



Corporate Citizenship *challenging 'business-as-usual'*

entrepreneurship
for
people, planet and profit

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Business is in transition. Increased competition, commercial pressure, stiffer regulation, rapidly changing technology and consumer demands are creating a whole new playing field. Added to this is the 'Seattle phenomenon' – the worldwide protest at the growing gulf between rich and poor. Capitalism is held responsible, and business seen as part of the problem. Business legitimacy and credibility are at stake as never before. It is no longer enough to simply employ people, make a profit and pay taxes. Business is now expected to act responsibly, be accountable and benefit society as a whole.

*This is the new agenda of **corporate citizenship**. It holds that responsible business is about more than just charity or community welfare:*

- *It is about putting ethical principles at the core of business strategy.*
- *It is about first-rate management and continuous improvement in products, services and customer satisfaction.*
- *And ultimately, it is about ensuring that every business decision and operation promotes social and environmental welfare while also making a profit.*

PEOPLE ARE DEMANDING

In 1994, *The Economist* wrote of:

“the era of the corporate image, in which consumers will increasingly make purchases on the basis of a firm’s role in society: how it treats its employees, shareholders and local neighbourhoods...”

That era is now here.

The *Millennium Survey*, an international public opinion poll held in 2000, found remarkably universal attitudes to the changing relationship between business and society.

People told pollsters that:

- 79% of them hold companies responsible for health and safety.
- 75% of them say companies are responsible for bribery and corruption.
- 73% of them say companies should be responsible for protecting the environment.
- 72% of them say no to child labour.
- 56% of them judge companies on ‘social responsibilities’.
- Over 60% in Europe and America consider punishing companies who are not socially responsible.

GOVERNMENTS ARE REACTING

In Spring 2000, the New Labour government appointed the world's first minister for corporate social responsibility (CSR). The minister, Dr Kim Howells issued a report, *Business and society: developing corporate social responsibility* in March 2001, profiling case studies of business action on CSR. It affirms the Government's view that CSR is a key component of mainstream competitiveness. There are now over 60 Government initiatives of relevance for CSR. (www.societyandbusiness.gov.uk).

Other developments include:

- The UK parliament has two all-party groups on corporate citizenship: the All-Party Parliamentary Group on Corporate Social Responsibility, and the All-Party Parliamentary Group on Socially Responsible Investment.
- The ongoing review of UK Company Law has adopted a multi-stakeholder approach involving companies, non-governmental organizations and other civil society groups in a far-reaching examination of

the social, economic, and environmental implications of Company Law.

- In July 2001, the European Commission will be issuing a discussion paper on Corporate Social Responsibility and the management of change.
- The Turnbull report (1999) on corporate governance requires company directors to include environmental, reputation and business probity considerations in their risk management strategies.
- In 2000, the Business Impact Task Force, comprising business, voluntary organizations & government, reported that: a company's approach to managing supplier and customer relationships, workforce diversity and work/ life balance as well as its efficient management of environmental issues are central to competitiveness. (www.business-impact.org).
- In 1997, the Government introduced the New Deal to encourage business to offer opportunities to the unemployed.

- The Ethical Trading Initiative, supported by the UK government, promotes internationally agreed labour standards in the supply chain of products made in developing countries for the UK retail market.
- The 1995 Pension Act now requires occupational pension fund trustees to report on the extent to which ethical, social or environmental factors are considered in their investment decisions.
- The Department of Trade and Industry has produced a booklet for UK business on the OECD Guidelines for Multinational Enterprises, to promote socially and environmentally responsible behaviour on the part of UK inward and outward investors.
- The government now requires green purchasing in public procurement on a variety of products: e.g. sustainably and legally harvested timber and timber products, and recycled paper products. It is also has targets to reduce energy consumption, reduce office waste, water consumption and car use.
- The Prime Minister has challenged all FTSE-350 companies to report on environmental performance by the end of 2001. A House of Commons committee is calling for mandatory environmental reporting.
- The government provides guidance on business reporting on major environmental impacts – greenhouse gas emissions, waste and water use – and is developing guidance for broader ‘sustainability’ reporting covering environmental, social and economic issues.

Increasingly business leaders have concluded that if their companies are to prosper over the long term they must directly address public concerns on the relationship between business and such issues as the environment, human rights and corruption. Some have decided that by taking a lead in these areas they will eventually gain a competitive advantage. Others see it simply as a necessary requirement to continue operations on a global scale in the future. In either case they see “global citizenship” as the way forward.

Robin Cook MP
UK Foreign Secretary

COMPANIES ARE RESPONDING

UK plc has not remained deaf to the demands of customers, shareholders, employees, markets and regulators for change. The costs of inaction are too high. Reputations and prospects are at risk.

The best firms have learnt from excesses of the past such as the pensions mis-selling scandal. This affected 1.5 customers, is now costing £13.5 billion to put right, and has contributed to a sharp fall in sales of private pensions. Now many leading firms are keen to profile corporate citizenship as one of their unique selling points.

Other developments include:

- Around 80% of FTSE-100 companies now provide information on their social and environmental policies. (*Business & Society, DTI*)
- In a MORI survey of small and medium-sized enterprises (SMEs), 61% of respondents said they were involved 'a great deal' or a 'fair amount' in the local community. This survey showed that one in eight smaller businesses gave cash, time and gifts worth over

£50,000 to the local community in 1999. (*Business & Society, DTI*).

- A recent survey¹ of media, institutional investors and other key stakeholders indicated that 42% of respondents believed a company's CSR track record would increasingly affect share prices. **89% said their decisions as legislators (MPs, MEPs), regulators, journalists and NGOs would in future be influenced by CSR issues.**
- The *Financial Times* has recently announced that the introduction of FTSE4Good – a new range of indices covering corporate performance on environmental issues, human rights, social issues and stakeholder relations. This index will offer broader information on a company than currently available through traditional financial indices. Several studies now show that SRI funds on average yield earned higher returns than others, and that environmental and human rights performance is a good predictor of overall performance.

¹ *The Responsible Century*, Burson-Marsteller.

- The UK's co-operative businesses, offering a different business model, are considering establishing social performance indicators to 'reconnect their commercial and social goals', and distributing at least 10 per cent of surpluses as 'community dividends'.
- The PerCent Club, (www.percent.org.uk), an initiative launched in 1986 by Business in the Community, acts as a benchmark for corporate community investment in the United Kingdom. It comprises a group of companies that are committed to making an investment in the communities in which they operate and which requires presently a minimum investment of ½ percent of UK or global pre-tax profits. The PerCent Club millennium standard is set at 1% and the aim is that businesses will reach this level of investment by 1st January 2001.
- Corporate social responsibility does pay. The Co-operative Bank estimates that its ethical

policies yielded a net financial benefit of £13 million during 2000. It also found that 20 per cent of its current account customers were attracted to the bank for ethical and environmental reasons.

CORPORATE CITIZENSHIP IS BORDERLESS

The Millennium Poll of 25,000 people in 23 countries on six continents, found that perceptions of companies around the world are more strongly linked with corporate citizenship (56%), than either brand quality (40%) or perceptions of business management (34%).

In the US, land of 'fat cat' pay packages, companies are increasingly linking executive pay to the company's social and environmental performance. Shareholder pressure has contributed to the adoption of performance criteria such as diversity, customer and employee satisfaction, and environmental issues by companies.

Let us choose to unite the power of markets with the authority of universal ideals. Let us choose to reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of future generations. Let us ensure that prosperity reaches the poor. Let us choose an enlightened way forward towards our ultimate, shared goal: a global marketplace that is open to all and benefits all.

Kofi Annan
Secretary-General,
United Nations

BUSINESS-SOCIETY PARTNERSHIPS

There are now numerous colours, shades and varieties of business-society partnerships promoting sustainable development and human rights across the world. The following are major initiatives at the international level:

- *corporate leadership partnerships* such as the United Nations' **Global Compact**, launched by Secretary General Kofi Annan in 1999, to urge companies to adhere to international human rights and environmental principles;
- *technical partnerships* such as the **Global Reporting Initiative** to establish international reporting guidelines for corporate reporting;
- *industry-specific partnerships* such as the **Global Mining Initiative**, the United Nations' Environment Programme's **Sustainable Finance Initiative**, and its **Global Telecom Initiative** to address the digital divide;
- *development activism partnerships* such as **Netaid** (a collaboration between the United Nations Development Programme & Cisco Systems) to encourage individual 'eAction' on poverty;
- *urban development partnerships* such as that between firms and local authorities in the **Bremen Initiative**;
- *health promotion partnerships* such as the **Global HIV/AIDS Fund initiative**;
- *disaster relief partnerships* such as between communications firm Ericsson and UN humanitarian agencies; and
- *industry/ academia partnerships* such as the **Alliance for Global Sustainability** to assess the environmental impacts of electric-power generation from cradle-to-grave.

This is by no means a comprehensive list. The United Nations is also developing guidelines on business and human rights to provide a 'clear statement of what the international community regards as the human rights responsibilities of business.'

UK 'GOOD PRACTICE' CASE STUDIES

Corporate citizenship has been taken up by many leading British firms. Some have adopted company-wide policies on corporate social and environmental responsibility, and hired dedicated staff to ensure that the reality matches their CSR rhetoric.

This focus is now on action and delivery. Some front-runner companies which invested early-on in CSR, are now yielding results and providing lessons on good practice. A few award-winning case studies are highlighted below. Ranging in size from large multinationals corporations to small firms, they show that there is no recipe for CSR. Each case is different. But what they share is a total commitment to CSR and strong leadership from the top.

These companies are on a road that hopefully many more will follow...

COMMUNITY INVESTMENT ²

Diageo (formerly Grand Metropolitan) is the world's premium drinks company. Its major business is Guinness UDV, which employs 26,000 in 200 countries. Diageo had pre-tax profits of £2billion on turnover of £11.9bn in the year to June 2000.

Diageo's work with the Tomorrow's People charity to help unemployed people find jobs – and to support them once they have found one – is a model of best practice in community involvement and has placed the premium drinks company at the forefront of Europe's socially responsible businesses.

The Company :

- Commits one per cent of world-wide pre-tax profits to community involvement, worth around £18million last year.
- Has corporate citizenship guidelines for all staff.
- Carried out a 'total impact' study of its Polish subsidiary drinks company UDV to look at the part it plays in Poland's social and economic life.
- Has spent more than \$43million in the US since 1991 on loans to increase the number of ethnic minority-owned Burger King franchise restaurants.

²Source: *Ethical Performance Best Practice*, Summer 2001

Background: Corporate giving is growing significantly in the UK. However, an increasing number of companies are now choosing to put more money into specific community projects rather than giving it straight to charity, according to the Directory of Social Change, a training organization for the voluntary sector.

SOCIAL AUDITING ³

Camelot operates the UK National Lottery, employs 900 people and had pre-tax profits of £56million on lottery ticket sales of £5billion in 2000. It consulted a wide range of stakeholders to create two landmark social reports that analyze the impact of its business activities on different groups. Its award-winning social auditing work has helped to consolidate its position as UK national lottery operator and offers investment opportunities for the future.

The company:

- Has a disability policy that promises to 'dismantle social and practical barriers' for disabled lottery players and staff.
- Won a commendation in Business in the Community's 2000 Impact on Society Awards for 'outstanding work in the field of corporate social responsibility'.

- Gave £1million to the Camelot Foundation during 2000 for distribution to community initiatives.
- Spend £385,000 to tackle 'excessive lottery play' during 2000.

Background: The number of entries to the UK Social Reporting Awards rose last year, from 13 to 25.

SOCIALLY RESPONSIBLE INVESTMENT ⁴

Friends Ivory Simes (FIS), the asset management arm of the life assurance group Friends Provident, employs 400 people and made pre-tax profits of £24.7million in 2000 on turnover of £71.3m. It says that institutional investors have a responsibility to encourage companies to improve their governance of ethical and environmental issues. Its new Responsible Investment Overlay service enables investors to use their influence to encourage positive change.

The company:

- Has employed socially responsible investment techniques since 1984.
- Has £37billion under management and manages £18 billion of this using its Reo service.

³Source: *Ethical Performance Best Practice*, Summer 2001

⁴Source: *Ethical Performance Best Practice*, Summer 2001

- Ran a year-long series of seminars on human rights during 2000/ 1 in conjunction with the International Business Leaders Forum.
- Manages the investments for the pension funds of Oxfam and Christian Aid using Reo.
- Is a member of the SRI Forum, which brings together investment institutions & businesses and has produced guidelines on ethical investment.

Background: Forty-eight per cent of UK pension funds want fund managers to consider the financial impact of ethical, social and environmental issues, according to research published by the UK Social Investment Forum in October 2000. The study found that larger pension funds were more likely to take SRI considerations into account than smaller funds.

SOCIAL EXCLUSION⁵

Barclays Bank is one of the UK's largest high street banks with more than 15 million customers and 75,000 employees in some 60 countries. Last year it made profits of £3.5 billion before tax on operating income of £9.6 billion.

Barclays Bank is supporting the creation of a microcredit scheme accessed through a bank account for people on low incomes in northern England. Salford Money Line is an example of how banks can work in partnership with the local community to provide services that are tailored to the needs of the financially excluded.

The bank:

- Published its first social report in November 1999.
- Has written off £1.4 billion of debt owed by developing countries.
- Offers unsecured loans of up to £5000 through the Prince's Trust charity to help young unemployed people in the UK to start a business.
- Was a founding member of the Cares InCorporated programme, which encourages UK companies to release staff for community work.
- Was one of the first financial institutions to agree to support the UK's Universal Bank, which will provide basic banking services for the socially excluded.

⁵ Source: *Ethical Performance Best Practice*, Summer 2001

- In response to the recommendation of the Social Investment Taskforce, Barclays was the first UK bank to disclose its activities in under-invested communities.

Background: According to the UK government's policy action team on financial exclusion, one in 10 UK households have no bank or building society account. More than three million households owe money to door-to-door lenders.

CORPORATE GIVING ⁶

Transco is a gas pipeline operator (formerly part of British Gas) that delivers gas to 19.5 million consumers around the UK. It is now a member of the Lattice Group, employs 14,000 people, and made pre-tax profits of £1 billion last year on a turnover of £3 billion. Transco has applied fresh thinking to long-standing concerns for health and safety with an initiative that has dramatically reduced accidents in the workplace, saved money and demonstrated the company's social responsibility while raising large sums for Mencap, a charity which helps people with learning disabilities.

The Company:

- Works closely with the Lattice Foundation, the charitable arm of its parent company, which gives financial help to community groups working to regenerate communities, improve local environments and encourage life-long learning.
- Aims to help one million UK families out of fuel poverty over five years through its Affordable Warmth programme. This helps tenants of local authorities and housing associations with energy efficiency measure including new central heating, loft insulation and energy advice.
- Has set up a four-strong social and community affairs team to look after its role in the community.
- Actively encourages employee volunteering, especially to improve school literacy and numeracy.

Background: The world-wide community spend of UK companies during 1999/ 2000 was around £450 million, an 11 per cent increase on last year (£405 million) according to the annual survey by Corporate Citizen magazine.

⁶ Source: *Ethical Performance Best Practice*, Summer 2001

HUMAN RIGHTS IN THE SUPPLY CHAIN⁷

B&Q plc is the UK's largest home improvement chain. In 1999, its profits reached £188 million – a success built not only on products and pricing but responsibility and reputation. Ten years ago, B&Q made a decision to take full responsibility for the social and environmental impacts of their own and their suppliers' operations. Adopting a country-by-country approach, B&Q works with suppliers to ensure that their products, processing methods and labour practices are consistent with international environmental and human rights norms and standards.

For example, in India, B&Q worked with factory owners to make brassware casting safe for workers; helped set up a health clinic for 800 weaving families; became the first UK retailer to stock Rugmark rugs made without the use of illegal child labour; started a savings scheme for women workers; and introduced a water treatment plant to reduce lagoon pollution. B&Q offers a practical model for other companies to follow and publishes material to encourage others in the sector to follow suit.

⁷ Source: *Business & Society*, Department of Trade and Industry March 2001

The company lists the business benefits of corporate social and environmental responsibility as:

- Continuous improvement in conditions has made supply chains more efficient.
- Managing environmental and social issues through continuing improvement has supported their reputation when there are high profile concerns in these areas.
- The company has won coverage on TV and in the national press as a positive example to others.
- Child labour and deforestation are emotive issues-employees are proud to work for a company that tackles these issues head-on.
- Acting voluntarily, ahead of any legislation, puts B&Q in a strong position and guards against unforeseen costs.

ENVIRONMENTAL MANAGEMENT⁸

Printing company, **Bovince Ltd.** Is a family-run small firm that is now reaping the benefits of its far-sighted commitment to environmental management. As a printing firm, the company is in a potentially environmentally-damaging sector and wanted to control its environmental risks and benefit from the efficiency gains. It's worked. Their Svecia direct projection system, for example, bypasses the

⁸ Source: *Business & Society*, Department of Trade and Industry March 2001

traditional film stage when producing large posters. As a result, the company saves around £1200 (about 20%) on a typical large billboard, and cuts chemical use and waste.

Their success stems from a formal, structured approach to assessing their environmental impact, taking steps to reduce it and reporting on the process. Its environmental reporting has won it a top award and make it publically accountable in the process.

The company lists the business benefits of its corporate social and environmental responsibility as:

- Investments in new technology have led to real savings, such as a 20% reduction in the cost of the typical billboard promotion.
- Their strong reputation as an environmentally-responsible company has created new markets with organizations who select supplies on green performance as much as cost and quality.
- With such an excellent grasp on the regulatory requirements, Bovince is well-prepared for possible future legislation.

COMMUNITY PARTNERSHIP⁹

Box-maker **AssiDomän** is a 30 year old small firm, but with a growing profile as a result of its partnership with local education and development organizations. The company, which employs 80 local people at its site in Wales, started its partnership four years ago while embarking on certification for the ISO 14001 environmental management standard. It invited local teachers and schoolchildren to visit the site and observe the manufacturing process. The enthusiastic response led to a formalizing of the educational relationship between the company and local schools, and AssiDomän now regularly helps bring the curriculum to life for local students. Schools report that pupils – and teachers – are more enthusiastic about their lessons, and the scheme has helped create closer relationships with other parts of the community too.

The company lists the business benefits of its corporate social and environmental responsibility as:

- The company's profile has soared with regular coverage in the local press.
- Nationally, they've attracted attention too. The company

⁹ Source: *Business & Society*, Department of Trade and Industry March 2001

was invited to talk to the House of Commons about the project – giving them unique access to decision-makers.

- Staff morale has increased – many are keen for the company to be contributing to the community.
- Many of the children are related to employees – and some may work for AssiDomän in the future.
- In 2000, AssiDomän was awarded the Investors in Young People award by Business in the Community.

EMPLOYEE RELATIONS ¹⁰

Seaview, a small hotel on the Isle of Wight in southern England has developed innovative policies designed to improve the welfare of its staff. This has helped to strengthen the business and keep employee turnover rates at a low level. The hotel employs 40 staff and its employee turnover rate is only 14 per cent compared to the industry average in excess of 50 percent a year. Part of the reason for this success is the owners' strong desire to behave ethically and focus on staff welfare. The hotel's philosophy of buying locally, employing local people and saving resources has turned a business into a community business. This

philosophy has now helped it raise its turnover from just £60,000 to £1.2m since they bought the rundown hotel in 1980.

Seaview, which is accredited for an ethical business charter run by internet company, Good Corporation:

- Sent 34 of its 40 staff on training programmes last year.
- Encourages employees to stay at the hotel and eat at the restaurant for a minimal price, so they can try the food and test the service.
- Pays each staff member to eat at other restaurants on the island to benchmark Seaview's performance for themselves.
- Offers a system of internal 'job swaps' each year to encourage staff to experience work elsewhere in the hotel.
- Recycles as much waste as possible, including passing on old beds to those in need, and computers to the local school, uses low voltage lighting and monitors water and power use.

Background: According to the Institute of Business Ethics, late payment and retention of reliable staff are cited as the two most important business ethic issues affecting small and medium-sized businesses.

¹⁰ Source: *Ethical Performance Best Practice*, Summer 2001 and *Business & Society*, Department of Trade and Industry March 2001

Inclusion of any company in this pamphlet does not imply endorsement
of the company as a whole by the Centre for Social Markets

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The Centre for Social Markets (CSM) is an independent non-profit organization, with offices in India and the UK, dedicated to making markets work for the *triple bottom line* - people, planet and profit. We promote leadership for responsible entrepreneurship and accountability in commercial and public life. Our key target groups include business, investors, workers, consumers and legislators, particularly in developing and transition countries. CSM is a values-based organisation committed to sustainable development and human rights. We provide a variety of on-line/ on-site awareness-raising, educational and technical referral services; conduct research; promote innovation and partnerships; and engage in advocacy for corporate citizenship at major fora.

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