your cholesterol level is not affected by your dining companion's fried breakfast.

The exception to this, from a government point of view, has tended to be the nature of intervention to protect children within the family, where there is considerable support for interventions that support parents in enabling "healthier choices" to be made. Thus, a case can be made for intervention on the balance of food promotion targeted specifically at children. It is also, clearly, easier for the state as provider of meals – through school dinners or prison – to try to change the content of meals.

While we can make choices about what, how much, where and when we eat, there is an important role for others in informing those choices.

**The role of individuals and families**

At the heart of this issue is the role of individuals, who are clearly the major actors in determining what they eat and feed their families. This is as it should be. Any strategy that forgets the primacy of individuals is doomed. But the individual does not operate in a vacuum. Just as food culture and decisions are formed by information coming from government, from industry and from civil society, so individuals are influenced by those messages.

Information, however, is not enough on its own. Individuals can make the choices they wish only if the options are in front of them. Actions to address problems of access and availability that limit choice are important territory for industry and for civil society and government.

In particular, there are groups of individuals who are in a much less strong position to make choices. Children have traditionally been seen in these debates as a priority, both because they do not make all the choices themselves and also because they are particularly vulnerable to attempts to promote food to them. Similarly, those individuals fed by the state, in schools, prisons and hospitals, are seen as needing particular protection. Again, however, the current discourse is fiercely protective of the rights of individuals, even children, to make "less healthy choices" as long as the different options are before them.

**The role of government and society – nanny or steward state?**

When it comes to government interventions in the diets of individuals, actions are frequently derided, dismissed as needless "nanny state" interference, and denounced as state diktat encroaching on the minutiae of people's lives. Yet failure to intervene or influence in the face of major challenges to the nation's health can also be viewed as irresponsible. Between these polarised criticisms, the state can be seen as steward, with a long-term responsibility for guarding the assets of the nation, including its health.

Whatever the justification for intervention by the state, the tools at its disposal are inevitably limited, with regulation a clumsy instrument for dealing with an issue that is both so personal to individuals and an integral part of the culture in which we live. The way that the Food Standards Agency and UK departments of health have looked to make progress is by persuading food retailers and manufacturers to devise easy and accessible ways of identifying foods that make a positive contribution to a healthy diet.

This sort of intervention is based on the voluntary co-operation of the food industry, and is hotly contested. While there are those concerned with public health who would like a much firmer intervention from government, the legal basis for such an intervention is by no means straightforward and risks losing the support and engagement of industry.

In encouraging changes in consumer behaviour and, perhaps more significantly, enabling such changes to happen, regulators such as the FSA are seeking to work with the grain of the market to encourage greater production of food that can satisfy growing demand for healthier options. This approach to regulation is based on a new compact between industry, government and consumers and assumes that government has a voice that is perceived as authentic and one that has genuine impact. If industry is able to provide appropriate information to help consumers make choices, in turn government, working with non-governmental organisations and others, can raise awareness and in turn increase demand for such products. In response to market demand, industry will then reformulate as well as provide information.

In order to amplify this process, both industry and government are likely to work through institutions of civil society – community organisations, local authorities and non-governmental organisations – to try to convey a set of messages that can be hard to hear. Healthy eating messages can be hard to hear for a number of reasons. First, they require behaviour change in an area that is challenging for individuals. Second, they are competing in a crowded market with messages frequently presented with enormous skill;

by some estimates, we are exposed to around 3,500 marketing messages every day. Third, there is little confidence in the scientific basis behind some healthy eating messages, and this allows the recipients to ignore them all.

Against this background, government has a role in ensuring the evidence base for interventions in the field of nutrition is sound, based on credible science, and expressed in a way that can be heard and understood. Credibility is quickly lost if government and related pronouncements on these issues are seen as partial, ill thought-through, or overly influenced by one part of the market. Ensuring the integrity of the science, and hence of the message, is a critical contribution made by government.

Government can also intervene to influence consumer behaviour in its role as adviser, clinician and teacher. The vast number of contacts that clinicians have with patients every day provides a valuable opportunity for messages to be conveyed in an authoritative and credible way. So too does the contact teachers have with schoolchildren, to enable an intelligent understanding of these issues.

But as this chapter argues, government intervention can only be one part of the contribution. Acting alone, without the active engagement of industry and civil society, there is little hope of success.

**The nature of the industry and its role in food culture**

The food and drink sector is an innovative one, able to develop new products as well as new approaches to marketing. Interventions that clumsily drive out innovation are good neither for business nor for the health of the nation.

But it is naive to think that food culture simply happens. The major actors in the food industry, supported by advertising, marketing and public relations, all play a role in shaping the food culture in which we make the choices that, in the long run, have an impact both on the health and happiness of individuals and on the health of the nation. The way in which food is developed as a product, the way it is marketed and sold, and the way in which the catering sector influences choice are all important contributions to the national diet by the food and drink industry.

Changes in this sector are complex because of the nature of the industry. While the food chain has some major and highly influential players, particularly at the retail stage, it also boasts many smaller owner-managers. In addressing the questions of responsibility, therefore, there needs to be a more sophisticated response than we have largely witnessed to date.

**The role of corporate social responsibility**

Modern regulation, certainly in complex areas, requires a complex and multi-layered approach. Regulation based on the compact between government, industry and consumers will encompass clear information, access and availability of alternatives, and promotion to encourage the market to make demands of industry.

In this context, is there a particular role for corporate social responsibility? As producers, retailers and marketers, industry can make a powerful contribution to developing a more imaginative and innovative approach. But as corporate players there is a larger and potentially even more productive role. An association with ill health has previously tarnished the reputation of the whole food chain, and avoiding this reputational risk in the future will require even more skill and imagination.

At a time when health and well-being are prominent public concerns, it is not just in avoidance of regulatory intervention that major companies are considering their corporate responsibility. It is also part of an important programme of work to develop strong and resilient brands that can be seen as playing a positive role in the food culture of the country.

The alliance with some non-governmental organisations, with community food projects, and with consumer organisations is a delicate and tricky area for companies to navigate. But in pursuit of reputational advantage, alliances that are able to convey positive messages about diet and health will resonate more effectively with many sections of the population if they are delivered through trusted organisations.

## Chapter 3

# A responsibility for education – learning from the examples of business engagement with education

Julia Cleverdon CVO CBE, Chief Executive of Business in the Community and previously in charge of the Industrial Society's Education and Inner City programmes, and David Grayson CBE, Chairman of the Small Business Consortium and a former Joint Managing Director of Business in the Community

## A responsibility for education – learning from the examples of business engagement with education

"Education, education, education" might have been a mantra for business involvement in the community around the world. Education has been a perennial favourite in many different societies, whether that has meant employee volunteers going in to help in schools, or sponsoring school places for child labourers displaced by Western multinationals' drives to stop under-age working in their supply chains. Even back in 1991, a *Harvard Business Review* survey of over 12,000 business managers in more than 20 countries identified education as the critical societal issue for business – and the one consistently rated as the most popular topic for corporate community involvement.

Here in the UK, business involvement in education has seen marked increases in the quality and extent of engagement, and some major changes in attitude from both educationalists and businesspeople to business being involved in education, and it has proved to be one of the most contested areas of public service reform. The lessons of *how* business involvement in education has changed over the past 30 years may be applied to changing business and societal attitudes to other aspects of corporate responsibility in the future.

There have been a number of significant attempts to engage more businesses more systematically in education. Some of these attempts were initiated by business itself, some by governments – both Labour and Conservative. The various government initiatives have demonstrated the truism that governments can, by their actions or inaction, turn on or turn off more corporate community involvement depending on whether business (i) feels genuinely consulted; (ii) is given a clear specification for how and why it should be involved; and (iii) when it does come forward, is treated professionally and promptly, and partnered.

### A brief history of education-business links

In 1976 the then Prime Minister James Callaghan began the process with his Ruskin College lecture launching "the great debate on education". At the time, relations between business and education were polarised. The commonly prevailing perspective could be characterised as one of mutual contempt and ignorance – with few in business or education believing that business had any business being involved with schools.

Thirty years ago too, the Confederation of British Industry launched the Understanding British Industry programme to encourage a better awareness of the importance of business, its crucial contribution to the economy and society; to promote awareness among business of how and why to link to schools; to share experiences of what worked in such school-business links; and to create more channels for such connections to occur. Bob Finch at ICI, Elizabeth McReath at Unilever and Jim Balls at BP were key early pioneers – the latter promoting the BP Schools Link scheme, which by the early 1980s had spawned a wider Teachers in Industry scheme to give front-line teachers the opportunity to work in business. Also in the early 1980s, the Industrial Society's education unit was running Preparing for Opportunities – conferences for fifth-formers intended to encourage school-leavers to be more ambitious in their choice of career, in the face of what industry then perceived to be unimaginative careers advisory services. Industry Year in 1986, under the leadership of Geoffrey Chandler, comprised three strands, including business-education links, which led to the establishment of the Industry Matters enabling scheme.

In parallel, government was developing the technical and vocational education initiative. Originally, this responded to the concerns of science-focused companies that were worried about the lack of science teaching and low numbers of science graduates. As Education Secretary in the Thatcher government, Sir Keith Joseph was alarmed by children's lack of understanding of economics and profits. This led the initiative to be broadened to be a vehicle for offering high-quality, relevant work experience, under the leadership of John Woolhouse.

By the Tory third term, the then Education Secretary Ken Baker was asking business to support the development of city technology colleges. This proved controversial. Some of the major long-term corporate supporters of business-education links, such as BP and ICI, refused – despite considerable political pressure. At that time, many of the most respected campaigners for education-business links believed that it was divisive and inimical to long-term links for business to sponsor schools outside the local education authority controls and to have significant say in the ethos and curriculum of the schools. Nevertheless, a handful of city technology colleges were established, with sponsorship from self-made entrepreneurial businessmen such as Reg Hardy in the North East and Phil (now Lord) Harris. One of the most successful of these was Thomas Telford, sponsored by Tarmac.

Most of the mainstream corporate supporters of business-education links focused on extending the range and quality of the work they were doing with state schools generally – supporting, for example, the Centre for the Study of Comprehensive Schools – and the development of local infrastructure, to make it easier for smaller businesses as well as local operations of the multinationals to get involved. A network of local education-business partnerships were created, from the late 1980s onwards, to broker business support.

The initial stimulus for what became the Education Business Partnership (EBP) movement was a study visit to the Boston Compact in 1986, involving Whitbread, the then London Enterprise Agency and Business in the Community. The Boston Compact was essentially a deal between scholars, schools and local employers brokered by the Compact (itself a joint venture between the Boston Schools Commissioner and business), which linked improvements in school attendance and test grades to summer job and work experience guarantees. The original director of Boston Compact – Cay Stratton – was invited to the UK and has been a prominent player, acting as a special adviser to successive governments on skills and business involvement in education and skills, ever since.

The original East London Education-Business Partnership, modelled on the Boston Compact, spawned what in its heyday was a national network of 300-plus local EBPs. The focus was on raising aspirations and achievements – particularly among those with the poorest results. In Birmingham, for example, the Compact helped lift GCSE pass rates from 4% to 25% in some of the most challenging schools

The EBPs brought together local businesspeople, schools and the local education authority. There had been no all-encompassing national vision in advance to create such an EBP network – but (a) timing, (b) an effective vehicle and (c) key partners were all aligned and positive. There are close parallels with the original Community of St Helens Trust, started a decade earlier in 1979, which became the inspiration for a national network of 400-plus local enterprise agencies – public-private-community partnerships to promote enterprise and help new and growing small businesses. Here too, there had been no prior intention to create a replicable model; but local education authorities, and similarly EBPs, were seen to be a practical and doable response to recognised need. In both cases, Business in the Community played an important brokerage role: convening players, identifying and sharing good practice and "naming and faming" successful local partnerships and business and community leaders.

Key figures at that time, such as Lord Young (chairman of the Manpower Services

Commission and later Secretary of State for Employment) and Sir Brian Wolfson (who led the national body to establish the training and enterprise councils and later headed Investors in People) – both successful entrepreneurs turned public servants – had a vision of work experience for 100% of secondary school students; industry experience for 10% of all teachers; and business experience to be incorporated in teacher-training colleges. With the support of initiatives such as the EBPs and other organisations, such as the Schools Curriculum Industry Project and the government-established, business-led training and enterprise councils, the vision was advanced. Throughout the 1990s, the focus of groups like the EBPs as well as Business in the Community's education work was on getting more businesses involved in schools in the most disadvantaged areas. There was also a drive to extend involvement from secondary schools to primary schools, with a particular focus on literacy, using methods such as persuading employees to volunteer to listen to children reading. Initiatives like Time to Read had a positive, measurable impact on literacy levels as well as on aspirations to learn.

This brief history of business involvement in education over the past 30 years should demonstrate: (i) the long-term commitment of many firms; (ii) the increasing sensitivity of business to the concerns of educationalists about the manner and style of business involvement – for example, in being less assertive about pushing the personal values/agenda of corporate sponsors; and (iii) the need for brokers who are credible with both businesses and schools. (It is no coincidence that some of the most effective protagonists for business engagement in schools have been entrepreneurial former head teachers who could relate comfortably to both schools and business; such as Chris Marsden, who has been responsible for BP's business-education links for many years, and Peter Davies, who masterminded head teacher placements into industry before playing a leading role in BITC for more than a decade.)

**Enduring themes**

Apart from these lessons, a number of enduring themes stand out in business engagement with education, as it has evolved through the past three decades.

First, the importance of engaged, visionary *leadership*, both at local and national levels. It is no coincidence that Birmingham – then under the visionary chief education officer Tim Brighouse – was one of the education authorities that embraced the Compact and collaboration with business. Similarly, the Partners in Leadership programme began when a then senior KPMG partner, Michael Fowles, visited a series of inner-city schools and persuaded seven of his colleagues to join him in a one-to-one two-way mentoring relationship with eight head teachers. Partners in Leadership has since then matched more than 7,000 head teachers with business leaders in a mentoring programme. The experience of PIL was one of the inspirations for government to establish the National College for School Leadership in Nottingham.

Business leadership has also been evident in the drive to recruit many more local businesspeople as school governors. Effective leadership from heads and governing bodies with business experience has been crucial for the ability of individual schools to negotiate effectively with commercial contractors and local education authorities on public finance initiatives. Schools without these skills may not have private finance deals that are viable in the long term. As heads and schools take on a larger management role, the transfer of appropriate management skills becomes one of the most relevant contributions from business. Oracle, for example, has provided its management development programme to the management team of Reading Girls' School, as part of an action plan to help the school come out of special measures. Oracle, incidentally, also won the BITC education award this year with their Think.com, which helps students and schools worldwide to share ideas and collaborate on projects.

In practice, business is now invited to play a greater leadership role in individual schools, through the city academies programme and trust schools. It might be argued that new Labour has reinvented the old city technology college model. The experience of the intervening years – both positive and negative – has convinced many in politics, business and education of the merits of empowering capable leaders on the ground, and of engaging business in the process. The crucial difference now is that by comparison with when the city technology colleges were launched, many more people in education and business have had direct personal experience of working with each other. It takes time to build relationships, dispel mutual misunderstandings and develop friendships and common agendas. And you need mechanisms for achieving this. Since Business in the Community began the HRH the Prince of Wales Seeing is Believing programme in 1990, taking top business leaders into the community to examine social issues and explore the contribution of business to tackling those issues, we have taken more than 5,000 people. More of those visits have been into schools than to look at any other issue.

Another key theme has been the desire of business to focus particularly on those issues that it feels it knows best – *enterprise*. Young Enterprise (modelled on Junior Achievement in the USA) started in the UK in 1958 and has grown rapidly in recent years, from the initial model of a volunteer from business acting as mentor to a group of schoolchildren running a mini-company for a year. It now offers a range of enterprise education programmes. The Education for Enterprise Network started by the Careers Research & Advisory Centre, Project North East and others in 1982 brought together school-based enterprise programmes and those promoting youth enterprise more generally. Throughout the 1980s, it provided a clearing house for practitioners and campaigners to share ideas and good practice. More recently, the government-funded Enterprise Insight has played a similar role, promoting Enterprise Week and the Make Your Mark campaign to encourage young people to be enterprising. A review by McKinsey & Co for Business in the Community's education leadership team in 2005 identified education for enterprise as one of the three top continuing priorities for business engagement in education.

Finally, the critical importance of *making the case for business engagement*. Many business-people (especially small businesses) get involved in education and with a wide variety of other local community activities because of their personal values – they believe it is simply the right thing to do. All they ask is for simple, practical mechanisms to enable them to be involved, and for some stability in funding and support structures. Other businesses (particularly larger national and multinational businesses – faced with a bewildering range of requests to be involved in the community from around the world), look also for a compelling business case. For education involvement this is a mix of: preparing tomorrow's workforce; the costs to business of remedial education work if they don't achieve improvements in the school system, the growing demands for knowledge workers in an era of ageing populations and intensified global competition; and the fact that it is relatively easy to make the connection between effective business engagement in schools and improvements in performance of schools, reduced truancy and better community cohesion.

What is required from government is: (i) an understanding of and responsiveness to the variety of reasons for why business gets involved with education; (ii) clarity of the "ask" from business; (iii) support for effective brokerage services to engage business in education; (iv) an openness to learn in partnership with business and education what works; and then (v) to support the mechanisms through which to disseminate this learning effectively.

## Conclusion

There has been a transformation in attitudes to business-education links, from both sides. Thirty years ago, there was mutual antipathy and ignorance – and links were few and far between. Today, links are widespread, growing in sophistication and there is a growing sense that business and education each need the other. We believe that this can be a stimulus to changing attitudes to other aspects of corporate responsibility.

Chapter 4

# A collective responsibility – is business responsible for the actions of individual employees?

Guy Dehn, Director of Public Concern at Work

## A collective responsibility – is business responsible for the actions of individual employees?

When is an organisation collectively responsible for the actions of the individuals who work for it? How does this principle work in practice? What are the key considerations driving public policy in this area? Why is whistle-blowing helpful?

These questions make us look at how law, policy, organisations and people work together in practice. They involve considering issues that illustrate and define where we are as a society in the complex relationship between the individual and the group. In the context of collective responsibility in the workplace, these issues include influence and responsibility; control and delegation; blame and accountability; prevention and cure. While this topic merits a book, I address it in this short paper by way of three examples that came my way as I began to think about what I had to say.

When I slipped off home early to jot down my initial thoughts, I called in at a local grocery store in Stoke Newington, north London. It is usually very busy, offering a huge array of fresh and cheap foods. Run by a Turkish Cypriot family with no more than eight staff, I have never seen it closed, day or night, in more than 10 years. This time, maybe for the first, I was the only customer. As I was paying for my food, a middle-aged male customer came in. Not well dressed, he looked like he might have had too much to drink. No sooner had he moved for the beer in the fridge, than the assistant serving me told him to stop and a colleague of hers then escorted him out of the shop.

When I asked the assistant if he had caused trouble before, she shook her head and said the shop didn't sell alcohol to people who were drunk. Whether or not the safety of staff or customers were factors in the policy, here was a business forgoing a sale that it saw might cause more harm than good. There were no notices trumpeting the policy and the quizzical look my question prompted on the assistant's face seemed to wonder why it was my or anyone else's business. Here was corporate citizenship in action.

But what if the man hadn't been drunk at all? What if, say, he suffered from a neurological disorder? What if the shop assistant had got the call badly wrong, leading to a commotion or worse? In such a situation, her manager would get involved. Should we judge him a good manager if (a) he backed the shop assistant and ushered the customer out, or (b) he considered the issue afresh and apologised? And if it were all to go wrong and end up in the press or the courts, should the unfortunate error of judgment be the responsibility of the assistant, the shop or both?

**The position at law**

As to the last question, the thinking behind the legal position was set out in the important case of *Majrowski* that the law lords decided this summer:

*Vicarious liability is a common law principle of strict, no-fault liability. Under this principle a blameless employer is liable for a wrong committed by his employee while the latter is about his employer's business. The time-honoured phrase is "while acting in the course of his employment". It is thus a form of secondary liability. The primary liability is that of the employee who committed the wrong.*

*This principle of vicarious liability is at odds with the general approach of the common law. Normally common law wrongs, or torts, comprise particular types of conduct regarded by the common law as blameworthy. In respect of these wrongs the common law imposes liability on the wrongdoer himself. The general approach is that a person is liable only for his own acts.*

*Whatever its historical origin, this common law principle of strict liability for another person's wrongs finds its rationale today in a combination of policy factors. … Stated shortly, these factors are that all forms of economic activity carry a risk of harm to others, and fairness requires that those responsible for such activities should be liable to persons suffering loss from wrongs committed in the conduct of the enterprise. This is "fair", because it means injured persons can look for recompense to a source better placed financially than individual wrongdoing employees. It means also that the financial loss arising from the wrongs can be spread more widely, by liability insurance and higher prices. In addition, and importantly, imposing strict liability on employers encourages them to maintain standards of "good practice" by their employees. For these reasons employers are to be held liable for wrongs committed by their employees in the course of their employment.*[9]

The facts were that Bill Majrowski started work as an audit co-ordinator at an NHS hospital in November 1996. In April 1998 he complained that for over a year he had been criticised, isolated and abused in front of colleagues by his manager, Sandra Freeman, because he was homosexual. His complaint was made under the hospital's anti-

9 *Majrowski v Guy's & St Thomas' NHS Trust* (2006) UKHL 34, Lord Nicholls, paras 7-9.

harassment policy – a policy that it had not been legally required to have, but had introduced as a good employer. The hospital investigated the complaint, found it was proven and suspended Mrs Freeman, who then resigned. In June 1999 the hospital dismissed Mr Majrowski for unrelated reasons. Nearly four years later Mr Majrowski brought a claim seeking compensation from the hospital for Mrs Freeman's bullying.

In their decision this summer, the law lords ruled that employers are now liable to pay compensation when one employee harasses another. As it is irrelevant under this law what steps the employer took to avoid or stop the harassment and what action it took against the harasser, it is unclear how it will encourage "good practice". Rather, it seems more likely the ruling will undermine employers' commitment to tackling bullying at work, as whenever an employee successfully invokes a workplace anti-harassment policy, the employer itself is liable to pay damages – damages that can result from events years before and that require no supporting medical evidence. It is also unclear how the decision will help instil in an employee a sense of responsibility for his conduct when, if he does something bad behind his employer's back, it is not him but his employer who is in the frame. So what were the policy considerations behind this decision?

Mr Majrowski brought his claim under the Protection from Harassment Act 1997. This created new and strong criminal controls that can be taken against stalkers. It also included a provision allowing victims of stalking to bring a civil claim for compensation. By coincidence, it was at the very time that Mr Majrowski was starting at the hospital that the then Conservative government introduced this legislation. It wanted a bill to "put a stop to the fear and misery caused by stalkers, nuisance neighbours and racial abuse" before the forthcoming election. The rush was such that, incredibly, the bill was prepared in less than two weeks and completed its passage through the House of Commons in one day, on 17 December 1996. After it had been considered and amended by the House of Lords, the bill was passed and became the 1997 act.

**Surprising reason for the decision**

In their decision, the law lords ruled that parliament had intended the 1997 act to impose no-fault liability on employers for workplace bullying. This is surprising, as there was no mention of the issue in the parliamentary debates on the bill. Insofar as Hansard is a guide, no minister or legislator then or since indicated that parliament had intended to make employers strictly liable for workplace harassment under this anti-stalking law. And when one realises that, in the run-up to the 1997 election, neither business nor unions nor the political parties said anything publicly for or against such a bold, new law, it seems scarcely credible that this had been the intention of parliament.

When, in 2003, parliament did introduce protection against homophobic bullying in the workplace, it provided employers with a defence where they "took such steps as were reasonably practicable" to prevent one employee from harassing another because of their sexual orientation. The law lords' ruling under the 1997 act, where there is no such defence, removes that incentive for employers to tackle bullying in the workplace.

So if the legislators did not back such a policy, why did the law lords rule as they did? Usually in such circumstances, judicial decisions are based on public policy and are reached after carefully considering the pros and cons. In this case, however, the law lords did not like the public policy either: only one of the five law lords[10] said he supported the decision on these policy grounds. So who determined the policy and how did they weigh up the public policy issues?

As the QCs were running through their arguments about public policy, they were interrupted by the law lord, Lord Hope. He had just seen that one of the sections dealing with Scotland expressly mentioned the liability of employers. Although the act was only a few pages long, no lawyer had noticed the reference beforehand, and so the case took an unexpected turn. The law lords said that such an explicit reference meant that parliament must have intended that employers were liable under the act. And because "parliament must be presumed to have been aware"[11] of the general law of vicarious liability, the law lords decided that parliament must have intended the act to make employers vicariously liable for workplace harassment.

On this analysis, parliament had considered and decided the public policy issues and so the law lords did not have to consider the implications. Though a majority of the law lords are clear they would have decided the case the other way given the chance, they felt they had no option but to defer to the sovereignty of parliament. And on this occasion, as explained below, the sovereignty of parliament was determined by the error of a hard-pressed, if not harassed, lawyer. Effectively – and, ironically, as the case was about collective responsibility – the law lords' decision was built on the premise of an infallible class of administrators for whose actions a vigilant parliament was strictly liable.

10 Ibid, Lord Hope (para 43), Baroness Hale (paras 65-70) and Lord Brown (para 81) made clear they did not support the policy effects of the decision. Lord Carswell did not express a view. Lord Nicholls supported the decision on public policy grounds.
11 Ibid, Baroness Hale (para 74).

**A drafting error**

It seems that what had happened was that in the rush to get the bill ready, a draftsman dealing with the parts of the bill affecting Scotland had cut and pasted an earlier statutory provision to deal with a minor point on time limits, and it was in this section that the reference to employers appeared. Lord Hope[12] was confident that the lawyer who did the cut and paste would have shown it to the parliamentary draftsman who, in turn, would have removed the reference if it had been contrary to the Home Office's instructions. If it was not contrary to the instructions, it was what the minister had wanted (and not just for Scotland). If so, as the minister was the promoter of the bill, this was the way the courts should determine parliament's intention. The fact that nobody in parliament had said a word to contradict this assumption seemed only to confirm the point.

When a series of errors like this happens in ordinary life and causes damage, people will ask: does responsibility fall on one or more of the individuals who made a mistake? If so, is the responsibility also that of their employer or institution? Where the mistake (as with this legislative drafting error) is not unique, they also ask: is the problem a systemic one? And if so, does it require some structural change?

Turning to the bullying suffered by Mr Majrowski, people will ask: should the employer have to pick up the bill for the anxiety Mrs Freeman's bullying caused him? If so, will it make it more or less likely that employers will tackle bullies in the workplace? Should the employer be able to pass the buck back to the bully – the hospital could have joined Mrs Freeman to the legal proceedings, so the courts would allocate responsibility between it and her – and, if so, what would the courts say? Should the same rules apply to the small grocery in Stoke Newington as to a big publicly funded hospital? Is it right that the law sets responsibility in this area on the basis of what is fair, rather than what is just?

**Should it be what's fair or what's just?**

While pondering this last question, Public Concern at Work, the whistle-blowing charity where I work, took a call from an employee seeking advice. He worked in a factory where a colleague had lost his arm in a tragic incident. Apparently the colleague had tried to repair a piece of machinery while it was still running. The isolating device in the machine (similar to the device that stops a microwave when you open the door) had not been working for some weeks and this meant that the machine had to be switched off

12 Ibid, see Lord Hope (paras 50 and 58).

manually before any repairs or maintenance could be undertaken safely. The caller said that while he and his other colleagues would switch the machine off manually – which involved getting down on one's hands and knees – the injured man had got into the habit of not doing this. Because he was much more experienced and senior than everybody else, nobody had been willing to question or challenge him about his folly.

While the caller expressed every sympathy for his colleague, he thought it was unjust that the company was being blamed by the Health & Safety Executive for the accident and unfair that he and colleagues had been slated by senior management for allowing such poor safety practices to develop. When I asked him why he and his colleagues had not blown the whistle on the danger or the fact that the isolating switch was broken, he said that just wasn't the way people did things where he worked.

Was the company or the victim responsible for this accident or is this something they should share? Assuming it is agreed that fairness to the victim dictates that he should be compensated, should this fact also determine how the law allocates responsibility? What about the colleagues who walked on by? Will it help if employees are required to blow the whistle?

**Prevention not cure**

There is no general legal duty on an employee to blow the whistle (and I do not believe there should be). What the Public Interest Disclosure Act 1998 does is to make it clear that the law will stand by a worker who raises a public concern – broadly, one about wrong-doing that threatens the interest of others, as distinct from a grievance or complaint that is about a threat to one's self – in good faith. It seeks to deter organisations from shooting the messenger and encourages managers to solicit and address employee concerns about real risks to the legitimate interests of others.

One of the drivers behind the whistle-blowing legislation and Public Concern at Work was a trilogy of disasters in the late 1980s. These were the ferry that capsized off Zeebrugge, the explosion on the Piper Alpha oil rig and the rail crash at Clapham Junction. Respectively 192, 167 and 35 people were killed. The official inquiries found in each case that staff who worked there had been aware of the danger, but had either said nothing or raised the matter in the wrong way or with the wrong people. Subsequent inquiries have found that similar breakdowns in communication severed lines of accountability and lay at the heart of other disasters. Most recently, the chair of the Shipman inquiry observed that "the willingness of one healthcare professional to take responsibility for raising concerns about the conduct, performance or health of another could make a greater potential contribution to patient safety than any other single factor".

Looking at this underlying issue from the perspective of how best to avoid such a disaster or accident – rather than to determine liability after the event – Public Concern at Work was set up. Its approach is that if someone is genuinely concerned about a danger to health and safety or about a threat to others, they should be encouraged to raise the concern in an open and constructive way and be reassured that there is in practice a safe alternative to silence.

The Public Interest Disclosure Act avoids prescription: it does not require either workers to blow the whistle or employers to introduce whistle-blowing policies. The reasoning was that a culture of individual responsibility and organisational accountability would better be fostered if law and practice in this area encouraged people to think about the issues rather than told them what to do. The approach is that where an individual finds himself in a potential whistle-blowing situation, it is in the interests not only of society but of any half-decent organisation that we try to foster in him a sense of responsibility and consideration for others.

While the whistle-blowing legislation encourages concerns to be raised and addressed internally, it also protects workers who alert regulators to real risks and those who make wider disclosures that are both justified and reasonable. These stepped disclosure options provide a powerful incentive for organisations to solicit public concerns and to address properly any such concern that is raised internally.

It is inevitable that some knaves try to use the whistle-blowing law for their own ends and that some lawyers like to test its boundaries. Nevertheless, the Public Interest Disclosure Act retains the welcome support of business, unions and regulators, because it is helping to deter and detect wrongdoing, foster responsibility and encourage openness in the workplace.

**Approaching a tipping point?**

As I said at the outset, collective responsibility in the workplace merits a book. Ideally, such a book will approach the issue with an open, enquiring mind – heeding the words of John Smith that "We are living at a time of great change, a time of enormous challenge and opportunity ... We are the architects of the 21st century [and] if we are to provide a blueprint for a better future, we must be ready to change and to think how things could be different. And instead of asking 'why?', ask 'why not?'".[13] In this spirit, I start with one observation on the balance of the law in this area.

While there are sound reasons why legal policy in this area has evolved as it has, I think we are approaching a tipping point. First, the law on vicarious liability now seems to be set on a course to expand collective responsibility in the workplace at the very time that society is becoming ever more individualistic. Second, the *Majrowski* case is not the only far-reaching development in this area[14] that was the product of a drafting error rather than of circumspect consideration of the policy issues. Such mistakes are the results of an increase in the quantity and a decrease in the quality of legislation, and of a growing lack of coherence and comprehension among the law, the civil service, government and parliament. Third, the law in this area has evolved and survived – notwithstanding misgivings about its inefficiency – because it has been based on responsibility and fairness. If it loses sight of these guiding lights, as it appears to be doing, it will lose its way and risk losing public confidence.

More generally, on the basis of our experience at Public Concern at Work, I offer some observations on responsibility in the workplace. I am clear that the example set by organisational leaders has much more influence on the conduct of people than any staff manual, regulation or law. As to how an organisation operates collectively and effectively, my view is this depends on how it reconciles – and is able to thrive on – the competing obligations it owes to its workers, customers, owners and the community.

Shifting from the organisation to the individuals working with it, I have two observations. From our helpline, one cannot but be struck by the enormous range and variety of people who help to make up organisations – each with his own mix of abilities, ambitions, anxieties and attitude. Second, people at work assume that their manager is the embodiment of the organisation, and this can allow the interests of the organisation to become confused with those of the manager. It is this confusion that can often cause things to go wrong – to the detriment of the organisation as well as those it serves. If we are to focus more on prevention rather than cure, we need to remember that in practice it is the action of individuals (be they employees or managers) that is the determining factor, and so their own responsibility should be part of the equation.

13 John Smith Memorial Trust; quote from speech on 6 November 1992.
14 A second example can be found by googling "Speak Up or Pay Up".

It is for this reason that a more open workplace culture should be encouraged. If someone at work reasonably suspects a danger or threat to others, they or their manager should deal with it if they have the authority and ability to do so. If neither of them does, they should both be encouraged to notify those above or outside who do. Though some still view this approach as novel, the fact is that all those we deal with at Public Concern at Work – be they workers, business, public bodies, regulators or policy makers – see the sense of it. For this reason if no other, this practical approach should be recognised as law and policy develops on collective responsibility in the workplace.

## Chapter 5

# A responsibility for profit – how investors are driving the CSR agenda

David Pitt-Watson, Chairman of Hermes Equity Ownership Services, Jon Lukomnik, Managing Partner of Sinclair Capital, a New York-based strategic consultancy for the financial services industry, and Stephen Davis, President of Davis Global Advisors, a leading adviser on international corporate governance[15]

15 David Pitt-Watson, Jon Lukomnik and Stephen Davis are joint authors of *The New Capitalists: How Citizen Investors are Reshaping the Corporate Agenda.*

## A responsibility for profit – how investors are driving the CSR agenda

This chapter discusses three questions. First, *who are the investors who own our largest companies?* Today, they are not rich tycoons. They are huge fund management institutions, representing the highly diversified savings of millions of ordinary working people. Today it is citizen-investors who own our large multinational companies. That provides a new starting point for thinking about corporate social responsibility.

Second, *what sort of social responsibility will investors require of the companies they own?* The existence of the citizen-investor changes the social responsibility demanded of companies. But it does not impose limitless obligations. This chapter outlines what the demands of the investor will be, and hence helps to frame the limits of social responsibility that can assumed by the private sector, and therefore what will be the necessary role for the public sector.

Third, *if we wish to promote the interests of the citizen-investor, what sort of infrastructure will help this process?* Today, the capital markets of the world are poorly equipped to promote the long-term sustainable behaviour that most investors will want. Yet over the past 20 years, there have been many movements and initiatives to change this. What are they, and how can they be developed?

### Who are the investors?

The majority of large British companies are owned by vast investment institutions: Barclays Global Investors, Legal & General, Fidelity, Schroders and others. But these institutions do not invest their own money. They invest on behalf of millions of people saving for their pensions and their life insurance. Around 60% of the adult population has an interest in funds that ultimately own our large companies. These are ordinary working people. They mainly invest through collective investment schemes, where all investors have to be treated equally.

The top five pension funds represent savings made on behalf of telecom and postal workers, electricity workers, mineworkers and university lecturers. And increasingly, it is not just British savers who own British companies. It is savers from similar investment institutions all around the world. Around a third of the shares in British companies quoted on the London stock exchange are in fact owned by foreign institutions, which in turn represent millions of grassroots savers.

This ownership structure makes a powerful difference to the social responsibility that owners will demand of companies.

In the past there were three compelling reasons for companies to pay attention to social responsibility. One was that market forces made them do so. A company that earned a reputation for cheating its customers or poisoning its workforce would not stay long in business. Another was the threat of regulation. Poor social performance would invite the government to pass laws to stop such behaviour. A third, which is often less recognised, is the need to develop a culture within an organisation. Successful companies are ones in which there is a very clear sense of what sort of behaviours are right and wrong. If this is out of step with the values of society, the company will find it difficult to succeed.

It is for these reasons that the overwhelming weight of research suggests that, no matter what their ownership structure, companies that take seriously their responsibilities to their workforce, their customers and their communities are more successful financially for longer than those that pursue short-term financial goals.

However, where a company is controlled by one individual who has no other interests, it is all too easy for it to behave irresponsibly towards the rest of society. Joel Bakan, a law professor at the University of British Columbia, describes the corporation as "an externalising machine" with a "proclivity … to profit by harming others".

That may be the temptation for a company with one owner, but it is not true where each company has many owners, and where each owner is invested in many companies. It is the latter model that characterises the ownership of most British companies today. The owners are millions of people, each with a tiny share in hundreds of companies. If those companies externalise their costs, in order to benefit their owners through higher short-term share prices, they are essentially robbing from one pocket to put money in the other. The same owners who receive profits will have to suffer externalised costs through either a degraded quality of life (for instance, suffering from air pollution) or by paying more taxes to remediate the externalised damages. Of course, this has always been the case for ordinary citizens subject to Bakan's externalising machine; the difference is that, now, six out of 10 of them are likely to be owners of the company.

Diversified citizen-owners want – and increasingly have the ability to influence – all the companies in which they invest to play by the rules. And they need the rules to be set in a way which will maximise benefit for the citizen-owner, in terms of both profits and ancillary effects.

The question then is: what are the reasonable rules by which companies should be expected to play?

**What sort of social responsibility will investors require?**

People saving for their pensions invest in companies in order to ensure that they will have adequate income for their retirement. The implicit deal is that companies will be run to maximise the value they generate for shareholders.

All other things being equal, this means generating the maximum surplus over the long term. First and foremost, the responsibility of business is to make a profit, and generate financial value. No profit, no pensions. That is fundamental to the whole investment process.

But making a profit is entirely consistent with social responsibility. As mentioned above, the evidence suggests that companies that generate value over the long term are ones that take their wider responsibilities seriously. Recent research by the Work Foundation has shown that companies that focus on developing their workforce, on innovation and on serving customers perform better financially than those with a shorter-term financial perspective.

Note this does not mean that companies should "give away" their profit. It means that, in the information economy of the 21st century, good relations with workforce, customers and community are an essential ingredient of long-term success. They are part and parcel of an effective production process.

Furthermore, it makes no sense for the citizen-owner to encourage companies to externalise, since the owners will, in aggregate, bear the cost of that action.

So, what sort of social responsibility will a citizen owner demand of the companies she owns?

One answer can be found in the work of Hermes Pensions Management. It manages two of Britain's largest pension funds, owning approximately 1% of the shares in every British company. It is a recognised leader in the field of corporate governance, and has been clear on the behaviour it expects of the companies that its clients own. Of the 10 "Hermes Principles", two relate to social, ethical and environmental issues:

- Companies should manage effectively their relationships with their employees, suppliers and customers and with others who have a legitimate interest in the company's activities. Companies should behave ethically and have regard for the environment and society as a whole.
- Companies should support voluntary and statutory measures that minimise the externalisation of costs to the detriment of society at large.

Hermes claims that these principles are not simply an expression of their own views. They are a logical consequence of the fact that most large companies are owned by millions of citizen-investors. It would directly contradict their own interests for such investors to encourage companies to behave in a way that is either unfair, or financially or socially irresponsible.

The Hermes Principles do not provide an automatic solution to every problem; they simply create a framework for debate. The question every company needs to ask is whether its actions are to the benefit of its citizen owners, and if not, why not.

The influence of this sort of thinking is already apparent in the behaviour of the best British companies. For example, some of the largest carbon-extracting companies, including BP and Shell, recently wrote to the UK Prime Minister demanding a *tougher* long-term regime to reduce greenhouse gas emissions. They reasoned that their current activities were environmentally unsustainable in the long term, and regulation was needed. That action, though it may have resulted in lower short-term profits, was entirely consistent with the demands of the company's citizen-owners.

A similar justification would apply to the behind-the-scenes campaigning of investors who persuaded the pharmaceutical companies to license their drugs in the developing world, or the decision of British companies to withdraw from Burma. In each case, the actions may not have been consistent with maximising short-term profits, but were consistent with removing long-term risks and, therefore, maximising the potential for corporate success over time. That, in turn, is perfectly aligned with citizen-owners seeking to save for pensions or other future liabilities.

If the interest of the citizen-investor can be enhanced, this can create a profound shift in the way in which we have traditionally thought about business. Essentially it suggests that empowered citizen-investors will guide companies towards policies that are socially positive (or at least not harmful), as well as financially successful. The aim of the government is to ensure that this system of accountability works effectively, and to regulate only when the pressures of the market encourage companies to profit from externalising costs. And the companies will welcome such intervention as a way to ensure a level playing field in pursuit of the citizen owner's interest.

**What infrastructure will promote these outcomes?**

For many years, progressive politicians toyed with the notion that the only way to make business socially responsible was to regulate it, or to control it. Today, in a knowledge economy owned by citizen investors, there are new possibilities. Essentially the aim would be to create a "civil economy", reflecting "civil society". In it, companies would respond to the demands of citizen-investors represented by investment institutions, whose job it is to hold boardrooms accountable.

However, our investment institutions are ill-fitted to exercising the ownership functions necessary to promote the citizen-owners' interests.

Although collectively they control, on behalf of their clients, the majority of shares in British companies, most investment institutions are not structured around their role as owners of companies, but rather around their role as traders of shares. Most fund managers are not judged on whether they have intervened to ensure companies are well managed for sustainable success. Instead, they are measured and remunerated according to whether they have bought and sold shares so that their portfolio outperformed the average. If a company begins to perform badly, many fund managers' first instinct is simply to sell the shares. That is why so many fund managers are accused of short-termism by companies, despite the fact that the citizen-investors they represent are typically looking for a return over 10, 20 or even 30 years.

Furthermore, in the past it was difficult for investors to have much influence on companies. Until recently, the company was a law unto itself. There was no constitution of the board. Few board directors went through a formal appointment process, or even had a job description. No evaluation of directors took place. And most were rubber-stamped in their position by a vote of less than 20% of their shareholders.

Over the past 15 years this has begun to change. From the work of Adrian Cadbury to that of Derek Higgs, boards of quoted companies have, on a voluntary basis, allowed themselves to be "constitutionalised". The positions of chief executive and chair have been separated, independent committees established, appointments and review procedures put in place. In the field of corporate governance, Britain is widely recognised as a world leader.

The same drive to constitutionalism, propelled both by law and voluntary guidance, has begun to affect investing institutions. Pension funds themselves have become more democratic, with 50% of trustees elected by beneficiaries rather than appointed by the sponsor. They are now formally asked to establish a statement of investment principles, covering CSR issues. Partly as a result, investment institutions are beginning to take their ownership role seriously. Around 60% of shares are now voted. Trustee boards appoint full-time experts to oversee voting and ownership functions in addition to share trading. Activist funds have been created to gee-up underperforming companies.

But there is a long way to go. Few observers would suggest that boards of directors run their companies explicitly for the benefit of the citizen-investor. Still fewer citizen-investors would be convinced that such accountability exists. And the chains of governance that should link the citizen-investor, through his or her pension fund, to fund managers and companies remain weak.

Nevertheless, profound reform has already begun. That reform suggests a new starting point for policy makers. Instead of government seeing its role as the protector of the worker, the consumer and the citizen against the abuses of reckless corporations or heedless shareholders, policy needs to recognise that we are all at the same time workers, consumers, citizens and shareholders.

From that viewpoint, there are natural forces that encourage social responsibility in business. These include not only traditional market forces, regulation and culture. Today there is a new driving force – the citizen-owners. It is important that progressive reform crafts a policy agenda that addresses their powerful new position and potential in society. By harnessing all these forces, progressive reformers have the opportunity to ensure that business, by its very 21st-century nature, is configured to generate sustainable wealth. Business can then be a reliable ally in creating innovation, social mobility and meritocracy.

The emergence of the citizen-owner means that the power of capital and investment can now be seen as a natural contributor to sustainable development and our common prosperity.

## Chapter 6

# A responsibility for the future – who should be tackling climate change?

Dr Steve Howard, Chief Executive of the Climate Group, and
Sophy Bristow, the Climate Group

## A responsibility for the future – who should be tackling climate change?

Climate change is now widely recognised as the greatest environmental threat the world has ever faced. Arguably, it takes us beyond our typical understanding of what an environmental issue actually is, because if climate change continues unchecked then it is not just the natural world, but the political, economic and human landscape that will be irreversibly and devastatingly altered. Surely then, someone must step up and take responsibility for protecting us from this fundamental threat?

The knee-jerk reaction is that this must be a role for government. After all, isn't the whole purpose of government to act for the greater good of its citizens? Climate change is a difficult issue because, so far, it feels so distant that individuals lack the sense of threat needed to take direct action. Furthermore, the investment cycles of the market are too short-term to automatically take global warming into account. In short, it seems as though this is the very type of issue that governments were designed to tackle – they can act on the bigger picture and in our long-term interests. Of course, the problem here is that the time horizons of climate change also expand beyond the average democratic government term. Still, in the UK we are already seeing a political consensus emerge, with all three main political parties pinning their green credentials to the mast and putting climate change at the heart of the policy agenda.

**Regulatory action**

Indeed, all around the globe the regulatory framework is starting to evolve. The best-known initiative is of course the Kyoto protocol, an international agreement covering 164 countries globally and 55% of the world's greenhouse gas emissions, committing ratifying countries to reducing their carbon emissions over fixed periods of time. However, political progress is also being made in many other contexts. Various US and Australian states as well as several world cities are developing robust policy frameworks to address the climate issue. In California, for example, Governor Schwarzenegger has just signed Bill AB32, which puts a cap on California's greenhouse gas emissions and creates a clear path for a market-based system and other mechanisms to bring the state's emissions back down to 1990 levels by 2020.

One of the possible regulatory approaches for meeting the target set out in AB32 would be to introduce a "cap and trade" system. Indeed, the emergence of emissions trading, which puts a price on carbon, is one of the strongest trends in tackling greenhouse gas emissions. Trading systems enable participants to reduce emissions at least cost, giving them the option to buy reductions from elsewhere when their own abatement costs are high. The EU Emissions Trading Scheme, the highest-profile example, traded €7,218 million worth of emissions in 2004.

Many other similar schemes are evolving. The Regional Greenhouse Gas Initiative in the US, for example, brings Northeastern and Mid-Atlantic US states together to reduce emissions from electric power generators via a regional trading scheme. In the UK there are plans to extend emissions trading beyond the companies that pass the threshold for the EU Emissions Trading Scheme and to launch a compulsory domestic scheme for energy users with electricity bills exceeding £15,000 a year, which would cover organisations as diverse as Tesco and the BBC.

It is clear that a significant proportion of the existing policy framework focuses on regulation of the business sector. The market has put no financial value on the capacity of the earth's atmosphere to absorb the greenhouse gases poured into it as a consequence of fossil fuel-driven economic development – the same pollutants that are now causing global warming; something carbon pricing seeks to redress. But should the world's corporations not be taking more responsibility for tackling a problem that they have certainly played a part in creating?

In addressing this question, it is interesting to ask first whether there are reasons for industry and business to act to reduce their carbon footprints, regardless of whether or not it is, in moral terms, the *right* thing for them to do.

**Motivation for the private sector**

Fortunately, there are plenty such reasons. First, being proactive on energy and climate change is about sound risk management. As we have seen, as legislation becomes more far-reaching and carbon markets evolve, those companies that limit their footprints sooner rather than later will be better positioned over the long term. However, it is short-sighted to think that defensive action is the only driver for change. The flip side of risk is opportunity, and new markets are already opening up.

Even at a basic level, reducing emissions, particularly through energy efficiency, can result in significant cost savings. In 2005, the Climate Group's report *Carbon Down, Profits Up* showed that BT, Dupont and Catalyst Paper had already achieved absolute reductions of greenhouse gas emissions in recent years of 60% or more. What is more, their total gross saving as a result of the actions taken was estimated to be US$4 billion. Recent research by the Climate Group suggests that another 21 companies have achieved reductions of more than 25% and saved another US$10.9 billion combined. And although return on investment for energy efficiency decreases as low-hanging fruit is picked, if the current trends in energy price rises continue, then margins will shift in favour of continued efficiency improvements.

Going beyond the simple gains from efficiency, developing solutions in high-impact areas will become increasingly profitable. Already, research and development into all types of clean technology is leaping up. General Electric's *ecomagination* initiative, for example, is a commitment to invest $1.5 billion annually by 2010 in this area. By May 2006 it had already increased its revenues from environmental goods from $6.2 billion to $10.1 billion. With the worldwide market for wind, solar, geothermal and fuel cell energy estimated at $200 billion in 2020, it is no surprise that dynamic companies are looking to establish themselves in this field.

**Consumer demand on the increase**

Rising consumer awareness of climate change is another trend that can clearly be seen as an important business opportunity. Recent research carried out by the Climate Group with brand consultancy Lippincott Mercer found that 28% of consumers in the UK and 19% in the US were "strongly concerned" about climate change, supporting a potentially much larger market than for organic or Fairtrade products when retailers first differentiated products in those areas. These findings show a latent demand for products, services and brands that would allow individuals to reflect their climate change concern in their spending.

The success of the Toyota Prius, the world's first mass-produced gas-electric hybrid vehicle, is testament to the desire for lower-carbon products. Sales passed half a million units worldwide this year and, largely due to this single product, Toyota is one of the first companies to develop a positive brand association linked directly to climate change. We have also recently seen BP launch its "target neutral" campaign, offering motorists the chance to effectively neutralise the emissions associated with driving by supporting projects that reduce the equivalent amount of carbon dioxide elsewhere. Furthermore, there is ongoing discussion, with a number of high-profile companies involved, around a product-labelling scheme on climate change to empower customers to make responsible choices.

The signs that customers are willing to exert their power through what they choose to consume are encouraging, but the Climate Group's research has shown that there are still major barriers keeping individuals from doing more. These range from lack of awareness about the problem to a feeling of powerlessness, perceived inconvenience around possible actions, wanting clearly to see that governments, businesses and other individuals are also doing their bit, and reluctance to pay extra for climate-friendly options. There is a role here for consumer brands to step in. With their considerable marketing budgets, they are ideally placed to raise awareness and excite consumers about new, low-carbon choices. And of course, the more customers are empowered and the more businesses show the benefits from taking a leadership stance on this issue, the more encouragement there will be for governments to take further action of the type that fosters, rather than limits, individual choice and entrepreneurial activity.

To conclude: in asking who should be responsible for tackling climate change, it is important to make a differentiation between the moral and practical elements of the debate. Clearly, there are moral arguments for government, business and individuals all to take responsibility for climate change, and depending on your personal and political perspective you might think that some sectors should take a greater share of that responsibility than others.

But looking beyond this, there is one very good reason for *all* these sectors to take action – because ultimately it is in their own interests to do so. Instead of trying to argue that one sector is more important than another in tackling climate change, we need to understand the linkages between government, business and individual action on this issue, to avoid a situation where each sector passes the buck to another, and to work together to develop solutions that deliver win-win outcomes for society. Ultimately, prosperity, growth and political longevity can all go hand in hand with a proactive stance on climate change. And that is why we can be optimistic about the future.

## Chapter 7

# A responsibility for government – how far should companies go?

Jane Nelson, Senior Fellow and Director of the Corporate Social Responsibility Initiative at the Kennedy School of Government, Harvard University, and a Director of the International Business Leaders Forum

## A responsibility for government – how far should companies go?

One of the least researched, yet most strategically important issues in the emerging field of corporate social responsibility is the relationship between CSR and the public policy frameworks or governance context within which companies are operating – locally, nationally and globally.

CSR can be defined as the way a company manages its overall impacts on and contributions to society through the following three spheres of corporate influence:[16]

- Core business operations and investments – including the company's governance mechanisms and its activities and relationships in the workplace, the marketplace, and along its value chain, be it local or global. The main contribution that any company can make to society is through carrying out its core business activities in a profitable, productive, ethical and responsible manner. The key goal should be to minimise and account for any negative impacts that may arise from these activities, and to increase and leverage positive impacts and contributions.
- Strategic philanthropy and community investment – aimed at mobilising not only money, but also the company's people, products and premises to help support and strengthen local communities and non-profit partners, preferably in a manner that is aligned with the company's core areas of competence and interest.
- Public policy dialogue, advocacy and institution building – efforts by companies, either on an individual or a collective basis, to account for their interactions with government and, where relevant, to participate in public policy dialogues and advocacy platforms and to help governments build public capacity, strengthen institutions and deliver public goods.

Although specific impacts and contributions in these three areas will vary depending on the company, industry sector and location in question, all three spheres of influence are relevant for the majority of companies, especially large corporations. While much attention has been focused on the first two areas outlined above, relatively little attention has been paid to the third area by either proponents or critics of CSR. This is the case even in terms of exploring the relationship between corporate responsibility and traditional business lobbying, political campaign finance, payment of taxes and government relations; let

16 Nelson, Jane *Business as Partners in Development: Building Wealth for Countries, Companies & Communities* (Prince of Wales International Business Leaders Forum, United Nations Development Programme and World Bank, 1996).

alone new approaches to influencing or addressing public issues such as public-private partnerships, charters and covenants between governments and business groups, multi-stakeholder policy consultation structures and new governance and accountability mechanisms.[17]

**What is business' proper sphere?**

In *The Economist's* much-quoted critique of CSR in January 2005, author Clive Crook concluded:

*Managers, acting in their professional capacity, ought not to concern themselves with the public good. They are not competent to do it, they lack the democratic credentials for it, and their day jobs should leave them no time even to think about it. If they merely concentrate on discharging their responsibilities to the owners of their firms, acting ethically as they do so, they will usually serve the public good in any case. The proper guardians of the public interest are governments, which are accountable to all citizens. It is the job of elected politicians to set goals for regulators, to deal with externalities, to mediate among different interests, to attend to the demands for social justice, to provide public goods and collect the taxes to pay for them, to establish collective priorities where that is necessary and appropriate, and to organise resources accordingly. The proper business of business is business. No apology required.*[18]

This would be fine if governments fulfilled all these functions effectively, efficiently and legitimately. Yet they often fail to do so – especially in times of crisis, or when public problems are particularly complex, multidimensional, long-term or systemic in nature. This is the case even in stable and democratically elected administrations, let alone in the fragile governance environments that exist in many transition and developing economies, where multinational corporations are increasingly major investors.

As *Fortune* magazine stated in a cover article a few months after Hurricane Katrina devastated America's Gulf Coast, "Government broke down. Business stepped up … Hurricane Katrina brought out the worst in Washington and the best in business."[19] The magazine went on to argue, "… that isn't to suggest that corporations can or should supplant government"; but the experience of Katrina and similar complex emergencies in

17 Some of the best research on these issues has been undertaken by SustainAbility (www.sustainability.com) and AccountAbility (www.accountability.org.uk).
18 Crook, Clive "The Good Company: A Survey of Corporate Social Responsibility" in *The Economist*, 22 January 2005.
19 Fox, Justin "A Meditation on Risk" in *Fortune*, 3 October 2005.

recent years illustrates the growing challenge of negotiating boundaries of responsibility between different levels of government and between government and major corporations, which have built increasingly dispersed and sophisticated risk management, logistics and operational capabilities that match and in some cases exceed government capabilities and capacity.

Focusing on a different, but equally complex issue, Harvard Professor John Ruggie – the UN Secretary-General's special representative on business and human rights – stated in his interim report to the United Nations Human Rights Council: "The role of states in relation to human rights is not only primary but also critical. The debate about business and human rights would be far less pressing if all governments faithfully executed their own laws and fulfilled their international obligations."[20] But governments in many countries fail to do this. As a result, the media, activist and even shareholder spotlight has focused increasingly on the role of corporations – ranging from mining and oil to apparel, pharmaceutical, agri-business and information technology companies – in upholding human rights, or at a minimum avoiding complicity in human rights and labour abuses.

**Problems without passports**

The governance challenge is arguably even greater when it comes to tackling cross-boundary issues, those that UN Secretary-General Kofi Annan has described as "problems without passports". These include global climate change, health epidemics, immigration, regional conflict, money laundering and other socioeconomic, environmental or political challenges that have existing or potential impacts across national borders, and that create business risks or opportunities for a number of industries and companies. In such cases, there is growing recognition that the private sector must engage proactively in the public policy agenda and explore new types of interaction, and in some cases partnership with the public sector at local, national and even global levels.

As McKinsey & Co noted about the results of one of its 2006 quarterly surveys:

*Although lobbying – often behind closed doors – is as old as business itself, high-level and concerted corporate activism in the social and political arena has been conspicuous by its absence. That deficiency, executives tell us, is the result of short-term financial pressures, a lack of familiarity with the issues, and the sense that specialists in the public-affairs*

20 *Promotion & Protection of Human Rights* (interim report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, 62nd session of the Commission on Human Rights, 22 February 2006).

*and legal departments handle this sort of thing. Such thinking, we believe, is dangerous and wrong headed. Business leaders must become involved in sociopolitical debate not only because their companies have so much to add but also because they have a strategic interest in doing so.*[21]

Björn Stigson, president of the World Business Council for Sustainable Development, commented in a 2006 speech on climate change:

*Business must address two separate sustainable development agendas. The first is a business agenda, centred on the "business case for sustainable development". Even those CEOs who do not believe in sustainable development are doing many things associated with it because they make perfect business sense – besides helping to create a more sustainable world. ... The other is a public policy agenda, dealing with the framework conditions for business based on government rules and regulations. This agenda is coming our way in business whether we like it or not, and we have to relate to it and manage the different agenda items.*[22]

Or as the International Federation of Pharmaceutical Manufacturers & Associations stated in a recent publication on global health:

*Improving the health of the poorer populations in underdeveloped countries presents society with a complex challenge that requires a far larger mobilisation of resources, capacities and skills than either the public sector or any single industry can achieve on its own. Public-private partnerships have become a distinctive feature of the healthcare landscape.*[23]

In all of these very different examples – responding to complex emergencies, upholding human rights, tackling global health challenges and addressing climate change – there is little argument that the primary responsibility for action should belong to governments; but in today's world, resources and influence are too dispersed for any one sector to have all the necessary answers, capabilities or legitimacy to implement solutions on its own.

21 Bonini, Sheila MJ, Mendonca, Lenny T and Oppenheim, Jeremy M "When Social Issues Become Strategic: Executives Ignore Sociopolitical Issues at Their Own Peril" in *The McKinsey Quarterly* no 2, 2006.
22 Stigson, Björn "Our Common Future? Business and Climate Change" (speech made at the Carbon Trust, London, 12 September 2006)
23 *Partnerships to Build Healthier Societies in the Developing World* (International Federation of Pharmaceutical Manufacturers & Associations, September 2006).

Even when governments are responsive and accountable for serving the needs of their citizens, there is growing debate and experimentation on where and how the private sector might be more effective, efficient and even equitable in the delivery of public goods, and on where and how it can play an appropriate role in the shaping of public policy.

**When failures arise**

It is particularly difficult for the business community to stand on the sidelines as disinterested observers when there are serious governance gaps or institutional failures. In such situations, especially where the governance context directly undermines or threatens companies' abilities to "discharge their responsibilities to their owners", business leaders need to respond. At the very least, they need to be able to assess the risks of inaction to the long-term sustainability of their business models. They also need to understand and, increasingly, account for the impact of their business activities, and their payment of taxes, lobbying and support for political campaigns on the public policy and governance context in the different locations where they operate. And in selective cases, where they deem there is a strategic business risk or opportunity created by this context, they need to have a strategy for active engagement – either on an individual or a collective basis, which may require industry-wide action or some type of multi-stakeholder coalition.

The role of the private sector in influencing the quality of governance – either national or global – is clearly sensitive. Even when companies act through representative trade and industry associations, many question the mandate and legitimacy of business to influence national governance, let alone to shape global governance frameworks, norms and standards. There is no doubt, however, that companies and business associations do influence political and governance processes – both transparently and behind closed doors, both for the common good and vested self-interest, both positively and negatively, and with all manner of variations between these extremes. The challenge for responsible companies is to ensure that they engage in public policy debates and governance issues in an accountable and, wherever possible, transparent manner.

The most effective, appropriate and legitimate response by business will vary depending in part on the industry sector, but also on the type of governance and institutional frameworks that exist in the country or situation in question. As already outlined, the most challenging situations for responsible companies are those where there are serious governance gaps or institutional failures. At the risk of oversimplifying an extremely complex set of conditions and possible scenarios, there are three main types of governance gap that have particularly important implications for CSR and the way companies can respond:[24]

### (i) Bad governance

This relates to governments that are repressive, unaccountable to their citizens and/or corrupt. At a minimum, they put their own interests above those of their citizens and in many cases actively undermine the human rights, economic opportunities and aspirations of the people they are governing. They are often, but not always, undemocratic. Wealth is usually highly concentrated, rent seeking is common, and allocation of productive resources is characterised by cronyism, inequity and lack of transparency. Corruption is usually widespread and endemic.

Many companies avoid investing in such regimes, but where strategic natural resources are located in these countries, or where a situation seriously deteriorates – Zimbabwe being a good example, in recent years – companies must decide whether to invest/remain or disinvest. If they invest or remain, they are under increasing pressure to publicly account for the impacts of their own activities, and to participate in new types of multi-stakeholder governance and accountability mechanisms to minimise any negative impacts. They need to grapple with the challenge that "normal" business activities, which may be benign or low-impact in locations where there is good governance and strong public institutions, could have highly negative knock-on effects in a context of bad governance. If they chose to disinvest, then they must decide how best to protect and support their local employees and consider the impact of their departure on local communities.

An emerging development that is likely to challenge Western multinationals operating in some of the most difficult parts of Africa, Asia, Latin America and the Middle East, from both a competitive and a corporate responsibility perspective, is the dramatic increase in Chinese and other southern multinationals starting to make major investments in these countries. These new players don't face the same civic activism, reputation threats and legal challenges in their home countries as their Western counterparts when it comes to accusations of human rights and environmental abuses. Finding ways to create a level playing field in terms of standards and to share good practices will be difficult, but

24 Adapted from Nelson, Jane *Building Linkages for Competitive & Responsible Entrepreneurship* (Kennedy School of Government, Harvard and UNIDO, 2006) and *Operating in Insecure Environment* (paper prepared for the Brookings-Blum Round Table, Brookings Institution, August 2006).

increasingly important. The *Financial Times* has commented: "There is a risk that the blooming Chinese relationship [with Africa] will undermine efforts by some African leaders and the desires of Western partners to promote more responsible government, transparency and sharing of revenues … China's rise as an economic power is a great chance for the continent. But Africa needs to use it wisely."[25]

Examples of new types of accountability mechanisms, accreditation schemes, and standards and guidelines that have been developed collectively by groups of companies – often in partnership with governments and other actors – aimed at improving the quality of governance and minimising the negative impacts of private investment in such situations include the following:

**Initiatives focused on improving both public and corporate governance**

- The Extractive Industry Transparency Initiative – Established in September 2002, this initiative aims to improve the transparency of revenues generated by extractive projects and to stimulate wider dialogue within developing countries about public expenditure priorities. Partners include donor and developing country governments, the World Bank, oil, gas and mining companies and civil society organisations. Increasing transparency will empower citizens and institutions to hold governments to account and make mismanagement or diversion of funds away from development purposes more difficult. Such an initiative has relevance for other industries where large amounts of resources are exchanged between the public and private sectors.
- Integrity pacts – These are country-based mechanisms or tools, piloted by Transparency International, aimed at preventing corruption in public procurement. They are based on an agreement between a government institution and all bidders for a public-sector contract outlining a set of operational, bidding and disclosure standards that all parties agree to adhere to in the bidding process, along with sanctions for non-compliance. Although still limited in coverage, integrity pacts have been demonstrated to work in a number of legal and political settings.

Initiatives focused on improving corporate practices

- The Equator Principles: Created in 2003 by the International Finance Corporation and an initial group of 10 banks from different countries, this has the aim of providing a

25 "China's African Affair: Africa's Western Partners Need to talk to Beijing" in *Financial Times*, 26 June 2006

social and environmental screening tool for major project finance deals. The participants in the Equator Principles now account for over 80% of relevant deals in developing countries and include financial institutions from over 20 countries.
- Commodity supply chain standards and certification schemes: These include initiatives such as: the Kimberley Process for diamonds; the Forest Stewardship Council; the Marine Stewardship Council; the World Cocoa Foundation; and the Coffee Partnership.
- Manufacturing supply chain standards: Initiatives in this area include: the Fair Labor Association; the Ethical Trading Initiative; SA8000; the International Council of Toy Industries' ICTI Care Process; and the Electronic Industry Code of Conduct.
- The Business Principles for Countering Bribery: Launched in 2002, these principles were developed by Transparency International in partnership with Social Accountability and a steering committee drawn from companies, trade unions, academia and other non-governmental organisations. They offer a practical tool and framework for companies in different sectors to implement anti-bribery programmes.
- Wolfsberg Group: Initiated in 2000, with input from Transparency International, this is a network of 12 global banks that aims to develop industry standards and related products for know-your-customer, anti-money laundering and counter-terrorist financing policies.

### (ii) Weak governance

A second type of governance gap or failure relates to governments that lack the necessary institutional or administrative capacity and financial, human or infrastructural resources to effectively serve the needs and aspirations of their citizens. Often this is the result of more responsible leaders succeeding one or more generations of bad governance and needing to overcome years of underinvestment in public services and degradation of institutional and physical infrastructure – and in some cases facing the challenge of rebuilding a failed state after periods of conflict and political turmoil. In such situations, the challenge is to actively support these governments in building or strengthening the institutions needed to better serve their citizens.

Although institution building is primarily a function of governments and donors, the private sector can play an important role – especially in the area of building economic and financial institutions, but also helping to strengthen education, health and even justice systems. Examples where companies have played such a role include the following:

- **Strengthening the criminal justice system in South Africa:** South Africa's National Business Initiative, which consists of over 150 domestic and foreign companies, has been working in partnership with the South African government to undertake a national project involving the sharing of technology, financial support, managerial expertise and planning skills to help the country's criminal justice system become more modern, efficient and integrated.
- **The Netherlands Financial Sector Development Co-operation:** In July 2004, the Dutch government's ministries of foreign affairs, economic affairs and finance entered into a co-operative agreement with ABN AMRO, ING, Fortis, Rabobank and the Netherlands Development Finance Company to combine their expertise to stimulate the financial sector in developing countries, emerging markets and transition economies. The co-operation fits with the Dutch government's aim to involve the business community more in the execution of Dutch development assistance, and the government and banks will each bear half of the costs of the initiative.
- **Strengthening health and education institutions in Africa, the Middle East and Latin America:** In a number of countries, companies are working with host governments, donors and non-governmental organisations to support efforts aimed at improving the delivery capacity and quality of public health and education systems. ExxonMobil, for example, is supporting the Africa Health Initiative, focused on building systems capacity to tackle malaria in a number of African countries; Abbott Laboratories is working with the government of Tanzania, Axios Foundation and Muhimbili Hospital on the Tanzania Care programme to improve capacity of the country's main referral hospital; Merck is working with the Bill & Melinda Gates Foundation and the Botswana government on the African Comprehensive HIV/AIDS Partnership; in South Africa, Nigeria and Guatemala, Chevron is working with a variety of government, business and NGO partners to scale up national efforts to address road safety, via the Arrive Alive initiative; Pfizer's Infectious Diseases Institute in Uganda is starting to train health professionals from around Africa; the National Business Initiative in South Africa is helping to improve administrative capacity in hundreds of public schools through its Educational Quality Improvement Programme; and in Brazil, the American Chamber of Commerce is working with some 3,000 Brazilian and foreign companies and the Brazilian government to support a similar project, Instituto Qualidade no Ensino, which is reaching about 5,000 schools.

### (iii) Indifferent governance or lack of political will

This type of governance gap relates to governments in both developed and developing countries that may be democratically elected and relatively well resourced, but are overly influenced by special interest groups and/or lack the political will when it comes to tackling certain major economic, environmental or social challenges. Examples include: failure to remove market distortions to pro-poor growth such as agricultural and other subsidies; failure to prioritise economic, education and health infrastructure in national budgets over non-productive public interventions or military spending; and failure to address crucial environmental, social and economic challenges in areas such as climate change and international development. Depending on the issue, lack of political will can often be addressed through pressure, encouragement or support from citizen-led groups, business associations and/or other governments.

Business associations and corporate leadership networks can play an important advocacy role and in some cases directly support government efforts to implement better macro-economic policies and management. Companies can also become engaged in advocacy and lobbying efforts to address lack of political will when it comes to government failures to prioritise and allocate resources to crucial development or environmental needs.

- **Corporate and investor advocacy on climate change:** Initiatives such as the Climate Group, the Investor Network on Climate Risk and the Energy & Climate Programme of the World Business Council for Sustainable Development are playing an increasingly important role in putting climate change more firmly on the public policy agenda in the United States and elsewhere.
- **Corporate advocacy for international development and poverty reduction:** In the US, the Initiative for Global Development has mobilised more than 100 American business and civic leaders to publicly call on the government to "make the elimination of extreme global policy a priority". In the UK, Business Action for Africa has brought together more than 50 companies and business networks to share good practices and to mobilise public awareness, political support and private resources for African development. Within developing countries themselves, more business groups are starting to engage proactively with their governments in the development of national growth and poverty reduction strategies.

In summary, good governance is one of the essential foundations on which sustained economic growth and poverty reduction are based. As part of the emerging corporate social responsibility agenda, companies and business associations are playing a more proactive and influential role in shaping governance structures and public policies, not only as they relate directly to economic growth and private-sector development, but also to support the achievement of broader economic, social and environmental goals.

There is no doubt, however, that the major responsibility for avoiding bad governance, strengthening weak governance and aligning political will with public interest rests with governments themselves – at the local, national and global level. It is important that companies and business associations ensure that their engagement on public policy issues is accountable, consistent and transparent, and that they manage the expectations of their stakeholders in terms of what they can and cannot do when it comes to addressing governance gaps and institutional failures.

Key actions that leading companies are taking to address these challenges include the following:

- Ensuring greater internal dialogue and improved organisational and reporting links between CSR departments and government relations and public affairs teams, including the establishment of a cross-functional senior management team to address key public policy and CSR issues in a more integrated manner.
- Integrating CSR and public policy issues at the board level, for example through a board subcommittee that has responsibility for ensuring a more holistic governance structure and overview of these issues.
- Identifying and publicly communicating the company's positions on key public policy issues that represent specific risks and/or opportunities to the company and/or its industry sector, with public communication ranging from public policy sections on company websites and sustainability reports to chief executive speeches and statesmanship.
- Establishing external, independent stakeholder advisory groups to serve as a sounding board, and in some cases as an additional accountability or assurance mechanism for the company on particularly sensitive public policy issues or concerns. Such advisory groups can have a direct relationship with the board or with senior management teams.
- Creating new types of leadership alliances, either collective industry-wide initiatives or multi-stakeholder partnerships, to tackle complex and systemic challenges that no one company or sector can address on its own.

The interface between CSR and local, national and global governance and public policy agendas is likely to come under growing scrutiny in the coming years, both by the supporters and critics of business and by companies and policy makers themselves. As in other aspects of corporate responsibility, compliance with the law and efforts to be accountable and transparent and to "do no harm" should be the starting point for leading companies. At the same time, as the public problems faced by individual nations and by the international community on a global basis become increasingly complex and intractable, and pose ever greater risks and opportunities for business, there will be a growing need not only for product and process innovation on the part of companies, but also for institutional and policy innovation on the part of both governments and non-governmental organisations, including the private sector.

In discharging their responsibilities to their owners, business leaders will have no choice but to concern themselves with the public good – at least those public goods and issues that directly influence their business risks and opportunities and are likely to affect the success, security and sustainability of the countries and communities in which their companies operate. The ability to identify and prioritise these public goods and issues, and then determine the best strategies for addressing them – either individually or collectively – will be an increasingly important mark of good business leadership in the years ahead; not replacing, but complementing the ability to remain competitive, productive and profitable.

## Chapter 8

# Enforcing responsibility – the role of regulation

Philip Hampton, Chairman of J Sainsbury, and leader of the Hampton Review on Regulatory Inspection and Enforcement, conducted for HM Treasury in 2005

## Enforcing responsibility – the role of regulation

In the 1980s and 1990s, many large UK companies trumpeted their adherence to shareholder value as their sole raison d'être, reflecting an aggressive drive for efficiency and performance and the increasing mobility and power of capital markets. Both of these features enjoyed strong political support.

While the need to perform financially is still pre-eminent, and companies are unlikely to survive if they do not thrive, it is now supplemented with an increasing need for companies to demonstrate their corporate responsibility credentials. Some of this activity arises from government pressure or legislation, some may reflect marketing opportunities, but the mainspring for this shift in focus is that customers are responding to it, or demanding it. Journalists, lobby groups and other commentators are reinforcing these pressures. Corporate responsibility looks here to stay.

**Areas of corporate responsibility**
It is a vague term, but we probably know it when we see it. For example, there has been very strong growth in the number of supermarket customers who will pay more for Fairtrade products and organic sourcing, and such products are moving from the margins to the mainstream. Together with waste, recycling and energy conservation they represent new points of competitive differentiation, and are now even supported by TV advertising campaigns.

Whether or how government intends to support these changing values will be an important issue. This autumn the Companies Bill is due to receive royal assent, and is expected to include provisions requiring company directors – while promoting the success of the company for the benefit of its members – to recognise wider "stakeholder" interests, all of which would fall under the general corporate responsibility banner. These include:

- considering the interests of employees;
- fostering relationships with suppliers, customers and others;
- minimising adverse impact on the community and environment; and
- maintaining high standards of business conduct.

In the jargon, these provisions oblige directors to pursue policies of "enhanced shareholder value", not in financial terms but in terms of range of responsibilities.

Giving legal force to matters that are inherently hard to measure transparently and objectively will present new challenges to boards of directors. Moreover, as with any effective regulatory regime, there will need to be provisions for non-compliance and, ultimately, a sanctioning or penalty regime.

The regulatory and legal framework for making these provisions clear and effective will be hard to define and, while the bill is designed to codify existing obligations from case law, the scope for legal challenge, directly or indirectly, looks plain. The challenge will be greater given that company legislation is normally expected to be of enduring impact, while many of the issues that fall under the scope of corporate responsibility or stakeholder interests change regularly and rapidly with society's expectations, and will routinely be subjective.

The difficulties that can arise from vague definitions of duties and accountabilities range from the largely administrative (how the minutes of meetings can properly reflect that the directors have made decisions responsibly) to the potentially burdensome (the prospect of legal challenges to business decisions).

We will see, over the next few years, whether this codification of duties turns out to be substantive and makes a difference, or is just some extra words in company law. The danger is that it may not lead to better or more enlightened decisions than would otherwise be the case, while adding to complexity and legal burdens. It is almost always true that business can respond more quickly and creatively to customer and stakeholder expectations than government can legislate; and increasingly these powers rest with Brussels, which adds to complexity.

This is not to say, of course, that new regulations are always unnecessary. Especially in the environmental area, there are a number of issues – such as taxation of (largely untaxed) aviation fuel – that may well be appropriate for specific new legislation; but many such issues appear to require EU or even global co-operation to be effective. Unilateral UK law will have little overall impact.

Regardless of the forthcoming Companies Act, it does seem clear that companies are recognising that proper attention to corporate responsibility will increasingly differentiate well-managed businesses. For this to be of any lasting value, it has to be substantive, and the best companies will probably regard corporate responsibility as integral to everything they do, rather than as a discrete programme. Customers' desires are growing and shareholder interest in how companies respond to this shift is, therefore, also growing. Large companies are now routinely and publicly rated according to their ethical and environmental policies, and investors are allocating more resources to dedicated "ethical funds". The impact of this on consumer businesses is obviously greater than in other sectors.

**Examples from Sainsbury's**

Sainsbury's, for example, would reasonably argue that it has focused on corporate responsibility issues for a very long time, and has simply redoubled its efforts in recent years. Some of the attitudes, such as a focus on local sourcing where possible and an early determination (from the 1970s) to have deeper engagement from employees through share ownership, may reflect the family origins of the company, but more recent examples include the following diverse matters, extracted from Sainsbury's latest corporate responsibility report. These reflect the five key principles that underpin Sainsbury's approach to corporate responsibility.

1. The best for food and health

Healthy living involves exercise and diet. In 2005, Sainsbury's launched the Active Kids programme to help provide sports equipment to around 30,000 schools in the UK. Sainsbury's is removing all hydrogenated fats from its own-label products and is at the forefront of developments to help customers make healthier food choices through its pack labelling – the "wheel of health".

2. Sourcing with integrity – "farm promise" milk

Sainsbury's commitment to sourcing from the UK wherever possible led the company to launch "farm promise" milk, which will help British farmers convert to organic standards. Farmers' costs for converting are being fully covered by a 5p-per-pack contribution – part of the sales price. It is the first time a major retailer has worked directly with farmers to encourage them to move to organic.

3. Making a positive difference to your community – food donation

Sainsbury's has been donating food since 1998 to charities such as the Salvation Army, FareShare and Food for All. The food, which is safe, edible and nutritious, is beyond its display-by date but within its use-by date. The value of food donated to charity in 2005/06 was more than £3.3 million. Food donations not only demonstrate support for the less advantaged in local communities, but also reinforce commitment to the environment by diverting surplus food from landfill sites.

4. Respect for our environment – compostable packaging

Sainsbury's recent move to replace 150 million plastic trays and bags used in ready meals and organic food with compostable packaging will save 4,010 tonnes of fossil fuel and 3,550 tonnes of plastic, as well as reducing rubbish collected for landfill. Sainsbury's will also be making packaging guidelines much clearer on food labels – for instance, "Sorry, not recyclable" or "Please recycle" – to make it much clearer to customers what they can do to recycle or compost.

5. A great place to work – age 50-plus

People over 50 often find new sources of employment difficult to obtain, but customers often prefer older, more knowledgable staff. Sainsbury's set itself the extremely ambitious target of recruiting 10,000 colleagues over the age of 50 and increasing its percentage of over-50s to 21% in 2005/06.

These examples are selected primarily to show the diversity of issues that all might be described as stakeholder or corporate responsibility issues. In fact, there are hundreds and possibly thousands of such decisions routinely taken over any extended period of time by a company such as Sainsbury's. Many of those will have little financial cost, although others can be financially very costly and, occasionally, an inconvenience to some customers. For example, Sainsbury's decided recently to stop supplying a number of fish species, not because it was illegal, but because we decided it was wrong; stocks in the oceans have fallen to dangerously low levels. We are making these sorts of choices because we think it is right.

There is a job for legislation in terms of requiring, if necessary, companies to report on corporate responsibility initiatives and challenges in a formal way, in the annual report or similar documents. The quality and quantity of such reporting has increased enormously in recent years. A contribution is also made from government-backed organisations such as the National Consumer Council's report in September 2006 on "greening supermarkets", a relative assessment of environmental initiatives and performance by UK supermarkets. Other non-governmental organisations, such as Which?, do similar work.

What seems less clear is whether a wide-ranging role for any significant new legislation, or additional regulatory burdens, is appropriate. Such moves should be resisted and introduced only as a last resort.

THE SMART COMPANY

The SMART Company is a leading consultancy specialising in corporate responsibility, community investment and related public policy issues. SMART provides strategic advice, practical support and original research to clients across the private, public and voluntary sectors.

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The Smith Institute is an independent think tank that has been set up to look at issues which flow from the changing relationship between social values and economic imperatives.

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