

FINAL REPORT OF THE
CONSERVATIVE PARTY WORKING GROUP
ON RESPONSIBLE BUSINESS

A light but effective touch

MARCH 2008

Contents

3	Foreword by David Cameron MP
4	Preface by the Working Group
5	Executive summary
6	The value of the market <ul style="list-style-type: none">• Reassessing the role of government• Using what we have: reinforce and resource• The need for a long-term vision• The role of government in promoting responsible business
9	Recommendations <ul style="list-style-type: none">• Responsibility Deals• Investors and responsible business practice• A corporate-responsibility-based review of the Combined Code• “Apply or explain” responsible business reporting• Revitalising the Corporate Health and Safety Performance Index• Amending the Pensions Act 1999
15	Small and medium-sized businesses and responsibility
16	Oversight of responsible business practice overseas <ul style="list-style-type: none">• Human rights• Bribery and corruption• Encouraging business participation in private voluntary initiatives
18	Business and better community engagement
19	Climate change and the role of business <ul style="list-style-type: none">• Encouragement and engagement• Carbon labelling
21	About the Working Group on Responsible Business

Authors

Peter Davis, Jonathan Djanogly, David Grayson, Richard Hamilton, Tom Rotherham and Tobias Webb

Editing assistance

Gareth Overton, Christian Braun and Ian Welsh

Design

Alex Chilton Design Ltd

Foreword by David Cameron MP



The Conservative Party has always been the party of business: we instinctively understand and appreciate the vital role that businesses play in creating the jobs, wealth and opportunity on which all else depends. The products, services and innovations which improve people's quality of life are created by the talent and energy of men and women working in companies of all types and all sizes, and we must never take their enterprise for granted.

Precisely because we have such a high regard for business and the contribution it makes to our society, I want the modern Conservative Party to be not just the party of business but of responsible business. This report sets out what that means, and shows how responsible business is not only in the public interest but the commercial interest too. It also describes a distinctively Conservative approach to responsible business – one which is part of our overall vision of social responsibility, moving to a post-bureaucratic age in which the state does less, but does it better.

We have seen over the past decade how ill-thought-out regulation adds unnecessary costs and burdens to business. That's why I'm delighted to back the central argument in this report: that by working together constructively with business we can achieve far more than through top-down, over prescriptive micro-management.

I'm enormously grateful to the authors of this report for their work, and to the many business people who have kindly participated in the consultations that have helped to shape this document.

A handwritten signature in black ink that reads "David Cameron". The signature is written in a cursive, flowing style.

Preface by the Working Group

In March 2006 the Conservative Party commissioned the Ethical Corporation Institute to form a Working Group on responsible business as part of the party's policy review process. The aim was to convene a small panel of active and experienced experts in the field, produce an initial scoping report and then engage business and other actors to explore a modern responsible business policy for the Conservative Party.

The interim report was published in January 2007. Thereafter, more than 150 group and individual meetings each took place with at least one Working Group member present. Peter Davis and Tobias Webb of the Ethical Corporation Institute co-ordinated the Working Group's activities and led the writing of both reports.

Jonathan Djanogly's office provided support, writing to every FTSE 100 company and other key group asking for its input, as well as helping co-ordinate consultations. Jonathan Djanogly himself committed considerable personal time to consultations with business.

Following on from the interim report in January 2007, the Working Group has produced this, a second report, for the party. Given the exploratory nature of the first report, this second report contains more practical detail and discusses the Working Group's findings. Many ideas having been tested in the business community and beyond during the consultation process. ♦

Executive summary

This report seeks to answer a question: What can a future Conservative government do to encourage business to play a central role in securing a better future for British society?

Despite a proliferation of regulations, initiatives and other interventions by the current government, the negative effects of issues like obesity and drinking are increasing, and are of evermore concern to the public.

We advocate a shift in emphasis for government, from seeking always to ‘do’ things, to acting rather as



a facilitator to stimulate and co-ordinate action by those groups that make up modern society.

In our view, the most effective tool for a future Conservative government to achieve this in concert with the corporate sector is by using the market, which we believe can be shaped to provide not just products and services, but social and environmental goods as well. Government’s central undertaking

should be to help all relevant market actors have a greater influence in bringing about positive social outcomes where this is consistent with public policy objectives.

Our proposal to achieve this is the introduction of the Responsibility Deal – a mechanism that enables companies to collaborate more effectively with other groups in society to address issues of common concern in a coherent and focussed way.

This is not to say that regulation and legislation are irrelevant. Far from it: Legislation and regulation are key tools that government can use for balancing the market. However, we believe that encouraging more responsible business practice does not require significant new legislation. We argue that much of the legislation and regulation needed is already in place. It simply needs to be used more effectively.

Where new regulations are needed, they must be targeted and specific. We make recommendations in the areas of disclosure requirements and corporate governance. There are also a number of recommendations focussed on the specific needs of the small and medium-sized business sector.

We recognise that the behaviour of British businesses overseas is a matter of considerable importance, and one for which oversight is much more complicated. Nonetheless, we recommend that, as is the case in domestic policy, there is no need to pass new laws, but rather to reinforce and properly resource structures that are already in place. ♦

Much of the legislation and regulation needed is already in place. It simply needs to be used more effectively

The value of the market

Using the market and existing legislation, government can promote better business practices

The Working Group believes that markets are the most effective mechanism for producing goods and services, creating both financial and social value and stimulating innovation. We also believe that the market, steered where necessary, is capable of generating environmental and social goods, and that the market is the most expedient vehicle for generating more responsible business practice.

Companies often find themselves chastised in the press for misdemeanours, and frequently the criticism is justified. Conservatives should entirely support public criticism of companies that repeatedly act against the common good. However, criticism of particular companies on specific issues is sometimes taken to imply that somehow companies in general, with profit their sole motive, are “a bad thing” and that they are incapable of providing any social benefit beyond their economic success.

We reject this. Any schema that sees companies as necessarily in conflict with society is wrong. Companies are a fundamental part of society. The problem is that markets must be better aligned with society’s needs.

It is evident from our consultation and experience that a great deal of work is being done by companies to address directly a wide range of social and environ-



mental issues. In most cases, these activities are undertaken not because there is a legal requirement to do so but because the company in question believes there is a commercial rationale. Alongside this, many business leaders believe that responding to wider social and environmental challenges is simply the right thing to do. The market for organic agriculture,

for example, emerged from the coincidental interests and actions of, among others, retailers, farmers, investors, consumers and civil society – all of which have shaped the market into what it is today.

None of this is to say, of course, that the market is perfect. We recognise that, individually and collectively, companies do have negative impacts. However, in our view, this does not negate the relevance of the market. It simply means the market needs to be tailored better to produce the benefits that modern society requires. It is the responsibility of government to step in carefully where free markets produce undesirable social and environmental outcomes.

Reassessing the role of government

It is the view of the Working Group that the role of government in British society has expanded too far. In the past few years the country has reached a position where the government believes it is expected to solve all social ills. Regulation and legislation are seen by some as the sole tools with which to address issues of concern. When existing rules fail to solve a problem, there are calls for these rules to be tightened.

This is wrong. Historically, the standard response to the issue, for example, of problem drinking, is to tighten regulations – to raise the drinking age and increase the age at which alcohol can be bought. We believe that the exclusively regulatory approach is based on a fundamentally flawed view of the world, and actually stifles more collaborative and more effective ways of addressing issues of concern to society.

We believe that issues such as problem drinking, which are complex and multifaceted, cannot be resolved by government action alone: They need to include all relevant groups in society. We therefore propose a fundamental change to the role of government in the regulation of business, away from “government as doer” to “government as facilitator”.

In our view, it is unsurprising that governments routinely fail, when elected, to do what they promise in their manifestos. Many of the things they propose are just not deliverable by government acting on its own simply through legislation. There is a strong need for collaborative problem-solving, and this

Many business leaders believe that responding to wider social and environmental challenges is simply the right thing to do

On the question of business responsibility, it is time to move to the modern Conservative view of a smaller, smarter state

report recommends a specific process – the Responsibility Deal – to help make this happen.

Using what we have: reinforce and resource

A number of the submissions the Working Group received called for the introduction of legislation to require responsible business practice. This was a consistent theme in meetings with many non-governmental organisations, though by no means all. We have not been persuaded to alter the view we expressed in our interim report that such legislation is generally not the best way forward. This is not to say that legislation is irrelevant, merely that it should be, when used, carefully targeted at specific behaviour. In fact, in our view, much of the legislation that could encourage more responsible business practice is already in place. It simply is not being used or enforced properly. For example, no major prosecution has yet been brought under those parts of the Anti-terrorism, Crime and Security Act 2001 that are designed to tackle corruption.

It is our recommendation, therefore, that a future Conservative government, rather than introduce rafts of new legislation, should reinforce and properly resource existing regulations and other frameworks that could be used to encourage more responsible business. Government exists to take action in the collective public interest. It has to respond to the wishes and aspirations of the majority of the population, while protecting the interests of minorities.

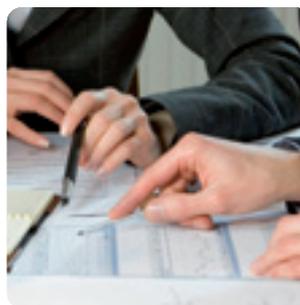
A central part of government's role, therefore, is to examine competing interests and values, and come up with a definition of the "public interest". Government also has to set priorities – it is impossible to address all issues of concern in one go. Furthermore, government is responsible for creating national and international institutions capable of addressing the priority issues – the National Health Service, for example. Government can also introduce legislation and regulation to seek to make happen those things that are decided to be in the public interest. Government can:

- regulate access to resources, for example through planning consents;
- stipulate required performance, for example on vehicle emissions or the minimum wage; and
- ensure openness and disclosure, for example through product labelling and advertising standards.

In our opinion, the expectation of what government can achieve directly by acting on its own has

become greatly exaggerated. We have reached a situation where we expect government to do too much. The usual response to a newly identified societal problem or intractable old one is: "The government must act." In our view, this position is untenable for the simple reason that change cannot be brought about by government alone.

On the question of business responsibility, it is time to move to the modern Conservative view of a smaller, smarter state. In a post-bureaucratic age, government intervention in a problem should be at a level and to a degree that is appropriate to the issue at hand, and the role of government should be more creative than simply that of legislator. We advocate that government should develop its role as a catalyst to instigate intelligent debate about key issues of concern, and then act as facilitator for solutions, bringing together all those



different groups that can help to bring about change. This approach will bring back in and empower not just companies but also other key groups in our society, be they charities, faith groups, cultural groups or consumers. What we are seeking to do is, to paraphrase David Cameron, find ways of rolling forward society, not just rolling back government.

The need for a long-term vision

All but the most dogmatic stances on responsible business now recognise that the primary motivating force behind a company's actions is, and can only be, enlightened self-interest. Just as a company would be unlikely to invest in research and development unless there was an expected return, neither should we hope that companies would invest in sustainability without an expected return.

But self-interest is not the same as selfishness. Particularly over longer time scales, it is clear that corporate interests overlap significantly with public interests. While a deteriorating educational system is unlikely to hurt a company's revenue in the short term, a reduction in skilled labour may well limit its

long-term prospects. Similarly, investments in energy efficiency may increase costs over this quarter, but lower energy costs can save money in the longer term.

The most enlightened self-interest can be mistaken for altruism, but efforts to promote altruism in companies will fail. The objective must be to extend the time scale over which companies can pursue their self-interest and, in so doing, to increase the consistency between corporate interests and public interests. Government's propensity constantly to move the goalposts on important issues makes it difficult for companies to plan and invest. A Conservative government should put greater long-term predictability at the heart of market-based policies to enable responsible business.

The role of government in promoting responsible business

We propose a new role for government in promoting responsible business: acting as the convening body to identify common interests; negotiating co-operative and mutually beneficial strategies; and developing and, in some cases, overseeing the institutions needed for those strategies to succeed. The following pages detail recommendations on what a future Conservative government can do to harness the market so that all actors in society can play a full role, and ensure that the market delivers responsible business practice. We also make recommendations appropriate to particular market actors. ♦

Recommendations

Responsibility Deals are a new way to tackle social and environmental challenges and encourage innovation

The Working Group's central recommendation, which reflects our post-bureaucratic view of the state, is the development and use of what we call Responsibility Deals. Such deals represent a fundamental shift in the model of government in the UK, from the current top-down, bureaucratic approach, to one that stresses collaboration and collective action.

Responsibility Deals are a mechanism to tackle overt and clear problems in British society in a collaborative way. Issues that they might address include business contributions to tackling obesity, problem drinking, climate change, and reducing and recycling waste.

Existing models of government consultation on such issues with business and civil society groups are fundamentally flawed. Firstly, there is the question of whether such consultations actually have any effect on proposed legislation. However, secondly and far more importantly, existing models are based on the assumption that action taken will consist only of regulation or legislation by government, to which business will respond.

Responsibility Deals represent a shift away from this approach. They are not designed to get industry and civil society "input" or "consent" into planned government activity, but rather about creating the right kinds of frameworks for constructive and progressive activity from all sides, with a bias against new government activity, except as a last resort. Responsibility Deals would be based on genuine collaboration throughout the process from beginning to end. Using this mechanism, government, business and civil society would jointly define the issue needing attention; agree which party is best placed to do what; and move forward with defined responsibilities and agreed goals and targets.

Participants in Responsibility Deals would be drawn from businesses and business-representative bodies, NGOs and the voluntary sector, academic institutions, regulators, government bodies and investors. They would tackle important societal issues by agreeing on a shared understanding of what the issue is, what needs to be done and who will do what, and by when.

The Working Group advocates that part of a redefined government role in business should be to convene and manage such partnerships as an objective broker and arbiter. Relevant government departments and agencies would also be participants in Responsibility Deals.

Responsibility Deals would provide a forum in which different types of organisations could discuss how to create a market environment that financially rewards companies that produce non-financial

benefits to the others. Their aim would not be punishment for anti-social behaviour but reward for positive environmental and social behaviour. Representatives of British communities as a whole would be taking responsibility for ensuring that the right conditions are present to drive change.

Why have them?

It is evident from our research and consultations that business, government, labour and civil society groups desire mechanisms for tackling issues more collaboratively, as a shared responsibility. Carefully chaired



and managed Responsibility Deals would bring together all relevant parties. These would define the key aspects of a problem. Government would then broker a way forward for the parties involved that aimed to be predominantly non-regulatory. The Working Group's many consultations revealed a high level of support for this concept from businesses and others who attended the sessions we held during the course of 2007.

How would our proposed model work?

First the relevant Secretary of State would be charged with developing a process of sharing responsibilities in order to address a particular issue where business can make an appropriate progressive contribution. It is important that Responsibility Deals be driven at Secretary of State level, to encourage and incentivise proper participation from business and other parts of society.

For example, a Responsibility Deal concerned with obesity could be led by the Secretary of State for Health. On a day-to-day basis, a Responsibility Deal could be overseen by a relevant Minister of State, supported by a team of officials, in the same way as a department's work is currently apportioned and managed.

That Secretary of State and the Responsibility Deal management team would be responsible for

Responsibility Deals will bring together all relevant parties to define key aspects of a problem. Government would then broker a way forward

identifying all the key relevant organisations – civil, governmental and corporate. Given the number and range of different potential participants in a Responsibility Deal on an issue such as obesity, there would be a balance to be struck in having a sufficiently-broad participation to ensure a wide range of input and, on the other hand, a sufficiently-focused participation to enable the process to be manageable.

For the sake of manageability, it would probably be best to begin initial Responsibility Deals with a relatively small number of representative groups. The Secretary of State would then invite the groups to a series of outcome-focused meetings. The aim of these would be to develop a shared understanding of the issue, and to define a shared and realistic approach to dealing with it.

For example, a Responsibility Deal in obesity would have to tease out how different factors such as the role of regular exercise, the composition of various food products, and education in healthy eating might combine to address the problem. The Responsibility Deal process would then have to negotiate who would do what in each area so that a “joined-up” approach would result.

Securing participation

While participation would not be mandatory, it would reflect poorly on any party – corporate or otherwise – that did not participate when invited to do so. The aim of each group would be to develop a Responsibility Deal, defining, in the case of companies and other actors, what reasonable expectations the rest of society had of them and what reasonable actions can be expected of business and other parties, bearing in mind the constraints under which each group operates.

The process would be discursive and companies would therefore have the opportunity to argue their case for why certain expectations were realistic or otherwise. The process will also be designed to bring pressure on other parties to play their respective roles and focus on outcomes over ideology. It would fall to the relevant Secretary of State to exert pressure to ensure that commitments made as part of these forums were delivered. That would become a key function of the relevant government department. However, regular meetings of the forum would also help to ensure that there was a shared sense, among all participants, of the need to deliver on their part of the contract.

The finding of our review is that many companies would welcome Responsibility Deals. Wise compa-

nies have seen the many ways in which responsible business behaviour makes them more competitive, although we accept there are laggards. A key advantage of Responsibility Deals is that they would provide a context for collective action, thereby reducing (even eliminating) the commercial risk for companies of being put at a competitive disadvantage by taking some action that has short-term cost for longer-term gain. Responsibility Deals create space for all companies in a sector to move forward together voluntarily, whilst retaining the freedom for some to go further and show real leadership if they consider it to make business sense and to meet public expectations.

In our experience, one frustration many companies express is the difficulty of “joining up” their efforts to address the social and environmental



aspects of their operations with the work of others. The proposed Responsibility Deals would place co-operation between companies and others – whether NGOs, government agencies or voluntary groups – at the centre of the process of government. The approach would ensure that companies’ activities cohere and interlock properly with those of others.

How would Deals be created and their scope assessed?

It is an obvious risk that Responsibility Deals could be just another quango-like talking-shop. It is crucial that they be focused on real, practical actions and that the relevant government department is held accountable by the cabinet on this basis.

A Responsibility Deal on obesity might see companies changing the ingredients of the goods they sell, and amending their advertising practices; schools providing better education on healthy eating; and a government campaign – similar perhaps to other behaviour-change campaigns such as that regarding drink-driving – to encourage people to eat healthily.

However, it is vital that these actions be based on a

Actions to address a given issue are divided amongst different participants, each doing what it is best placed to do

shared and comprehensive understanding of the issue at hand. Responsibility Deals would be created to make things happen. The chair of each Deal must be of sufficient seniority and authority to achieve generally agreed goals under the terms of reference created: We believe that this means that Deals need to be chaired under the direct supervision of a Secretary of State.

There is great potential for Responsibility Deals to have a distinct relationship with the CHaSPI index idea mechanism, which appears later in this chapter (see p13). The Conservative Party should explore this further. For example, on a particular issue a regulator can design a credible voluntary index for measuring specific business performance in conjunction with a range of stakeholders. The regulator can then reward corporate take-up of the index and good performance within it (and hence improved corporate self-regulation) with a lighter regulatory touch where appropriate. The Working Group feels this notion is well worth exploring with regard to Responsibility Deals to help create credibility and improve business performance.

Business involvement should not be over-complicated, since this would increase costs and the likelihood of non-participation. An effective chair would be directly appointed by, and report to, the lead Secretary of State to steer discussions and avoid any stalling of the process.

Representative NGOs must feel their contribution is valued and that they would have proportionate influence within Responsibility Deals. Equally, business and trade associations could play a key role, provided they can demonstrate over time that their efforts make a difference to their members. Participants in Responsibility Deals should set the standards by which their progress should be judged. MPs could play a key role in deciding what sector or issues are appropriate for Responsibility Deals and offer public comment on their performance.

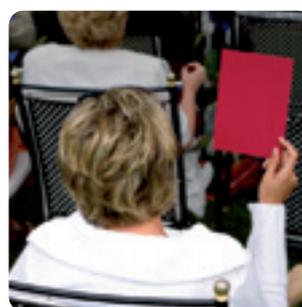
How would progress be measured?

The Working Group feels that other collaborative initiatives where government has been involved in responsible business have focused on both dialogue and process over even-handed outcomes. Shifting the focus to outcomes while maintaining the open dialogue and transparent process is vital, and is something Responsibility Deals can do, if government plays its full role as convenor, catalyst and ultimate arbiter.

Central to the concept of the Responsibility Deal is the idea that actions to address a given issue are divided amongst different participants, each doing

what it is best placed to do. All participants would therefore have to report back to the partners in their Deal on progress against the actions they commit to make.

It is necessary also to consider public reporting of progress on Responsibility Deals. The Working Group proposes that each Deal would have an annual review process, to include transparent reporting and assess-



ment by an independent group of experts offering commentary on what has worked, and what has not. Random audits of the performance of any of the participants – corporate, governmental or civil societal – could be carried out by an appropriate regulator to verify performance. Companies would be encouraged to report on their participation in Responsibility Deals in their corporate responsibility reporting. NGO and government participants may decide to report in a similar way.

How would laggards be encouraged to take part?

Regulation on the specific topic under consideration could be discussed as a last resort should an individual Responsibility Deal not be able to make suitable progress. A senior level cabinet minister would ultimately be responsible for each Deal, and may use his or her influence to make sure progress is made.

Participation, or lack thereof, in Responsibility Deals would be governed by the principle of “engage or explain” for companies, giving them the opportunity to clarify or explain their position should they not wish to contribute. Investors and NGOs involved in Responsibility Deals would be encouraged to highlight to the public the good work they see being done by companies. Equally, they would be encouraged to create pressure on laggard businesses as they see fit, including those that choose not to participate. Given the high public profile of issues likely to be covered by Responsibility Deals, we believe it is likely most major business players will want to participate in them.

All investors should consider environmental, social and governance risks in the companies they have investment in

Challenges that need further study

Clearly, Responsibility Deals have their limits. Not every issue or every industry can be automatically included. A future Conservative government will need to carefully consider where and when to make use of them, and who takes part.

For example, small and medium-sized businesses are unlikely to have much time or many resources to apply to some of the issues where Responsibility Deals could be applied. Careful assessment of who takes part and a focus on encouraging participation by smaller companies would be vital.

Another question that requires further study is whether Responsibility Deals can work on extremely sensitive issues such as UK business corruption overseas. Measures of Responsibility Deals would also



be important, and the Working Group suggests the Conservative party would need to work with other bodies, notably NGO specialists and academics, in developing measurement criteria.

Responsibility Deals would also need to avoid duplication of existing efforts and initiatives. They are not appropriate all of the time, but are one of many tools the Working Group believes government can use to help steer the responsible business agenda.

Other recommendations

Investors and responsible business practice

Some investors are currently using their votes at annual general meetings as an indicator of their views of the firm's attitude to environmental, social and governance factors. The Working Group welcomes this innovation, but believes that it would be further improved with the inclusion of an advisory vote on corporate responsibility reporting at company AGMs. Fully-listed companies should ask investors to vote on the corporate responsibility report. This would be known as an "advisory vote" whereby the company could engage investors who have voted against the

report. The Working Group recommends that the Financial Services Authority amend the Combined Code on Corporate Governance to encourage this.

This formalises the debate and provides information to civil society groups and pension fund trustees on how engaged investor groups are in responsible business issues. Currently, responsible business performance discussion takes place in small pockets with specific investors or small groups of investors. However, the Working Group feels this topic is of sufficient importance to shareholder value for it to be something that all listed companies talk to investors about.

Equally, all investors should consider environmental, social and governance risks in the companies they have investments in. This mechanism encourages both. This recommendation is not about regulation; it is about better information, shareholder democracy and harnessing the influence of the market.

A corporate-responsibility-based review of the Combined Code

Clearly it is one of the roles of company boards to help define the standards and values of the company. The Combined Code on Corporate Governance does contain a reference to the board's role in setting the company's values and standards (Code A.1 The Board). However, we suggest that this is insufficiently clear and requires further serious thought. Further, the tick-box mentality of some companies and investors has led to this clause being overlooked in practice. While the Turnbull Inquiry, a forerunner of the Combined Code, does mention corporate responsibility as a concept, the Combined Code does not make sufficient mention of this. The Working Group believes the Combined Code should make recommendations about incentives, training and corporate responsibility strategy.

Adherence to the Combined Code on a "comply or explain" basis is a requirement of primary listings on the London Stock Exchange. Past reviews of corporate governance have considered different aspects of corporate governance, including executive incentives on shareholder value. Putting a requirement for boards to seriously consider their corporate values and ethical standards – in other words, real corporate responsibility – into the Combined Code would have a beneficial effect on encouraging enlightened self-interest from business.

The Working Group recommends that the Conservative Party consider the sections on internal controls and strategic oversight of corporate responsibility by

Fully-listed companies could be encouraged by influential groups and government to adhere to an “apply or explain” principle on non-financial reporting

boards in the “Rewarding Virtue” report by Insight Investment. Guidelines issued by the Association of British Insurers note that corporate remuneration committees should consider corporate responsibility performance when they look at overall executive reward. This suggestion should be included within the Combined Code, which after all is designed to be revised over time.

The Working Group believes it would be possible to mandate an additional remuneration report to require the remuneration committee to set out whether and, if so, how corporate responsibility and sustainability are considered by the senior management of companies when setting annual bonuses and long-term incentive plans.

‘Apply or explain’ responsible business reporting

The Higgs Review of Corporate Governance is generally seen as a success among governance experts, large companies and investors. It encourages, in a non-regulatory way, better practices in corporate governance.

Non-financial risk reporting, a wider but arguably more important issue, could be encouraged in the ways that Higgs has worked. This means encouraging the use of the “comply or explain” principle that Higgs has embedded in corporate disclosures on governance practices. Higgs himself believes this should now be seen as an “apply or explain” to emphasise the element of opportunity, rather than the compliance approach.

The recent revisions to the Companies Act would not require further reworking on this basis, but instead government should encourage investor and regulatory groups to take an interest in non-financial risk reporting by companies on an “apply or explain” basis. Fully-listed companies (which would not include, for example, AIM companies) could be encouraged by influential groups and government (via contract awarding as well as other methods) to adhere to an “apply or explain” principle on non-financial reporting. Encouragement could involve government stimulating peer pressure and giving awards to the best disclosers on an annual basis.

We welcome the publishing of the Walker Working Group’s recent report and the fact that the private equity industry has decided to come together to address the wider concerns implicit in corporate responsibility through a voluntary code and on a comply or explain basis. The Working Group believes that there should be a review of how the proposals work after an appropriate period.

Revitalising the Corporate Health and Safety Performance Index

The Corporate Health and Safety Performance Index (CHaSPI) could be used as a model for reporting on other areas of corporate responsibility for UK companies.

CHaSPI is aimed at organisations with more than 250 employees. It is designed to help them manage occupational health and safety better. The index, some 18 months old, currently has about 60 companies participating by inputting performance data on aspects related to health and safety in the workplace. One of the aims is to provide investors with comparable information on corporate health and safety performance; another to allow companies to compare themselves to each other. CHaSPI uses both qualitative and quantitative data. Key performance indicators and information about board oversight are included.

CHaSPI does not have enough members yet. An effective index would greatly help in the self-policing of corporate performance on health and safety. A major failure has been the lack of a concerted marketing campaign to get companies to sign up. Companies have also lacked an incentive to do so. Many of the companies that have so far signed up to use CHaSPI are among the best, meaning its impact is limited in affecting those companies in need of improvement. Without broader and deeper participation from other companies, CHaSPI will not be a useful tool.

Government can use its influence with companies to encourage participation and offer incentives. For example, good performance can be rewarded with a lighter-touch health and safety inspection regime. A reward for taking part in CHaSPI could be more lenient requirements on reporting to the Health and Safety Executive. Subject to audits from the HSE, if companies do well in CHaSPI they can be offered fewer site inspections as an incentive, saving time and money.

Despite the problems with a number of members, there is already significant interest from investors, including Morley Fund Management and Insight Investment, in CHaSPI. More than 20 investment houses contributed to the index’s development, and a similar number have used it when engaging with FTSE 350 companies. These include Schroders, Jupiter Asset Management and Henderson Global Investors.

In CHaSPI, the Health and Safety Executive has created an innovative, modern tool, but there is a lack of organisational understanding of how to promote participation. When several years worth of performance data is available from a substantial number of

companies using CHaSPI, investors will be able to use it to measure quality of management and perhaps identify links between good health and safety performance and financial returns.

Using the CHaSPI concept for responsible business

If CHaSPI can be made to work, the concept can be explored in other areas relating to responsible business. Clearly there is a greater opportunity for regulators to modernise and use the corporate social responsibility and socially responsible investment agendas to encourage better corporate self-regulation. This would need to be done carefully, with the primary accountability for regulating corporate performance resting with the relevant government authority.

However, most regulators have overlooked the opportunity to use the influence of other market participants. An example of how this might work is the Environment Agency's useful "Spotlight on Business" initiative. This highlights good and under-performing UK companies depending on environmental performance. This work could be expanded. The Environment Agency could develop a performance index based on corporate environmental governance and publish its results. Equally, the Financial Services Authority could publish a performance index on treating customers fairly.

Additionally, the data generated from a revitalised CHaSPI and a future environmental governance or performance index would have the authority of the official regulator. Investors would be interested in a revitalised CHaSPI because it would provide them with consistent and comparable data using standardised performance indicators. CHaSPI offers the potential to reduce the burden of data that companies are mandated to disclose. An environmental version of the index would enable investors to judge business progress, adjust their investments and support progressive practices while expressing concerns about poor performance.

This notion of performance indexes presents an opportunity for companies to gain useful benchmarking information. Companies would be able to demonstrate that they have made progress in a credible way. With regular audits of the data coming into the indexes, with CHaSPI as the initial trial project, this method can be made extremely efficient.

Specific performance indexes reduce questionnaire

fatigue, are a quality of management indicator, and are proof of progress for investors concerned about risk. Data from such indexes can also be used in corporate communications and corporate responsibility reports, and to motivate staff via internal communications of how their company is progressing.

For laggards, it offers easily identifiable targets for future years – to get to the level of competitors, for example. The Working Group feels this concept deserves further serious exploration by the Conservative Party. CHaSPI should be used as a trial model.

Amending the Pensions Act 1999

In 1999, The Pensions Act was amended to place a requirement on trustees to declare via a Statement of Investment Principles (SIP) "the extent (if at all) to which social, environmental or ethical (SEE) considerations are taken into account in the selection, retention and realisation of investments; and the policy (if any) directing the exercise of the rights (including voting rights) attaching to investments" (HMSO, 1999, Section 35(3)(f)). At the time, this received cross-party support and was considered by a broad range of stakeholders to be an innovative policy change. Since then, a number of other countries have duplicated this reform within their own pensions law.

However, there are a number of serious questions. For example, are pension schemes in compliance? Do their advisors regard this as a sufficiently important issue? What has been the effect on fund managers? Has this ultimately helped to improve the corporate responsibility practices of the companies in which they invest?

A central theme of this Working Group report is that there is significant potential in harnessing the market to promote corporate responsibility and enhance corporate self-regulation. It is therefore critically important to ensure the effectiveness of this market-based, customer information disclosure reform to the Pensions Act and to learn lessons from its implementation. As a result, the Working Group suggests a full review of whether pensions schemes and their fund managers are implementing both the spirit and the letter of the law. This review would be conducted with a view to further strengthening the reform by incorporating an annual reporting requirement for Pension Schemes detailing what action has been taken in support of the SIP. ♦

Small and medium-sized businesses and responsibility

Personal qualities of directors drive the ethics of smaller companies. Business associations and larger companies should help establish an ethos of responsibility in their members and supply chains

Small and medium-sized enterprises do many things that could be called responsible business, although they tend to do so informally. The single most important area of responsible-business-related activity for most SMEs is how they treat their employees, although this is by no means an exclusive focus and they often address other issues too. Many surveys suggest that the smaller the enterprise, the greater the importance of personal and ethical values as a driver for responsible business. There is, however, a significant proportion of SMEs for which the real or perceived business benefits are an important driver for corporate responsibility.

In reality, responsible practice in SMEs is often driven by a combination of personal values and potential business benefits. Few SMEs can quantify the actual business benefits of their responsible business work, but the following are frequently cited as perceived benefits:

- recruiting and retaining staff;
- customer loyalty;
- more secure supplier relationships; and
- energy savings.

The links between corporate social responsibility and innovation, and between responsibility and the development of social capital, are two interesting emerging areas of research on the “business case” for responsible practice for SMEs.

Constraints

The most commonly cited constraints on the further development of corporate social responsibility in SMEs are:

- the perceived cost, combined with having other pressing business priorities;
- uncertainty about the business case;
- a lack of know-how; and
- time.

Furthermore, the term “corporate social responsibility” is unattractive and off-putting for many SMEs. One alternative to be promoted should be “sustainable business”.

Help for SMEs to embed responsible or ethical business practices needs to be customised for different types of company and should be available through existing business development organisations such as Business Link, chambers of commerce and trade associations. Membership organisations should lead wherever possible in raising standards. Large companies need to consider the ability of small companies to comply with new expectations – offering assistance and the phasing in of any changes and not immediately requiring revised practices. Large companies need to consider the ability of small companies to comply by letting SMEs develop their own way forward, and not seek to over-prescribe.

We also recommend that existing government grants for “Knowledge Transfer Partnerships” between universities and business be utilised to support facilitated action-learning by groups of owner-managers of small businesses.

Big companies should also be encouraged to transfer knowledge from small companies to their own operations and vice versa. This could be undertaken via bilateral engagement or in regional forums. The Conservative Party should encourage this publicly. The first part of the process should be to research what practical hurdles exist to prevent or restrain SMEs from adopting good business practice and how these hurdles can be lowered or removed. Equally the minority of illegal rogues, who undercut the good SMEs, need to be tackled by targeted and effective legal enforcement. Larger companies should be encouraged to consider innovative ways of engaging with the smaller firms with which they do business. ♦

Help for SMEs to embed responsible or ethical business practices needs to be customised to different types of company

Oversight of responsible business practice overseas

UK companies operating overseas must be encouraged to continue to develop best practice regarding human rights and corruption issues. Private voluntary initiatives are a useful tool in this respect

Most of the recommendations in this report deal with encouraging responsible business practices of companies operating in the UK. We recognise, however, that the behaviour of British companies overseas is also a matter requiring consideration.

Dealing with such issues is complicated by the fact that extra-judicial oversight by the UK legal system is hard to enforce, except where international agreements exist or reciprocal arrangements are in place with other countries. However, in the view of the Working Group, there are a number of steps that a future Conservative government could take to protect human rights and fight corruption. This does not involve passing new laws, but rather reinforcing and resourcing structures that are already in place.

Human rights

The human rights impacts of the corporate sector have been a cause célèbre in the past decade. From oil extraction in Africa to garment manufacturing in India, the impacts of companies' activities on the human rights of workers and communities in emerging markets have been the subject of large-scale campaigns and much public debate. Understandably, there have been strong calls for legislation to control the behaviour of British companies working overseas, to ensure that their activities do not have adverse human rights impacts, and to call companies to account where necessary.

While we are sympathetic to the sentiment that lies behind these calls, the Working Group does not believe that such legislation would be practical. We also believe that new legislation is unnecessary since mechanisms already exist that, if properly used and resourced, could have a significant impact on corporate behaviour.

It is our view that there is a need to "reinforce and resource" existing legislation and guidance, rather than introduce anything new. The UK has acceded to the OECD Guidelines for Multinational Enterprises, and a National Contact Point has long been established at the Department for Business Enterprise and Regulatory Reform.

However, despite recent changes, this NCP appears to be under-resourced, with the result that it is

unable to deal with the cases brought before it. The current system allows campaigners, unions and other civil society groups to raise issues of concern, and provides a dispute-resolution process. It is our strong recommendation, therefore, that a future Conservative government provide sufficient resources to the NCP so that it is capable of dealing with any substan-



.....
 tive issues referred to it. Further, the work of the NCP should be publicised better.

We also believe that a Conservative government should encourage business to focus on the practical delivery of human rights policies through activities on the ground. This can be done by, for example, providing government support and financial resources to such initiatives as the Business Leaders Initiative on Human Rights and Business Action for Africa. Encouragement should also be given by requiring companies to report on how human rights policies and principles are incorporated into their overall strategy, as part of their compliance with a revised Combined Code on Corporate Governance.

Bribery and corruption

The UK has a significant body of legislation designed to tackle corruption, dating as far back as the Public Bodies Corruption Act 1889 and the Prevention of Corruption Act 1916. More recently, the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was incorporated into UK law as Part 12 of the Anti-Terrorism, Crime and Security Act 2001. The current government has been heavily criticised in the past

We believe that a Conservative government should encourage business to focus on the practical delivery of human rights policies through activities on the ground

A future Conservative government should demonstrate its commitment to ensuring that British companies are not engaged in corruption

year, not least by the OECD, for dropping the Serious Fraud Office investigation into the al-Yamamah arms deal with Saudi Arabia.

This report is not the place to debate this series of events, but we believe it is important that the Conservative Party take a stand against corruption. The Working Group recommends that a future Conservative government demonstrate its commitment to ensuring that British companies are not engaged in corruption by rigorously enforcing those elements of the 2001 Act that embody the OECD anti-corruption convention, if necessary through the introduction of new legislation.

Encouraging participation in private voluntary initiatives

The current government has made some headway in funding and encouraging private voluntary initiatives (PVI) that tackle major issues in business supply chains and in worldwide responsible business.

The Ethical Trading Initiative, the Extractive Industries Transparency Initiative and the Kimberley Process have flourished with government support, and are examples of successful PVIs in recent years. More than 30 are in existence, and a biannual review of their progress should be commissioned to discover the lessons learned.

But the Conservative Party could go further.

We suggest:

- The party should promote independent research on labour violations and emerging progressive practice in the global supply chains of specific industries. It should financially support research on the impact of improved voluntary standards on company competitiveness, for example by academic institutions.
- It should be an active supporter of those PVIs that tackle serious labour violations. Government can help by promoting standards for openness and transparency on PVI operations and achievements.
- It should help build new PVIs by assisting British firms to build bridges in both sourcing and customer markets. Government's relationships with other administrations could be useful for the private sector in developing relations for PVIs in the markets from which companies source.
- It should develop new mechanisms to provide incentives for companies to join PVIs. This could be done by using state procurement contracts, providing favoured access on trade missions to PVI participants and by putting pressure on international financial institutions to add PVI-like requirements as a condition of finance provision. ♦

Business and better community engagement

Companies should be encouraged to integrate more closely with the wider community through employee volunteering schemes

Employee volunteering has become an established feature of working life for the UK's largest companies. With employee participation running at anything up to a third of employees in some companies, many organisations invest considerably in encouraging their staff to get involved in the local community. In some cases, employee volunteering schemes have been established for a decade or more, and are bolstered by volunteering taking place on the company's time.

However, for all but the largest companies employee volunteering is difficult. Smaller businesses need their staff to be working during work hours, and the idea that a company can tell its employees what they should do in their own time is repellent to many.

Yet it is critical that business be engaged in the local community. On one level, companies are engaged through the economic contribution they make to society and to communities. But we believe that



business has a role to encourage staff to be involved in community issues, and those issues need to become much more aligned with companies' core strengths.

Whether a business operates globally with hundreds of thousands of people, or is a small business operating in one town with half a dozen people, there are issues in those communities that cannot be solved without the positive, active and energetic engagement of business and the people who work in them.

At the global level, the United Nations – through the Millennium Development Goals – laid down eight key challenges. The world has no hope of tackling them without the active engagement of business.

Given the need to rebuild society here in Britain, the encouragement of civic and social engagement by business, and those who work in it, is not just important, it is a prerequisite. There are no solutions to fixing our society that do not involve business in some form or another.

Community activity

One of the six ways Business in the Community identifies for business to be involved in the community is engaging employees in community activity. BiTC believes that companies should aim to support at least a quarter of staff in volunteering.

We believe that corporate schemes to encourage volunteering should not be about setting a target, nor should they be simply about employees “volunteering” for worthy causes. If business has a role in employee volunteering it must include focusing on issues that matter to the company's core business, and leading change by encouraging their people to take up local community issues as leaders, volunteers and supporters.

We recommend that businesses think about employee engagement in a strategic sense, so that they align such activity with their core strengths. At present, the government is looking to businesses to help solve a raft of different problems. Large companies, in particular, are increasingly expected to address specific social challenges identified by government, not all of which relate to every business.

A Conservative government should encourage businesses to be engaged with community or public policy issues that relate to their business activities, and look at how they can incentivise their employees to use their business skills and expertise in a broader capacity. ♦

There are no solutions to fixing our society that do not involve business in some form or another

Climate change and the role of business

The next tranche of climate change policy initiatives should be aimed at SMEs

According to a poll conducted by the Energy Saving Trust in April 2007, 80 per cent of the public believe that climate change is having a serious financial, environmental and social impact on the UK. 70 per cent want to help tackle it. But just 38 per cent of those surveyed said they had changed their lives to tackle climate change and only 4 per cent had changed their lives dramatically.

The people questioned by the Energy Saving Trust are likely to be representative of the employees of the small and medium-sized businesses that make up 90 per cent of the UK economy. The clear message is that more practical advice is needed about how people can tackle climate change in small steps, starting, for example, with insulation and energy efficiency in homes and offices.

Given the public profile of FTSE 100 companies, the Working Group has no doubt these organisations will continue to lead the country, and the world, in tackling climate change by reducing emissions. The challenge for the Conservative Party lies in encouraging listed companies outside the top 100 and non-listed companies to take similar action.

As we have argued, larger companies can be encouraged to help and advise smaller ones, particularly suppliers, to meet better standards. This is already happening. The key will be for the larger companies to get their incentives and time frames right, and for them to offer support and encouragement, while mandating continuous change in their supply chain. While encouraging this activity is a role for government, a bigger challenge, particularly given the likely extension of carbon trading into the UK economy for larger firms, is to persuade the small and medium-sized sector to do more to save both carbon and money.

Encouragement and engagement

The Working Group believes the Conservative Party has taken a strong position on climate change in UK politics. Incentives to act must be clearer for companies, and many businesses have suggested that the government needs to move faster to create a clearer incentives framework for business to tackle carbon emissions. The Working Group agrees with this analysis.

UK SMEs require encouragement and engagement on the basic steps they can take to tackle climate change. As there is a dearth of evidence-based knowledge on how SMEs can be encouraged, the Conservative Party should commission a suitably funded study.

We believe that larger businesses, and those soon to be affected by the draft climate change bill – “medium polluters” – will soon act further and ask smaller suppliers to join them in the transition to a lower-carbon economy. It is therefore vital that a study on SMEs and climate change consider how this transition can be enabled with the lowest possible impact on SME competitiveness.

Sustainability in government procurement

Our remit in this report is not about what government can do for itself, but about corporate responsibility. That said, how government behaves in terms of setting an example is important. In terms of procurement, the Working Group advocates that a future Conservative government should lead on sustainable procurement. Lessons should be learned from the private sector on this issue.

This is an area so far largely unexplored, but lessons can be learned from the experience of larger firms assisting smaller ones, and social enterprise. The Working Group believes that many of the resources currently available to UK business on various climate-change-related websites are too focused on awareness-raising rather than simple



The challenge for the Conservative Party lies in encouraging listed companies outside the top 100 and non-listed companies to take action

practical and immediate actions that businesses can take. The Conservative Party should encourage

Social emissions trading

For our interim report in January 2007 the Working Group sought views on developing a process of social emissions trading. This notion was based on furthering the concept of carbon emissions trading to specific social issues. After more than 50 consultations with businesses and other actors, it became apparent that such a concept would not serve its purpose.

climate-change-related communications to be much more pragmatic for those businesses that wish to take steps. A case-study approach in such literature, which smaller companies can relate to, with information on the impacts of making climate-friendly changes on competitiveness, would also be more helpful than many of the current approaches.

Placing a value on carbon will significantly help business in the UK respond to climate change. UK businesses, large and small, can make some simple improvements on carbon emissions from UK offices,

facilities, power stations and transportation, and should be encouraged to do so. But the complexity of tracking and reducing supply-chain carbon should not be overlooked.

The Working Group advocates that business work with pragmatic NGOs and academic institutions to understand properly and address the issues. The Conservative Party should explore ways of encouraging this and make it a key part of their climate change strategy.

Carbon labelling

The Working Group feels that carbon labelling should be carefully considered. While companies will find benchmarking helpful, we are not convinced that putting carbon labels on tins of beans or bottles of shampoo is the best approach. Consumers may be confused and companies may simply contribute to label proliferation without driving competitive advantage.

The Working Group recommends that the Conservative Party encourage businesses and public sector organisations to begin labelling with caution. To be effective, labelling should be limited to carbon-intensive products or services. These might include, for example, cars, flights, trains and large household electrical goods. ♦

The Conservative Party should encourage climate-change-related communications to be much more pragmatic for those businesses that wish to take steps

About the Working Group on Responsible Business

Peter Davis

Peter Davis is co-director of the Ethical Corporation Institute. As politics editor of Ethical Corporation, he writes widely on the social and political issues underlying the corporate responsibility agenda. He has more than 15 years of experience in the field of responsible business, and has worked all over the world with organisations as varied as NATO, Royal Dutch Shell, BSKyB and Diageo.

Tobias Webb

Toby Webb is founding editor of Ethical Corporation, an independent media firm that publishes a magazine on corporate responsibility, produces conferences and research and publishes ClimateChangeCorp.com, an online publication on climate change.

Jonathan Djanogly MP

A partner in the corporate finance department of S J Berwin LLP solicitors, Jonathan Djanogly served as a councillor on Westminster LBC, including as chairman of the contracts and environment committees. He was elected to parliament, representing Huntingdon, in 2001 and recently served on the companies bill committee.

David Grayson CBE

David Grayson is the Doughty chair of corporate responsibility and director of the Doughty Centre for Corporate Responsibility at Cranfield School of Management. He is chairman of Housing 21 and a director of Business in the Community. A visiting

senior fellow with the CSR Initiative at the Kennedy School of Government, Harvard, Grayson is a former chairman of the National Disability Council and of the Business Link National Accreditation Board. He is a trustee of several national charities. Amongst his books are “Everybody’s Business: Managing risks and opportunities in today’s global society” and “Corporate Social Opportunity: Seven Steps to make Corporate Social Responsibility work for your business” (both with Adrian Hodges). He is a serial social entrepreneur.

Richard Hamilton

Richard Hamilton is a director at KPMG International focusing on issues of corporate responsibility and policy. He joined the firm in October 2006 following ten years at Barclays plc where his roles included chief operating officer, global investment advisory, and responsibility for the chairman’s office. He has been a non-executive director of an NHS Trust since 2003.

Tom Rotherham

Tom Rotherham is head of corporate responsibility at Radley Yeldar, a corporate communications consultancy.

With the exception of Jonathan Djanogly, members of the Working Group are not politically affiliated and have given their time and input as a way of advancing the debate on responsible business practice.

