



Corporate Social Responsibility

A Government update

www.csr.gov.uk

The Government has an ambitious vision for Corporate Social Responsibility

To see UK businesses taking account of their economic, social and environmental impacts, and acting to address the key sustainable development challenges based on their core competences wherever they operate – locally, regionally and internationally.

Our strategy for advancing our vision is to:

- ▶ Promote business activities that bring simultaneous economic, social and environmental benefits
- ▶ Work in partnership with the private sector, community bodies, unions, consumers and other stakeholders
- ▶ Encourage innovative approaches and continuing development and application of best practice
- ▶ Ensure we have decent minimum levels of performance in areas such as health & safety, the environment and equal opportunities
- ▶ Encourage increased awareness, open constructive dialogue and trust
- ▶ Create a policy framework which encourages and enables responsible behaviour by business

This supports the Government's strategy for sustainable development, with its aims of integrating our objectives on social progress, effective protection of the environment, prudent use of natural resources and high and stable levels of economic growth and employment to ensure a better quality of life for everyone, now and for generations to come. We want to encourage business practices that help to ensure successful and profitable companies and that also contribute fully to achieving our sustainable development goals.

“Today, corporate social responsibility goes far beyond the old philanthropy of the past – donating money to good causes at the end of the financial year – and is instead an all year round responsibility that companies accept for the environment around them, for the best working practices, for their engagement in their local communities and for their recognition that brand names depend not only on quality, price and uniqueness but on how, cumulatively, they interact with companies' workforce, community and environment. Now we need to move towards a challenging measure of corporate responsibility, where we judge results not just by the input but by its outcomes: the difference we make to the world in which we live, and the contribution we make to poverty reduction.” **Gordon Brown, Chancellor of the Exchequer**

Foreword



Since I became Minister for CSR in May 2002 we have seen rapid growth in interest in the application and implications of CSR. What has impressed me most has been the level of creativity and enthusiasm brought to the subject from all quarters. We've seen encouraging progress. I'd like to highlight some significant recent developments and look at where we need to focus for the future.

We see CSR as the business contribution to sustainable development. There are many definitions but we are all talking about how business takes account of its economic, social and environmental impacts in the way it operates – maximising the benefits and minimising the downsides. But we are not talking about altruism – CSR should be good for long-term business success as well as good for wider society.

The growth of the global economy has seen benefits across the world but also increasing public concern about business activities and a decline in trust. At the World Summit on Sustainable Development (WSSD) in Johannesburg in September 2002 there was as much focus on business as on poverty and the environment. As WSSD recognised, partnership – between business, government and civil society – is the key to the progress we need on international sustainable development.

Governments made many commitments at WSSD, including progress on the ambitious Millennium Development Goals. They also agreed to promote CSR. Business has a big role to play in enabling us all to reap the benefits of globalisation, without adverse social and environmental impacts. And companies stand to gain by rebuilding trust – approaching business decisions with a wider CSR perspective can help them do that.

The UK is increasingly seen as one of the leading contributors internationally on CSR thinking and practice. I was able to provide examples of how communications companies are generating investment and innovation and working with local partners and Government to “create digital opportunities” at the World Summit on the Information Society (WSIS) in Geneva in December 2003.

The Extractive Industries Transparency Initiative, announced by the Prime Minister at WSSD, is another excellent example. It brings together business, non-governmental organisations (NGOs) and Governments to improve transparency in the revenues received by poorer countries from the operations

of these vital industry sectors which in turn will support growth and stability in those countries.

At home, we need to tackle inequalities and deprivation in communities across the UK. But we need help from business. We aim to encourage businesses to help tackle social exclusion and build stronger healthier communities. In its turn business will gain through new market opportunities and customers. And companies tell me that there is increasing awareness of CSR among the workforce which means they need to look to their CSR record to attract and retain the best people.

I am well aware of the many and increasing calls for more regulation of company behaviour. And I agree that Government has a responsibility to ensure minimum legal standards. I remain convinced that the main focus of CSR should continue to be a voluntary one. Our role in Government then is to be clear on the future direction and the challenges facing us and to set the appropriate framework that enables us to tackle them. The policy framework must use the right mix of tools – including fiscal and regulatory measures where appropriate – to boost socially and environmentally responsible performance. Where regulation is the right solution it should be well designed and focused. But CSR should continue to take compliance with legal requirements as the base and go beyond that in the interests of business and the rest of society.

This approach has already been seen to work in the high level of international interest in what we've been doing in Britain. For example, with the growing interest – including from financial analysts and investors – in responsible practice as a factor in business performance, more companies are reporting on a range of sustainability issues. We want to encourage more to follow suit but we recognise the need for a flexible rather than a "one size fits all" approach. We will follow this principle in introducing a new Companies Bill and making Regulations to introduce a statutory Operating and

Financial Review. This legislation follows independent and detailed review and we believe these carefully balanced changes will encourage business to look at the full range of factors – including social and environmental issues where relevant – which affect their long term success.

Mainstreaming CSR into management practice is central to maximising its contribution to business success and to achieving our sustainable development goals.

We have supported this approach through initiatives like the SIGMA project which last September published guidelines giving practical advice to organisations looking to contribute to sustainable development. And one of my priorities is to establish what I've called a CSR Academy which will support the development of CSR skills across business practice. I look forward to seeing that ambition realised later this year.

I also want this work to support small and medium sized companies which make up such a large proportion of UK businesses. We need to do more here and we have been supporting small businesses through introduction of the Acorn Trust guidelines on environmental standards and our sponsorship of the Small Business Consortium.

Looking ahead, the European Commission will issue its White Paper on CSR in November 2004, following the outcome of the Multi Stakeholder Forum and we look forward to UK EU and G8 Presidencies in 2005. We want to continue to play a leading and influential role in the development of CSR policy in these fora. I enjoy immensely being Minister for CSR. CSR embraces a wide range of issues and has great potential to help us achieve our national and international goals for economic, social and environmental development. I've been inspired by the passion invested in social and environmental priorities by many of the UK companies I have met and will look to encourage more of that creativity and success.

Stephen Timms

Minister for Energy, e-commerce and Postal Services

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This report stands alongside and complements our new website on CSR www.csr.gov.uk. In this report we aim to provide a summary of progress against the priorities we set ourselves as well as a look ahead to the future challenges. It is not intended to be an exhaustive review of all the activity that Government has undertaken or supported. Rather it aims to illustrate the breadth of the agenda and range of action that can be and is being taken. You will find a more comprehensive overview of the range of Government activities in support of CSR through our website.

Chapter 3:

Government demonstrating CSR values: the framework for sustainable development on the Government Estate

Chapter 4:

Looking ahead – future priorities

This report reflects a UK wide approach to CSR including the Devolved Administrations of Scotland, Wales and Northern Ireland. The Government website provides more specific information on the Devolved Administrations and links to their individual websites. It is made clear where any programme applies to one country only. This report is aimed essentially at business but we hope that it will be of interest to other readers including NGOs and those with a general interest in CSR.

Names and abbreviations highlighted in the text are listed at the back under the glossary and list of contacts

Priorities, recent trends and future directions

Priorities so far

In the last Government report our priorities were to:

- Raise the profile and highlight the importance of social and environmental responsibility
- Make responsible behaviour a consideration of core business
- Assist the involvement of small and medium sized enterprises
- Promote transparency in CSR reporting and awareness in the marketplace
- promote good practice in CSR internationally as well as in UK

Throughout Chapter 2 we provide illustrative examples of action that the Government has taken or supported in pursuit of these priorities and there is more on the website.

CSR – Recent Trends

Across many activities, including support for research, initiatives and partnerships, the Government has made a significant contribution to awareness and understanding of CSR and what it means for companies of different sizes, in different sectors and operating in different places. This has been part of a much wider expansion of interest and activity. CSR has continued to be a highly topical and debated subject. It has increasingly provided the focus for exploration of broad philosophical questions about the roles and responsibilities of companies and their relationship with the roles and responsibilities of government and other stakeholders. But it has also provided the context for debate about more particular questions from employee volunteering, to health concerns about mobile phones, world trade rules, poverty eradication and AIDS. Does this mean that CSR risks being about everything and nothing?

Although debate about CSR has continued to grow, we remain a long way from consensus on what it means and its value. Some suggest that it is just about glossy reports and public relations. Some see it as a source of business opportunity and improved competitiveness. Some see it as no more than sound business practice. Others see it as a distraction or threat. Is it a framework for across the board regulation of all of the relationships between business and the rest of society, nationally and globally? Is it just about the activities of North American and European multinationals in developing countries? Is it relevant and useful to companies of all sizes no matter where they are based and operate? Lively debate will continue on these and many other questions.

For its part, the Government believes that CSR is relevant to all companies, large and small, to those operating in national as well as global markets, and to companies based in developing as well as developed countries. But rather



than being approached as a separate subject in its own right with its own specialists and debates, we believe that a key strength of CSR is in providing a more holistic view of businesses and their activities. That perspective can help stimulate better policies, decision-making and business practices based on a broader understanding of business impacts beyond the purely financial. In other words CSR is as much as anything a **way** of thinking about and doing business. And that way of thinking needs to be mainstreamed across business operations and into company strategy. It is not just a task for the public relations department but needs to permeate across the company, in business development, marketing, human resources, finance and so on. We believe this is being reflected in the growing consensus that such integration is the only way for CSR to realise its full potential.

But clearly the ways that individual companies take up the challenge of CSR must reflect their particular circumstances. The approach, challenges and opportunities would be very different as between a small software company operating exclusively in the UK and a multinational mining company.

The distinction between practice and communication of CSR has also been a focus of discussion. To what extent should reporting and a public profile be taken to indicate a responsible business? The distinction is not necessarily clear cut – for a consumer facing business, communication is central to their CSR practice. Customers need information if they are to exercise choice – socially responsible investment (SRI) products, which continue to grow though still a small share of the current market, reflect this type of demand. Research has pointed to a public appetite for companies to communicate more about their CSR performance. But a lack of public profile cannot be taken to indicate a disregard for CSR. For many

companies the focus is on “doing” CSR rather than reporting on it. The attention and potential for criticism that a raised profile can bring may make reporting a lower priority than substantive action. So there are choices to be made. Nevertheless, the drive for greater transparency as a means to improve accountability and trust has continued, as seen on the one hand in the further development of voluntary reporting guidelines and indices and, on the other, in calls for a regulatory approach.

CSR has continued to develop well beyond its philanthropic and community roots with a growing focus on the business case. While there is strong evidence of the actual and potential benefits to individual companies and of correlations between responsible practice and national competitiveness, direct causal link on national competitiveness remain uncertain and difficult to track. Nonetheless, companies themselves have shown direct positive impacts on their business and Government recognises the potential for CSR to contribute to the five drivers of productivity identified by Michael Porter¹ investment; innovation; skills; enterprise and competition.

An increasing focus on the global reach of corporates and therefore the international dimension to CSR has sparked debate about the value and limits of CSR in dealing with many complex and sensitive issues associated with globalisation. But responsible business practice or sustainability is commonly acknowledged by all sides as vital to ensuring globalisation works for the poorest and as a means of bringing benefits to developing countries, for example, in capacity building through investment of capital, technology and skilled personnel. How business operates in the developing world and in conflict zones continues to come under scrutiny including the need for and value of a more regulatory approach.

¹Professor Michael Porter 'UK Competitiveness: moving to the next stage' DTI Economics Paper No3

Our future direction

The outcome of the WTO negotiations in Cancun and conflicts around the world highlight some of the challenges we face today and underline the need to encourage responsible business practice to make globalisation work for all. By integrating CSR into the way they do business, the Government believes companies can be part of the solution to some of these challenges. But Governments need to look at how they can encourage business to move their CSR activities towards CSR that is part of core business and makes a real difference. While Government has a role in setting the policy framework, raising awareness, tackling information failures and providing incentives where appropriate, it is for individual companies to determine their approach, depending on the nature of their business and key impacts.



As noted by Stephen Timms in the foreword to this report, **WSSD** last year confirmed the place of CSR as a key item on the international agenda. A particular feature of the Summit was the focus on the need for contributions from non-state actors, especially business in putting into practice the sustainable development commitments made at and since Rio. The Johannesburg Plan of Implementation agreed at WSSD contains a range of commitments related to CSR including a commitment to “actively promote responsibility and accountability...including through the full development and effective implementation of intergovernmental agreements and measures, international initiatives and public-private partnerships, appropriate national regulation and continuous improvement in corporate practices in all countries...”

To help determine the best way to take forward the **WSSD** outcomes on CSR we commissioned a study by the **Royal Institute for International Development (RIIA)** exploring the options. An interim report was published in January 2004 and we are discussing the findings with stakeholders and international partners. And we have also set out our approach to CSR Internationally in a draft strategic framework published for consultation in March 2004 – see www.dti.gov.uk/sustainability.

In the meantime, we continue to promote CSR internationally through our support of international instruments and initiatives such as the **OECD Guidelines for Multinational Enterprises**, the **Global Compact** and the **International Labour Organisation (ILO)** Tripartite Declaration on the Multinational Enterprises and Social Policy.

In 2003 The National Contact Point considered 4 cases under the **OECD Guidelines for Multinational Enterprises**; these cases are ongoing. Statements will be issued on conclusion of each case on the DTI website. The number of UK based multinationals who have signed up to **UN Global Compact** remains low. We are sponsoring an impact assessment of the Compact and looking at how we can best support this initiative as part of our overall approach to international CSR.

We also continue to fully support and promote the **ILO** 1998 Declaration on Fundamental Principles and Rights at Work, which provides a framework of international rights for workers through the internationally agreed 'core labour standards.' These cover freedom of association and the right to collective bargaining, the elimination of forced and child labour and the elimination of discrimination in employment; and constitute the 'labour' element of the principles underlying the Global Compact initiative. The Declaration's principles and rights are gaining wider recognition among organisations, communities, and enterprises, and provide benchmarks for responsible business conduct.

In February 2004 the **ILO** World Commission on the Social Dimension of Globalisation published its report, 'A Fair Globalisation: creating opportunities for all'. The Report makes a useful contribution to the globalisation debate and towards helping us to understand the underlying issues and improve the coherence of our response. We look forward to actively participating in further discussion.

At the European level, the Commission set out in its 2002 communication document its aspiration for CSR to contribute to making Europe by 2010 the most competitive and dynamic knowledge based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. The Commission will publish a White Paper on CSR in November 2004 following on from the work of the Multi-stakeholder forum established following the 2002 Communication.

The priorities we have set ourselves for the future are set out in Chapter 4.

"The Government has played a key role in enabling, encouraging, and recognising business action – from engaging business in regenerating our communities, promoting voluntary benchmarking to rewarding success through awards and kitemarks. Above all the DTI has linked corporate social responsibility with competitiveness and there is no doubt that the leading practice of UK companies provides for a trading advantage in global markets." **Julia Cleverdon, Chief Executive, Business in the Community**

Competitiveness

We encourage the spread of responsible business practice because it is about sustainable business success which will help secure a better quality of life for all now and in the future.

The business case

CSR encourages companies to look at a wider range of stakeholder interests, which can widen understanding of the potential risks and opportunities for the business while offering wider social or environmental gains. More transparency on the issues they are facing and how these are being managed can help improve key relationships with employees, consumers and other stakeholders.

Closer links with consumers may lead to greater awareness of their needs, which could result in the firm becoming more competitive in terms of product quality. In some cases, CSR could also lead to greater efficiency (e.g. cost savings from adoption of best-practice waste minimisation techniques), and this could lead to the firm becoming more competitive in terms of prices. But there is no “one size fits all.” Differences in their scale, nature and spheres of operation will influence how different companies contribute to social and environmental goals and the competitiveness challenges they face.

Some individual companies such as BT and the Cooperative Bank already quantify the impact of their CSR activities on their competitiveness. To stimulate wider adoption of CSR, we have also been exploring the benefits of CSR for general business performance. So over the past year we have worked with both **Forum for the Future** and **AccountAbility** on projects looking at the links between CSR or sustainability and business performance, both in terms of the impact on the competitiveness of individual companies and of national economies.

In May 2003 DTI and **Forum for the Future** hosted a workshop for business, NGOs, academics & Government to debate the links between competitiveness, productivity and the increasingly important role of intangible assets, as well as sustainability and CSR. Its broad conclusion – with

“Government has a crucial role to play in enabling companies to contribute to sustainable development. And, as this report shows, there is a whole mosaic of different ways in which Government can intervene. One very important area is working to really understand and measure the ‘business case’ for sustainable development and how corporate social responsibility contributes to a company’s competitive advantage. We’ve welcomed the DTI’s support for and involvement with our work in this area over the past year, and look forward to continuing that engagement as our work develops.”

Rupert Howes, Director – Sustainable Economy Programmes, Forum for the Future

some qualification – was that sustainability makes a positive contribution to business success. The key was to look at this as an investment in a strategic asset or distinctive capability rather than as an expense. The debate highlighted the importance of taking a balanced scorecard approach to assessing performance and the risks of concentrating solely on one aspect such as shareholder value. Forum for the Future are now developing the balanced scorecard approach. A summary of the workshop is on our website.

Complementary to this **AccountAbility** are leading work to assess the impact of CSR on national levels of competitiveness and seeking to understand the broader significance for the UK economy of CSR. In support of this, DTI hosted and chaired an international conference launching both the Responsible Competitiveness Index and

an international consortium of business and research groups working on these issues.

The growing SRI market reflects the increasing recognition of non-financial factors in assessing company performance. ‘Carbon Risk’ in particular has captured the attention of many investors, including those involved in the Carbon Disclosure Project, in which institutional investors representing assets worth £7 trillion, have pressed leading companies for better information on emissions and climate impacts. Last November, Margaret Beckett addressed over 100 leading figures from the finance sector on climate change, stressing the significant implications for business and investors of a low carbon future. A similar group of investors are supporting the UK led Extractive Industries Transparency Initiative.

“UK Plc is fortunate to have at the DTI a department committed to leading a constructive, critical and forward thinking approach to Corporate Responsibility across Government. Critically, this strategy has been based on an engagement not just with business, but also with civil society, creating pragmatic, market-orientated initiatives. The Government’s willingness to open up new debates on how to achieve sustainable development must be particularly welcomed – whether this is on the future of ‘responsible investment’ or the impact of Corporate Responsibility on macroeconomic competitiveness.

Simon Zadek, Chief Executive, AccountAbility

CSR & poverty reduction

Our aim as Government is to raise awareness of the benefits a proactive business approach to CSR can bring to society and business and to help build the skills and capacity to achieve our goals of poverty reduction.

Partnership between business, governments and civil society groups is essential to meeting these ambitions. We have taken forward work in this area through a mix of support for the development of existing international approaches as well as through sector specific projects. The rationale for our support for CSR as a means for addressing international development issues is set out in a **Department for International Development (DFID)** paper on CSR and international development – see our website.

Extractive Industries Transparency Initiative (EITI)

The Prime Minister announced this groundbreaking, multilateral initiative at **WSSD** in 2002. EITI aims to increase the transparency over payments made by companies operating in the sector and the revenues collected by the governments. It is supported by a strong and varied international coalition which includes representatives from 31 countries, 21 companies and industry bodies, investors representing £7 trillion, World Bank, **International Monetary Fund, European Bank for Reconstruction and Development**, as well as NGOs and international agencies. The country pilots represent the most important area of current EITI activity as the initiative progresses from coalition building between stakeholders to implementation. Progress has been made across all regions with Azerbaijan, Nigeria, Ghana representing the first strong wave of pilots. A number of other countries are actively considering the EITI approach. A newsletter has been published and is available at www.dfid.gov.uk and by emailing eiti@dfid.gov.uk

The PharmaFutures project

The PharmaFutures project brings together pension fund managers in the pharmaceutical sector to examine the sustainability of existing business models. The group will use scenario analysis techniques to identify necessary changes to the sector that result in durable wealth creation based on a better fit between industry's needs and those of society. This is part of a wider programme with Just Pensions².



To support these initiatives we are funding work by **Emerging Market Economics** to develop sectoral reporting guidelines that will provide a more comprehensive picture of how companies impact on poverty at a national level. But CSR overseas will be shaped by the public policy framework in the countries in which companies operate. **AccountAbility's** work in this area, supported by DFID, explores the links between competitiveness, corporate responsibility and pro-poor growth policy, both in the UK and internationally. This work seeks to establish how CSR can act as a pathway for the development goals that the Government has set for itself internationally.

Partners for Water and Sanitation (PAWS)

PAWS is a UK initiative bringing together the private sector, civil society and government departments in a water and sanitation partnership working with South Africa, Uganda and Nigeria. It works by using and sharing skills, knowledge and experience of UK partner organisations with municipality water sector employees and politicians in African partner countries to develop and implement sustainable solutions and, in doing so, to build knowledge and capacity within the municipalities and more widely at national level.

Supply chain & Labour standards

Supply chain issues including labour standards remain a high priority for assuring human rights and alleviating poverty. Government continues to support the **Ethical Trading Initiative** which is providing practical guidance to companies in tackling supply chain issues.

The UK also chairs, and actively participates in, the **ILO** Sub-committee on Multinational Enterprises which sits biannually to look at the promotion of the **ILO** Declaration of Principles concerning Multinational Enterprises and Social Policy. This Declaration addresses labour and social issues in the context of multinational enterprises and further promotes the **ILO** core labour standards. The Sub-committee's recent work includes agreeing the eighth survey on the effect given to the Declaration, whereby each member state government will report on multinational enterprise activity in their country. The survey will conclude in December 2004 and the responses will be discussed at the **ILO** Governing Body in 2005.

²Just Pension is a programme of the Social Investment Forum – the UK's membership network for socially responsible investment (SRI).

Community investment

Successful economic regeneration is vital to reversing the deep rooted problems of our most deprived areas. Whether it's new markets to increase profitability, developing untapped talent, job creation for residents or better local services, investment in deprived areas can bring benefits to both companies and the wider community. Real business involvement is essential to turn around deprived neighbourhoods and build strong and healthy communities. We are encouraging business to get involved in a number of ways.

Corporate Challenge

In the 2002 Pre-Budget Report, the Chancellor announced that we would work with the voluntary and corporate sectors to promote a culture of volunteering and giving. The Corporate Challenge is a joint Treasury and Home Office initiative aimed at increasing corporate community involvement in three main areas:

- corporate support for employee giving
- corporate support for employee volunteering
- corporate giving.

Since July 2003, a network of over sixty "Corporate Champions" from business has been established to work with Government to identify best practice across the sector; seek to engage companies not currently involved and establish a collaborative approach to the Corporate Challenge.

Community Investment Tax Relief (CITR)

This scheme, which arose out of the Social Investment Task Force's report 'Enterprising Communities' (October 2000) came on line in January 2003. The aim is to support lending to enterprises in disadvantaged communities that are excluded from mainstream sources of finance. The scheme awards tax relief to individuals and corporate bodies investing in accredited Community Development Finance Institutions (CDFIs), which in turn provide finance to qualifying profit-distributing enterprises, social enterprises or community projects. The tax relief available to the investor is 5% per annum of the amount invested. Since March, 23 CDFIs accredited by the Small Business Service aim to raise £100 million through CITR.

Supporting Local Communities

In the English Regions, the business broker pilot – a cross Government funded project, led by the Office of the Deputy Prime Minister (ODPM) – has been developed to support Local Strategic Partnerships, the new local partnership of public services, business and voluntary and community groups, to work better with business. The broker programme is being managed by Business in the Community (BITC) in partnership with the British Chambers of Commerce.

In nine areas, brokers are supporting and encouraging companies to work with their local communities to tackle deprivation and boost local economies. Brokers are also encouraging companies to take a long term view of the areas in which they operate by getting involved in the decision making and in determining local priorities.

Another regional initiative sponsored by ODPM and led by BITC is the Under-served Market project; this is trialling an innovative approach working with the retail and property sectors in partnership with local communities to generate private sector investment in deprived neighbourhoods.

Meanwhile the Private Sector Advisory Panel on Neighbourhood Renewal was launched in 2003 by the Deputy Prime Minister, John Prescott. The 15-strong panel of business leaders will identify opportunities for the private sector to get involved with local communities and activity in disadvantaged areas of the English regions. They will also help to pinpoint barriers to business investment and suggest improvements.

In Scotland, Social Inclusion Partnerships (SIPs) are encouraged to involve the private sector in local decision making and that is set to continue as SIPs integrate with Community Planning Partnerships.

Also currently in the English Regions, the Community Development Venture Fund launched in 2002 is a £40 million venture capital fund aiming to support finance to SMEs in the most deprived areas. See our website for more information.

Workplace

Employees are one of the key stakeholders for any business and evidence is growing of the importance employees attach to companies demonstrating their CSR record through progressive employment practice as well as through their behaviour as good corporate citizens.

How companies engage with the wider society in which they operate and tackle issues of concern to their workforce will be determined by the nature of the business. But one thing uniting all is the need to attract and retain the best people to ensure long-term success.

Government has a role in defining decent minimum standards while encouraging companies to move beyond these. Over the past year the following are some of the key issues we have been involved with.

Skills for CSR

One of the ways we can ensure CSR is part and parcel of the way we do business is to make sure the skills and attitudes for responsible business practice are embedded right across the business. In 2002 DTI and the Corporate Responsibility Group set up a Working Group chaired by Sue Slipman to look at how we might best support the growth of the skills for CSR and the role of an Academy. The recommendations of that group (set out in their Changing Manager Mindsets report) have been taken forward by a Steering Group chaired by Clive Mather, Chairman of Shell UK along with representatives from business, NGOs, TUC, training and development bodies and the public and voluntary sectors. The Group are advising how an Academy can best impact the business mainstream of both large and small companies while complementing the work of existing organisations in the field. The Group is due to report to the Minister with a view to an Academy being ready to launch in early Summer 2004.



Health & safety

The Health and Safety at Work Act 1974 places a legal duty on employers to ensure, as far as is reasonably practicable, the health, safety and welfare at work of all their employees. The Act provides the framework for effective regulation. The Health & Safety Executive (HSE) are encouraging employers to go beyond compliance and to continually improve. Key areas include:

- Encouraging organisations to consider health and safety at board level
- Encouraging organisations to report publicly on a range of health and safety issues
- Producing and promoting a health and safety index for insurance companies, investors and others to gauge the performance of a company.

Flexible working

The Employment Act 2002 introduced new legislation specifically to help working parents giving more choice and support to balance childcare and work in ways that benefit everyone; employers, employees and children. Through the Work-Life Balance campaign, employers are encouraged through best practice to promote a culture of partnership in the workplace based on trust and mutual commitment and a wider culture of work-life balance throughout the workforce via innovative work organisation. To illustrate the benefits we've put together 50 case studies – of which half are SMEs – showing how innovative and flexible working arrangements can work for staff, customers and business. (www.dti.gov.uk).

Environment

We aim to provide support, guidance and a flexible framework to encourage and enable UK business to behave responsibly to protect our environment. To facilitate action in this area we support innovation and sectoral sustainability strategies; produce guidelines and codes of practice; support services providing advice to business on a range of tools and techniques to improve its performance, including environmental reporting.

Support

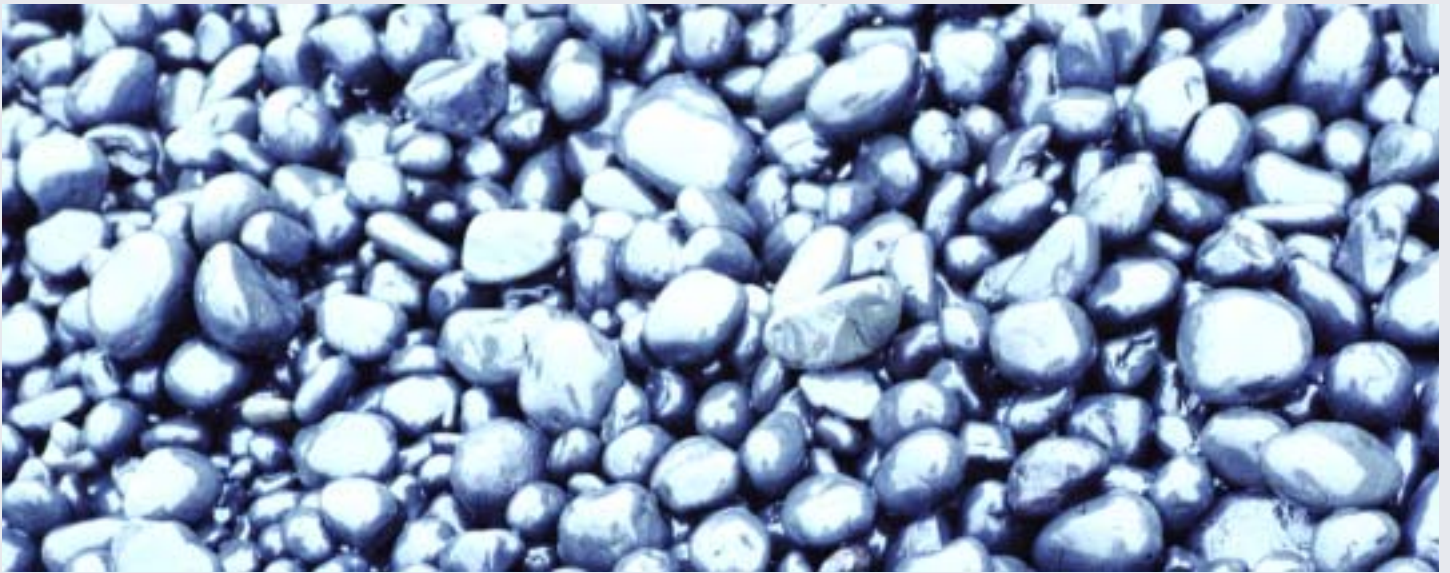
Support to business is provided through a number of funded programmes designed to help companies increase their resource efficiency including

- ▶ Envirowise Programme (waste and water)
www.envirowise.gov.uk
- ▶ Action Energy /Carbon Trust (energy)
www.actionenergy.co.uk
- ▶ TransportEnergy (transport).
www.transportenergy.org.uk

In addition we recognise there is much that can be achieved at a sector level. That is why DEFRA and DTI have been working with a range of trade associations to develop sector-wide sustainability strategies, through the Pioneers Group. By producing sectoral sustainability strategies, trade associations demonstrate to their members that sustainable development is a key business issue that can improve both their reputation and their competitiveness. As well as providing a framework for concerted action (i.e. through the development of sector specific indicators), this can in turn lead to greater sustainable performance from individual companies, and more widely through the supply chain. These sectoral strategies also provide a framework for more specific projects. Following publication of "Changing Patterns: UK Framework for Sustainable Consumption and Production" in September 2003 the Government is working in collaboration with the glass industry on a first pilot project focusing on how the generic approach in the Framework can be applied in a specific area: in this case a key material used in products and buildings we all use every day.

Guidance

Management systems and codes of practice – A wide range of organisations continue to make use of Environmental Management Systems (EMS) to help them improve their environmental performance. In many cases this can also



lead to the identification of resource efficiency savings which go straight to the bottom line.

Whilst ISO 14001 remains the preferred EMS in the UK (largely as a result of its global nature), regulators and policy makers are increasingly showing a preference for the EU's Eco-Management and Audit Scheme (EMAS), as it offers them more transparency, credibility and reliability. For example, the Environment Agency for England and Wales now recognises EMAS over ISO 14001 in the way it regulates industry under its Operator and Pollution Risk Appraisal scheme (see below).

A new British Standard (BS8555) (www.theacorntrust.org), designed primarily for SMEs, was published earlier this year. This allows companies to take a phased approach to environmental management and can lead to either certification for ISO 14001 or registration for EMAS and has been proved to work well in the supply chain, where it can help companies meet contractual and procurement obligations.

Eco-labelling and the Green Claims Code

By making sure manufacturers and retailers provide useful and honest information about their products, consumers will be able to make an informed choice when buying green. We encourage business to participate in good green labelling schemes, such as the European Ecolabel, which we administer and promote in the UK. As well as a Shopper's Guide to Green Labels to help consumers identify good green labels, we have launched Pitching Green, an electronic newsletter for business covering all aspects of using green claims and labels.

The Green Claims Code sets out the principles businesses should follow and promotes good practice. To complement the code, in 2003 the Government produced detailed guidance for businesses on how they can make good environmental claims. Drawing on ISO 14021 and the existing Code, 'Green Claims Practical Guidance', along

with 5 more detailed notes for specific sectors, provides user friendly guidance for business.

www.defra.gov.uk/environment/consumerprod/index.htm

Flexible framework

Environmental legislation has developed significantly in recent years, including introduction of major new regulatory regimes such as Pollution Prevention and Control (PPC).

In England & Wales, the Environment Agency (EA) is developing new methods of environmental risk screening and targeting of regulatory effort based on the Better Regulation principles. The Agency rolled out new 'Operator and Pollution Risk Appraisal' (OPRA) procedures in April 2003, linking the EA's regulation of businesses with the risks – and transparently with the charging scheme.

Businesses operating under the PPC Regulations 2000 as amended, gain credit for their environmental management systems (EMAS and ISO 14001). These credits directly affect the level of charges the business pays, thus incentivising businesses to take a responsible approach to their own environmental risk management. In the coming years the EA plans to extend the framework across the rest of its regulatory regimes.

A recent review of the Scottish Environment Protection Agency (SEPA) found that around two thirds of businesses thought SEPA set fair licence conditions. The review also concluded that SEPA's role should not be just about implementing regulations but that it had an important strategic role in securing long term improvements in environmental quality, based on partnership and advocacy of best environmental practice. SEPA is committed to maximising transparency in the way it regulates and charges business. These approaches should allow businesses to see what benefits regulatory controls are designed to achieve and provide responsible businesses with advice on best practice.

Governance & transparency

CSR is about companies acting voluntarily to raise performance beyond minimum legal standards. Government has a key role in setting those standards and providing the right policy environment – including intelligent legislation and fiscal measures where appropriate – which stimulates companies to move beyond that minimum level. Where we do regulate we will make sure interventions are carefully considered, well-designed and targeted. That approach includes our proposals for securing greater accountability through our response to the review on company law.

The Operating and Financial Review (OFR)

In 1998 we established the Company Law Review to undertake a fundamental review of British Company Law. The Review recommended in their final report that companies of significant economic size should be required to prepare and publish an OFR as part of their annual report and accounts. The Government agreed with this recommendation and published a White Paper “Modernising Company Law”, in July 2002, which contained some illustrative clauses on the OFR designed to aid discussion.

The primary purpose of the OFR is to improve transparency in the interest of better corporate governance. The OFR will provide shareholders with better and more relevant information on the business, its performance in the past and its prospects for the future.

We published draft regulations on the OFR for consultation on 5 May 2004. The OFR is not intended to duplicate or replace social and environmental reports that many companies already prepare for the public interest – see CSR reporting below. Our proposals will require quoted companies to provide a narrative report setting out the company’s business objectives, its strategy for achieving them and the risk and uncertainties that might affect their achievement. It will require companies to report on other matters where these are necessary for an understanding of the business. These matters include employees, the environment and social and community issues. The consultation document is available on our website www.dti.gov.uk/cld/financialreview.htm. The consultation period ends on 6 August and we would welcome views.



CSR reporting

More companies are already reporting on their CSR or sustainability performance – for example 132 of the UK top 250 companies reported on their environmental performance in 2003³ while 139 companies participated in **BITC**'s second Corporate Responsibility Index (sponsored by DTI). Government continues to support the **ACCA** Annual Sustainability Reporting Awards and helped business report on their key environmental impacts by publishing a series of voluntary guidelines, including greenhouse gas emissions, waste and water. So in these ways we are also supporting the move towards more reporting and visibility for companies' CSR performance.

Bribery

The UK has an excellent reputation for openness and honesty. As Government we want to build on that by stamping out those acts of bribery which may be committed by a minority of UK companies and nationals. Bribery is bad for business. A culture of corruption is a disincentive to trade and investment and payment of bribes

is unacceptable behaviour for UK companies or nationals. The OECD Convention on the Bribery of Public Officials is part of the international effort to stamp out corruption in world trade. Most major exporting countries have laws in place against international corruption so there is a level playing field internationally. In the UK the Anti-terrorism, Crime and Security Act 2001 (Part 12) included new legislation which came into force on 14 February 2002 to deter UK companies and nationals from committing acts of bribery overseas. These legislative changes give UK companies and nationals a stronger defence against attempts to extort bribes from them. The changes put beyond doubt that relevant UK law applies to the bribing of foreign public officials or office holders. It also means a UK national or a company or other entity incorporated under UK law can be prosecuted in the UK for bribery even if no part of the offence took place in the UK. A further review of corruption legislation is underway and it is hoped to modernise the various disparate pieces of legislation which date from 1889 into one cohesive Act.

"I am pleased that the Government has been taking such a pragmatic approach to encouraging the spread of CSR and avoiding the temptation to increase business take-up of it through legislation – this would actually only serve to stifle CSR. The CBI has been supporting the Government in its endeavours, notably through the DTI's recent steering group on CSR skills." **Digby Jones, Director General CBI**

³ See Directions 3 Trends in CSR Reporting 2002-03 by SalterBaxter & Context.

CSR values in government

Corporate Social Responsibility is about the behaviour of private sector organisations and their contribution to sustainable development goals. But the approach and values of good citizenship are also important to other organisations including Government.

Since the 1999 sustainable development strategy 'a better quality of life' we have regularly reported on the way our policies and practices contribute towards sustainable development. The next report in this series was published in March 2004.

Since 1999 we have also regularly reported on the impacts of the operation of our Estate, initially in the *Greening Government* reports, and now in the *Sustainable Development in Government* series of reports. These reports should be seen in the context of the *Framework for Sustainable Development on the Government Estate*.

The *Framework* sets out a challenging agenda for us in terms of the main environmental impacts of running the Government Estate and selected social impacts on employees and on local communities. It requires the twenty central Departments and their executive agencies to identify their major impacts, to plan improvements, to monitor and to report progress. The first four sections of the *Framework* (overarching commitments, travel and water services and biodiversity) have already been published. We expect to publish the remaining sections on waste, energy, procurement, estates management and social impacts early in 2004.

Sustainable procurement

As part of the **WSSD** commitment on sustainable production and consumption, Government has pledged to ensure that the £13billion⁴ of goods and services it buys every year are sustainable. In October 2003 Government signed up to the recommendations of its cross-government Sustainable Procurement Group. Action so far includes:

- A revised version of the 'Joint note on environmental issues in purchasing' published in October 2003 to provide guidance and examples of how sustainable development objectives can be embedded in public procurement
- From 1 November 2003, all new contracts by central government departments must apply minimum environmental standards (such as on energy efficiency, recycled content and biodegradability) as well as value for money when purchasing certain types of product.

In the international arena, Government works with the European Commission, the UN and OECD on promoting sustainable public procurement.

See our dedicated sustainable development in Government website for our reports and more information – www.sustainable-development.gov.uk/sdig/

⁴This figure is for central civil Government only.

Looking ahead

We have set our priorities for action

Taking a leading role internationally

Our goal is to work with all stakeholders to support the contribution business can make to achieving our sustainable development goals.

We will achieve this by:

Continuing to play an influential role in EU and international fora aimed at ensuring practical outcome based approaches to encourage wealth creation while tackling environmental challenges and inequalities and reducing poverty. This will include spreading best practice, raising awareness and strengthening the impact of existing initiatives.

Raising awareness and creating an environment in which CSR can thrive

Government has a role to play in

- providing a policy and institutional environment that encourages and rewards socially and environmentally responsible behaviour
- setting the agenda and communicating on responsible behaviour.

We will achieve this by:

Giving clear strategic direction on the Government's sustainable development policy and the role we see for business

Supporting continuous development and application of best practice, directing our support where, with partners, we can have greatest impact

Working with partners and stakeholders to support collaborative work, avoiding duplication of effort and encouraging networks

Evaluating our approach and the impact of existing and planned measures including intelligent regulation and fiscal incentives.



Mainstreaming CSR into general business practice

Our goal is to support the full integration of CSR into the way we do business.

We will achieve this by:

Working with the Ministerial Steering Group to implement their recommendations on CSR skills and a CSR Academy

Supporting work to explore and demonstrate the links between CSR and business performance

Engaging institutional investors on recognition of the impacts of social and environmental factors on long term business performance

Continuing to encourage CSR reporting including introduction of a statutory Operating and Financial Review.



Reaching a wider audience and tackling key sectors

To move the agenda on, we need to reach beyond those already engaged with CSR as well as targeting our approach to business sectors

We will achieve this by:

Working with partners to raise awareness of best practice within those sectors which are less engaged in CSR

Continuing to support work which provides guidance and best practice help tailored to the needs of SMEs.

“The business case for CSR is clear. Stakeholders and customers are increasingly concerned about the environmental and social impacts of the products they buy. It follows that businesses can maximise their long term returns by minimising their negative impacts. Through responsible action business can become more competitive, not less. It is our role in government to show leadership, through both our own behaviour and by providing the frameworks which enable responsible business activity.”

Elliott Morley, Minister for the Environment

Glossary

WSSD – World Summit on Sustainable Development

NGOs – non-governmental Organisations

OFR – Operating and Financial Review

IMF – International Monetary Fund

EBRD – European Bank for Reconstruction and Development

ILO – International Labour Organisation

BITC – Business in the Community

SRI – Socially responsible investment

SMEs – Small and medium size enterprises

ACCA – Association of Chartered Certified Accountants

Contacts

Government CSR website www.csr.gov.uk

Government Sustainable Development

www.sustainabledevelopment.gov.uk/sdig/

AccountAbility www.accountability.org.uk

Forum for the Future www.forumforthefuture.org.uk

Business in the Community www.bitc.org.uk

Just Pensions www.uksif.org

Ethical Trading Initiative www.ethicaltrade.org

ACCA UK Awards for sustainability reporting

www.accaglobal.com/sustainability/awards

Scottish Business in the Community www.sbcscot.com

Agenda www.agenda-scotland.org

OECD Guidelines for Multinational Enterprises

www.oecd.org.uk

OECD Guidelines – UK National Contact Point

www.dti.gov.uk/ewt/ukncp

UN Global Compact www.globalcompact.org

Royal Institute of International Affairs www.riia.org



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