

**CORPORATE SOCIAL RESPONSIBILITY
A ROLE IN GOVERNMENT POLICY
AND REGULATION?**

Constantina Bichta

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PREFACE

The CRI is pleased to publish Research Report 16 on ***Corporate Social Responsibility - A Role in Government Policy and Regulation?*** by Constantina Bichta. Constantina was a Research Officer at the CRI until June 2003.

Understanding the potential role of CSR in companies is important to the design of regulation. At one level it interfaces with ideas of self-regulation and co-regulation, and at another it challenges the basis of the modern liberal market economy. Personal and moral responsibilities of directors and employees have also to be considered alongside the role of the corporation in meeting the legitimate expectations of its investors and shareholders. Corporate social responsibility can clearly be seen to be a good thing. Nevertheless, Governments have to take overall responsibility for ensuring that conduct failures - whether market or non-market failures - are regulated appropriately, taking account of each of the three pillars of sustainable development: the economic, social and environmental pillars. CSR may have a role to play as one of the 'instruments' of, or surrogates for, regulatory policy, but that depends not only on its theoretical potential, but whether that potential can be demonstrated in practice by companies. We hope that this research makes a contribution to that debate.

The CRI would welcome comments on the report. Comments should be addressed to:

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The CRI publishes work on regulation by a wide variety of authors, covering a range of regulatory topics and disciplines, in its International, Occasional and Technical Paper series. The purpose is to promote better understanding and debate about the regulatory framework and the processes of decision making and accountability. Enquiries or manuscripts to be considered for publication should be addressed as above.

The views of authors are their own, and do not necessarily represent those of the CRI.

Peter Vass
Director, CRI
September 2003

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1 INTRODUCTION

“The important thing for business and society at large to understand is the limit to voluntary action, which is the point where government need to intervene. If we are to live within the earth’s capacity and share its resources equitably, economies must be transformed. That cannot be done by business alone”¹

This paper sets out to describe the role of Corporate Social Responsibility (CSR) in government policy and examine its relevance to a particular sector, the regulated utilities. Current theoretical and political debates and activities conducted at the national and international level, suggest a widespread interest shared by government, industry, civil society and non-governmental organisations (NGOs) regarding the role of government and business for the natural environment, social development and social inclusion.

Ten years after the 1992 Rio earth summit, the world summit on sustainable development (WSSD) was held in Johannesburg (26 August – 4 September 2002) to review any progress made since Rio and begin to tackle the global issues of environment and development. The world’s governments, however, were unable to agree on a binding legal framework on the environmental behaviour of global corporations, despite the calls for government action to hold corporations accountable for their activities.² Instead, government representatives have settled for purely voluntary industry actions ie, the ‘global compact’ and ‘type II’ partnership agreements.³ Corporate accountability and governance issues also were brought to the attention of the summit delegates, as Friends of the Earth called for a legally binding international framework on corporate accountability and liability.

In the UK, the battle between voluntarism and compulsion is at a critical stage (Cowe, Porritt, 2002). The government has appointed a minister for corporate social responsibility, but at the moment the government acts as an ‘enabler’ of business productivity and innovation. Social and environmental policy issues are tackled through the setting of minimum legal standards, the use of a ‘light touch’ legislation regime such as the Pensions Act 1995 and proposals for reforming the British company law ie, directors to act in the interests of the company’s shareholders but also take into account the wider interests of customers, employees, suppliers, impact on the local community and the natural environment; annual reports to include stakeholder relations, environmental and community impact. The corporate responsibility coalition (CORE) however, has brought together a broad range of NGO’s and it has raised the stakes with Linda Perham’s bill calling for compulsory social and environmental reporting by companies.

¹ Cowe R and Porritt J (2002), Government’s Business – Enabling Corporate Sustainability, Forum for the Future, p3.

² Friends of the Earth (2002), Towards Binding Corporate Accountability, Briefing.

³ Global compact is an international initiative launched by the UN on 26 July 2000. It is structured around nine principles in the areas of human rights, labour and the environment that companies, NGOs, and other civil society actors may adopt to improve their corporate citizenship ie, corporate responsibility, sustainable growth, and triple bottom line. The initiative is purely voluntary, it does not enforce the behaviour or actions of companies nor policies them. The rationale of the initiative is that ‘voluntary initiatives and regulatory systems complement each other and, when combined, provide powerful impetus in encouraging the wide adoption of responsible corporate citizenship’. The global compact initiative invites companies to integrate the nine principles into their core management strategy and decision-making. For more information visit the global compact official website: www.unglobalcompact.org.

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In such a political environment, industry bodies like the Business in the Community (BitC,UK) anxiously work to improve the impact of their members on local communities.⁴ During last year, BitC has undertaken two particular initiatives to help members towards improving their social performance. These initiatives comprise a corporate responsibility index and the corporate impact reporting initiative. The former is a benchmark tool that provides companies with a systematic process through which they can compare their management process and performance against others in their sector. By doing so, companies can improve performance amongst their peers. The latter, in essence, is a framework for companies to measure and report on responsible business practices in the areas of marketplace, environment, workplace, community and human rights. Both schemes were introduced on a purely voluntary basis.⁵

In the academic circles, some of Europe's leading business schools have teamed up with more than sixty multinationals to launch the European academy of business in society. In its own words, the academy was created as "*a response to calls from the public, as well as from managers, to better integrate the social responsibility aspect into business activities*" and has a mission to drive CSR into the mainstream of business practice. For the mission to be accomplished, the academy strives to undertake the following activities:

- to integrate the changing role of business in society into the core of business education;
- to deliver interdisciplinary research on CSR and create a global research bank on the role of business in society;
- to become Europe's training gateway to 'best-in-class' training practices and learning resources for businesses and corporate academies.⁶

All the above activities testify the growing interest amongst politicians, industry and academics around the role of government and business in corporate social responsibility and performance. But do we beg the question of CSR in government policy all of a sudden? What the situation has been to date and what the situation could be if government adopts an active role in corporate social responsibility and performance?

To attempt to answer the first question, it is fair to argue that the role of CSR in government policy is not a new issue. At different periods of the industrial society's history, social movements have questioned business social responsibility and governments have responded with legal measures. The scientific announcements regarding ozone depletion aroused public concern for the natural environment in the early nineties and since the mid nineties companies have become more and more questionable for human rights and labour relationships in third world countries. Sustainable development, triple bottom line reporting and innovative techniques supporting clean and renewable sources of energy are 'terms' that industry is puzzled with on daily basis.⁷ In this climate, the United Nations and governments are developing frameworks to help companies improve their 'corporate citizenship and responsibility'. Amongst these, the global compact, the universal declaration of human rights, the international labour organisation's (ILO) declaration on fundamental principles and rights at work and the Rio declaration on environment and development are just a few

⁴ www.bitc.org.uk.

⁵ BitC (2002), Improving and Communicating Corporate Responsibility.

⁶ The academy is part of the wider European Business Campaign on Corporate Social Responsibility, led by CSR Europe, the Copenhagen Centre and the Academy partners, which is an ongoing initiative until 2005 with the aim to raise awareness and engage business people on the topic of CSR.

⁷ Reporting of social, economic and environmental issues.

examples. These guidelines, developed to help companies to improve their performance, raise however, two important questions: First, they do not provide a legal binding framework for industry to abide by. It is left to industry to adopt them if it wishes to be a 'better citizen' of the world. Secondly, they raise serious questions for increased competitiveness, particularly for multinationals (who operate at different countries), when they are not unilaterally enforced at the national and local level.

Consequently, the two later points beg another question of research interest: 'what role could government play in CSR'? At the closing stages of the WSSD, it became clear that government and industry found it difficult to agree on common duties and objectives favouring the environment and development. To this end, one may also add the main purpose and function of business in society, which to date has been to increase profitability for shareholders.

Voluntary industry activities are not a good enough response either to overcome environmental problems ie, depletion of scarce resources or tackle problems of development and social inclusion ie, equal pay, working conditions. As the industry admitted at the end of the WSSD, it will restrain itself from committing to high technological investment on renewable energy and heat-power combustion unless the regulatory framework either requires it or plays the role of a subordinate.⁸

It is the objective of this research report to explore the role of CSR in government policy in the context of the regulated industries. But first, let us introduce the notion of CSR.

The notion of corporate social responsibility (CSR) and its discourse

The notion of corporate social responsibility (CSR) is not new in our society. It was born when corporations were born and societies to accommodate them. The 'soul' of corporate social responsibility is what the French philosopher Rousseau understood to be 'the social contract' between business and society. Rousseau conceptualised the relationship between business and society as being a 'symbiosis'. The Greek word 'symbiosis' means the co-living and co-existence of two parties in a mutually advantageous relationship. Thus, the social contract understands men (social members) as being able to act freely in a civil society that is united by a general will or 'volonte generale': 'The social contract that brings society into being is a pledge, and the society remains in being as a pledged good'.⁹

The social contract signifies the relationship between society and business. Business hosts their operations within society and in return society expects business to show responsibility for aspects of its operations. According to the contract, society recognises organisations as agents, particularly in the eyes of the law, and authorises them to use land, natural resources and offer employment. From the business point of view, they improve the quality of life of a society. One can take the argument of the social contract further by adding to it that business is socially, morally and politically 'bounded' to improve the quality of life of society: they

⁸ In its own words, industry "requires a clear, equitable and predictable decision-making framework in which to make long term investment and dedications of capital...investment in countries where regulation is lax would put such investments at risk. Therefore, building and strengthening capacity in international, national and local governments to develop, implement enforce the regulatory framework may be priority for government" at www.johannesburgsummit.org, Key Business Messages.

⁹ Jean-Jacques Rousseau, The New Encyclopaedia Britannica, Chicago, Vol 26, pp938-942.

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are expected to enhance the life of consumers and workers, to promote justice by avoiding deception or fraud, respect their workers and avoid harming any other social groups.¹⁰

It is, however, the manner in which the social contract has been conducted, particularly on behalf of corporations during the past a hundred years, that makes the issue of corporate social responsibility so prominent and important nowadays. It may be that the reason behind the 'misconduct' of the social contract is the different understanding and explanations developed around the notion of CSR. The social contract is just one 'plausible' explanation of what is CSR. Many competing arguments that justify the nature and scope of CSR have been developed over the years, all of which have resulted in offering different discourses of the notion.¹¹

The classical view of Adam Smith of perfect markets and the 'invisible hand' have been the core perception of business responsibilities for the past three hundred years. In the early twentieth century, the social responsibility of business was tied up with market performance. Oliver Sheldon, encouraged management to take the initiative in raising both ethical standards and justice in society through the ethic of economising.¹² By doing so, business provides wealth in society and increases its standard of living whilst retaining a satisfactory level of profit. Not long ago, the social responsibility of business was understood to be the promotion of the exclusive interests of a firm's shareholders, according to Milton Friedman's advocates.

During the 1970s, most social issues became public policy matters and legislation was passed to address health and safety at work, environmental protection and consumer protection rights. The public policy approach provided a legitimacy for socially responsible actions on behalf of management, as government, acting on behalf of its citizens, had a legitimate right to provide guidelines for managers and shape corporate behaviour to correspond with societal expectations. The public policy approach contended that the social responsibility of business is not only to perform well in the marketplace and meet its economic objectives but also to follow the directives of society at large, as expressed in and through the public policy process.¹³ It was therefore argued that the public policy process and marketplace are both sources or guidelines for managerial behaviour.

In contrast with public policy arguments, other scholars tried to distinguish between CSR and corporate social responsiveness by arguing that the latter refers to the capacity of an organisation to respond to social pressures. Social responsiveness describes the act of responding to social expectations and consequently, corporate social responsiveness supporters will look for mechanisms, procedures, arrangements and patterns of behaviour that demonstrate the capabilities of an organisation to responding to social pressures (Buchholz, 1993). Both approaches however, public policy and social responsiveness, have been criticised on the basis of ignoring the deeper values involved in CSR that is failure of advancing an understanding of the normative dimension related to corporate social behaviour (Buchholz, 1993).

¹⁰ Bichta C (2000), The Key Determinants of Environmental Performance - Case studies from the chemical/fertiliser and metal sectors, PhD Thesis, School of Management, University of Bath.

¹¹ Bichta C (2002), Corporate Socially Responsible (CSR) Practices in the Context of Greek Industry, *Corporate Social Responsibility and Environmental Management Journal*, (forthcoming).

¹² That is to economise the use of resources and combine resources efficiently so that business can earn profits to continue operability and expand into new markets.

¹³ Buchholz R (1993), *Principles of Environmental Management-The Greening of business*, Prentice Hall, USA.

In recent years, CSR has been linked with sustainable development. The sustainable development position holds that business has a moral responsibility to insure that its activities be ecologically sustainable. Business remains free to pursue profits within the rules of the game but the rules must be changed to include the obligation to leave natural ecosystems no worse off in the process. The sustainable development model seeks to combine the natural constraints established by ecological laws with minimal moral constraints placed upon business activity. Accordingly, the World Commission on Environment and Development defines sustainable development as development that “*meets the needs of the present without compromising the ability of future generations to meet their own needs*”. Contemporary CSR accept this definition, and this places an obligation on business not to harm the ecosphere. Des Jardins (1998) explains that business activity would be considered as harming the ecosphere when it uses resources at unsustainable rates or creates wastes that cannot be absorbed by the system.¹⁴

It is such competing arguments that make it very difficult for industry, academics and government practitioners to reach a commonly accepted view and a shared understanding of the meaning of CSR. This research report will describe the prevailing competing arguments surrounding the notion of corporate social responsibility and examine its relevance to the UK regulated utilities. Given also the wider implications that the CSR notion brings for government, this research report will discuss the role of CSR in government policy in general and in the said industrial sector in particular.

The proceeding chapters of this paper are structured as follows:

- **Chapter 2** deals with the definition of CSR in both its theoretical and operational terms.
- **Chapter 3** goes into detail to present the prevailing academic views regarding the notion of corporate social responsibility.
- **Chapter 4** presents the role of government in relation to CSR by attaching more weight to the UK experience and the European Union’s position on corporate social responsibility.
- **Chapter 5** comprises the empirical chapter with focus on the regulated industries. The chapter discusses ‘the case of CSR’ as the companies themselves currently practice it.
- **Chapter 6** states the implications of CSR for government policy in general and the regulated industries in particular.

¹⁴ Des Jardins J (1998) Corporate Environmental Responsibility, Journal of Business Ethics, Vol 17, pp825-838.

2 CORPORATE SOCIAL RESPONSIBILITY (CSR) – DEFINITION

The notion of corporate social responsibility has been open to various interpretations, reflecting the relationship of business and society at different times of history.¹⁵ As argued in Chapter 3, the predominant view concerning business responsibility to society is derived from the neoclassical economic position that sees the promotion and serving of interests of the firm's shareholders as being the main responsibility of business.¹⁶ Whilst the notion of corporate social responsibility has evolved over the years, in the context of this research report it is imperative to articulate the current meaning of CSR and, thereafter, discuss the role of government in relation to corporate social responsibility.

Historically speaking the notion of CSR has been associated with corporate philanthropy. Well known British and American entrepreneurs realised the need for getting involved with the community and contributing to its welfare by building schools and hospitals and making donations.¹⁷ Porritt and Cowe (2002) cite that it was altruism that led Pilkington and Marks and Spencer to set up BitC in 1982. During the late eighties and early nineties public opinion, social movements and activities by non-governmental organizations (NGO's) led businesses to develop a more 'sophisticated' approach to CSR, known as 'enlightened self-interest'. In this context, the chemical industry developed the 'responsible care' programme in Canada in the mid 80s but participation to the programme became a requirement for membership of the Chemical Industries Association. The programme was taken by the US Chemical Manufacturers Association (CMA) in 1988 and the UK Chemical Industries Association in 1989 and members were required to educate their staff and work closely with customers, transporters, suppliers, distributors and communities to achieve effective environmental management of processes and products.¹⁸ The Responsible Care programme is an example of business attitude to improve performance for business benefits (ie, improved public image due to rise of global environmental concerns) and wider benefits to society (ie, improved environmental and social impact of processes and products).

Since the mid 1990s the notion of CSR has been associated with the terms of 'corporate citizenship', 'corporate sustainability' and 'triple bottom line'. The term corporate citizenship describes a firm's engagement with stakeholders rather than shareholders alone. Corporate sustainability refers to corporate behaviour that is likely to affect sustainable development ie, company activity that creates opportunities for sustainable development. Triple bottom line usually refers to the balance and equal promotion of the economic, social and environmental interests of a business. These contemporary interpretations of CSR, however, are linked to the idea of self-interest and espouse the 'business case' for corporate social responsibility as argued next.

The current prevailing definition of CSR advocates that the firm should engage with stakeholders for long-term value creation. This does not mean that shareholders are not

¹⁵ See p4 in the Introduction.

¹⁶ Friedman M (1970), The Social Responsibility of Business is to Increase its Profits, Business Ethics – Readings and Cases in Corporate Morality, Hoffman W M, Frederick R E, Schwartz M S (eds) (2001) (4th edn), McGraw Hill Inc, USA, pp 156-160.

¹⁷ See Chapter 3 p13-15.

¹⁸ Tapper R (1997), Voluntary Agreements for Environmental Performance Improvement - Perspectives on the chemical industry's Responsible Care program, Business Strategy and the Environment, Volume 6, pp287-292.

important, or that profitability is not vital to business success. On the contrary, in order for the firm to survive and be profitable it must engage with a range of stakeholders whose views on the company's success may vary greatly. The process of engagement creates a dynamic context of interaction, mutual respect, dialogue and change, which will allow socially responsible business to achieve lower costs, higher revenues, improved reputations, lower risks and ultimately benefit shareholder value. This view of CSR corresponds to the commonly cited 'business case' for it.¹⁹

The current definition of CSR - that postulates the engagement of a firm with stakeholders rather than shareholders alone - is derived from the stakeholder model of a firm, which was developed in the United States in the mid 1980s. Epistemologically however, the stakeholder model of the firm and the current 'business case' for CSR are different, as it will be shown in Chapters 3 and 4. This is mainly because the stakeholder model of the firm is rooted on the (deontological) assumption that the firm ought to engage stakeholders in the decision-making of the firm as they are likely to be affected by the firm activities whereas, the 'business case' for CSR is rooted on the (utilitarian) notion that shareholders will increase their financial interests by engaging in dialogue with other stakeholders of the firm.

To summarise, in its conventional form corporate social responsibility is seen as profitability plus compliance plus philanthropy. The current meaning of corporate responsibility is associated with the 'recognition that day to day operating practices affect stakeholders and that is in those impacts where responsibility lies, not merely in efforts to do good' (Andriof et al, 2002).

Operational definition of CSR - compliance plus, best practice and cost-benefit analysis

From the above it can be argued that the current definition of CSR is developed around two main principles:

- the interests of the firm's stakeholders should be represented at the company board and the decision-making process of the firm;
- since corporate law protects the interests of the firm's shareholders, a corporate socially responsible or 'corporate citizenship' stance would involve the formulation of decisions that go beyond legal requirements and exceed the law, 'compliance plus'.

Thus, the notion of CSR assumes corporate behaviour that goes beyond legal requirements. CSR is the detailed 'issues' which an organization may be taking into account when developing strategies and on which an organization exceeds its minimum required obligations to stakeholders.²⁰ Traditionally, these issues are both internal and external to the organization ie, employee welfare, working conditions, green issues, products etc. Today, the corporate social responsibility 'handbook' extends to human rights, workplace practices, globalisation practices, corporate power, environmental impact, corruption, community affairs and effective stakeholder dialogue (Cowe, Porritt, 2002). By meeting its legal obligations an organization should not necessarily assume socially responsible behaviour.

¹⁹ Andriof J, Waddock S, Husted B, Sutherland Rahman S (eds) (2002), *Unfolding Stakeholder Thinking - Theory, Responsibility and Engagement*, Greenleaf Publishing, UK.

²⁰ Johnson G, Scholes K (1999), *Exploring Corporate Strategy*, Fifth Edition, Prentice Hall, London.

Generally speaking, an organisation will avoid breaking the law because of the fear of prosecution (Bichta, 2000). The notion of CSR confers to activities that exceed legal requirements and the way in which the organization will manage the CSR agenda.

In practice, CSR is currently translated as ‘best practice’ ie, the rigorous assessment and management of a company’s impacts across the entire business from the point of material supply to product disposal (Cowe, Porritt, 2002). To conclude, in its broadest sense, contemporary CSR represents companies’ responsibility to improve all their impacts on society, when not required to do so by law.

It is fair however to argue that within the present (business) share ownership paradigm, shareholders will have the final say if corporate action is not constrained by regulation. This position might be altered by changing the relationship between the board and stakeholders, which is the intention of the current meaning of CSR. It may be that government has a role to play towards creating the conditions where such a switch in emphasis can be made.

To be able to discuss the role of government in relation to CSR, the development of an operational and measurable definition of CSR is important. To this end, the World Bank has developed an operational term of CSR which considers CSR as the process of managing the costs and benefits of business activity to both internal (ie, employees, shareholders, investors) and external (institutions of public governance, community members, civil society groups, other enterprises) stakeholders. Setting the boundaries for how these costs and benefits are managed is partly a question of business policy and strategy and partly a question of public governance.²¹

The next section discusses the role that government has played to date in relation to corporate socially responsible behaviour.

The role of government

From the industrial revolution to recent years, social objectives have been almost entirely the responsibility of government. Social movements, NGO activity and pressure groups during the 70s and 80s led to the mobilisation of public opinion demanding from corporations to demonstrate a socially responsible stance. Since the earlier twentieth century, European member states have developed legislation to control the relationship between employee and the firm, health and safety at work, issues of environmental interest, discrimination and equal opportunities at workplace. Across Europe, state owned companies were created to pursue commercial and social objectives, whereas private sector companies were allowed to pursue their commercial objectives almost exclusively.

Legislation, regulation and taxation have been the favourable tools employed by government to promote and protect social objectives. In the area of the environment, ‘command and control’ techniques have been favoured by the European Union since the 1970s whereas a shift towards ‘shared responsibility’ between government and industry is another favourable policy approach since the mid 1990s.

²¹ Fox T, Ward H, Howard B (2002), Public Sector Roles in Strengthening Corporate Social Responsibility – A baseline story, The World Bank.

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In the UK, the government's privatisation programme of the 1980s shifted public expectation of the private sector. Whilst until then, social objectives had been mainly the responsibility of government, the privatisation of gas, water and electricity introduced a new paradigm. It created public companies owned by shareholders pursuing the same kind of financial returns as in any other public company, but the companies had also clear social objectives. In the case of the privatised utilities, these social objectives were managed through the regulatory regime, but the existence of the companies as 'stock market vehicles' demonstrated that financial and non-financial objectives could co-exist (Cowe, Porritt, 2002).

The Labour government has maintained the interest to 'bridge' public and private, social and financial objectives by drawing the private sector into the provision of social goods ie, public-private partnerships. The government has taken steps to reinforce the responsibility of the private sector with regard to its social and environmental impact. A number of legislative measures have been passed to support sustainable development including the climate change levy, the community investment tax credit and the Pensions Act. The company law review (1998-2002) has rejected the concept of 'pluralism' which would have required directors to consider the interests of other stakeholders as well as pursuing the interests of shareholders, but the government's white paper, which incorporated the review's recommendations, has communicated the message that directors would be foolish to omit such matters.^{22 23}

A question of interest therefore in the contemporary debate of CSR is whether government should assist business to exceed its legal obligations and hence commit itself to socially responsible behaviour, as defined in current terms. A second question considers the nature of a potential government role: Should government create the opportunities/enable business to opt for the business case for CSR? Or should government create the environment for business to realise the potentials of seeking legitimacy directly from the firm's stakeholders rather than shareholders alone?

Interestingly, recent published studies suggest that government may play a role to encourage and promote the social responsibility of business. As **Table 1** shows, the World Bank has identified four principal public sector roles in relation to CSR that are mandating, facilitating, partnering and endorsing roles.

Table 1: Public sector roles

Mandating	'Command and control' legislation	Regulators and inspectorates	Legal and fiscal penalties and rewards
Facilitating	'Enabling' legislation	Creating incentives	Capacity building
	Funding support	Raising awareness	Stimulating markets
Partnering	Combining resources	Stakeholder engagement	Dialogue
Endorsing	Political support		Publicity and praise

Source: Fox, Ward, Howard (2002), The World Bank

²² The Company Law Review Steering Group (2001), Modern Company Law - For a competitive economy, Final Report, DTI.

²³ Department of Trade and Industry (2002), Modernising Company Law, Cm 5553-I.

Public sector activities may vary depending on the CSR issue at stake. **Table 2** shows potential public sector activities for the CSR issues of corporate governance and community development.

Table 2: Classification of public sector activities

Public sector role				
CSR theme	Mandating	Facilitating	Partnering	Endorsing
Corporate governance	Stock exchange regulations and codes; company law	Implementing international principles	Multi-stakeholder code development	
Community development	Mandating corporate contributions	Tax incentives; 'timebank' schemes; league tables to promote peer pressure	Public-private partnerships	Publishing leading corporate givers

Source: Fox, Ward, Howard (2002), The World Bank

Cowe and Porritt (2002) call for 'intelligent' government action to ensure that corporate action will contribute towards sustainable development since voluntary corporate action alone will not be enough. This government intervention at the beginning will consist of a set of 'soft' measures such as changing the political environment ie, mandatory company reporting and hence, building up to 'hard' action - laws and regulations. The authors' belief is that 'the more corporate performance is exposed to the public gaze through effective reporting, the more effective 'civic regulation' can be and the less the need for formal government measures'. Cowe and Porritt's view corresponds to a government role that will increasingly enable companies to seek legitimacy directly from their stakeholders.

3 THE ACADEMIC VIEW - THEORETICAL DEBATES

The development of corporate social responsibility (CSR)

The notion of corporate social responsibility made its appearance almost a hundred and fifty years ago. It emerged in the United States of America as a social and political reaction to the rapid growth of capitalism during the thirty years following the American civil war (1861-5).²⁴ Big companies, as we know them today, appeared in the United States in the 1870s. But as they grew, an ‘anti-trust’ movement against the ‘robber barons’, also grew.²⁵ McEwan (2001) explains that the rationale for the ‘anti-trust’ movement was “*the new industrial trusts and corporations which had become too powerful, wasted resources, were politically dangerous and socially irresponsible*” (p4).

The American government assumed responsibility for correcting the social behaviour of big corporations as early as the 1890s and it passed laws on child labour, safety at industrial sites, and on workers’ rights to form trusts.²⁶ Nader et al concede that American corporations became more aware of their public responsibilities after the US Supreme Court announcement in 1906 which condoned that “*the corporation is a creature of the state. It is presumed to be incorporated for the benefit of the public. It receives certain special privileges and franchises, and hold them subject to proper government supervision*”.²⁷ The American government extended legislation on labour protection, public utilities and banking services during the nineteenth and in the early twentieth century. Trying to distance themselves from government intervention however, North American entrepreneurs like Francis C Lowell, Ford and Rockefeller laid education in the centre of the relationship between individual entrepreneur and corporate responsibility.²⁸ For these entrepreneurs education was the means to personal advancement. Their contributions to private universities introduced a culture of private support for public works which still persists in the American thinking today.

In the UK, the idea that business should take into consideration social and not only economic issues is traced back to the Victorian industrialist era. Amongst the pioneers of this new era, Robert Owen, Lord Shaftsbury, Lord Ashley and John Stuart Mill called for a more responsible approach to the needs of those who failed to prosper from the industrial revolution. Entrepreneurs such as Robert Owen, Cadbury and Leverhulme adopted the approach of ‘enlightened self interest’, by arguing that “*workers who were treated well would respond well*” (Cannon 1994 p17). These entrepreneurs funded a range of welfare activities including public health and education.

In contrast to the USA, in Europe the commitment to intervention, education and a form of partnership between the state and the enterprise to deliver social goals has persisted since the

²⁴ McEwan T (2001), *Managing Values and Beliefs in Organisations*, FT Prentice Hall, London.

²⁵ Josephson M (1962), *The Robber Barons*, 2nd edn, Harvest/HBJ Books, New York.

²⁶ Farmer R, Hogue D (1973), *Corporate Social Responsibility*, Social Research Associates Inc, USA.

²⁷ Nader R, Green M, Seligman J (1997), *The Corporate Impact, Issues in Business and Society*, Steiner G, Steiner J (eds) (2nd edn), Random House, New York, pp22-35.

²⁸ Cannon T (1994), *Corporate Responsibility – A textbook on business ethics, governance, environment, role and responsibilities*, Pitman Publishing, London.

nineteenth century and particularly the earlier twentieth century. In France and Germany much of the impetus for industrialisation and change came from government action during the nineteenth century. In the middle of the twentieth century, Scandinavian governments were committed to develop and establish a bond between the individual and the enterprise. They put a strong emphasis on community based projects which involved the provision of business economic support for school and college facilities for workers and their families, medical services, etc. This tradition of intervention created the climate which allowed the state to develop the most comprehensive array of social welfare support in the world in the middle of the twentieth century (Cannon, 1994).

Despite government intervention however, by the 1970s corporations had grown faster than the total world economy. Nader et al (1974) cite a few of the 'facts': in 1974, Exxon announced greater sales than each of the gross national products (GNPs) of Austria, Denmark and South Africa. The same year General Motors employed more people, 734,000 than the states of California, New York, Pennsylvania and Michigan combined. By 1974, the number of American corporations owning more than half of the total assets of the remaining 1.8m corporations fell from 200 to 100. Consolidation amongst corporations continued during the eighties and resulted in a further reduction of the number of American multinationals - holding over half of the assets of the remaining two million corporations - from 100 to 80. By 1991 the leading 50 global economies included 13 major global corporations with greater assets than several Western countries.

It may be that the notion of corporate social responsibility has its foundations in the 19th century, but the modern understanding of corporate social responsibility is particularly linked with the social movements of the 1970s in the USA and Western Europe. The prolonged period of post-war economic growth and the birth of vibrant cultures such as environmentalism and feminism, mobilised the public in demanding from company's commitment to environmental protection, recruitment of minorities, charitable donations, and community investment.²⁹ Rachel Carson's book - *Silent Spring*, stressed all the problems that the unrestricted use of pesticides caused on air and water.³⁰ Miller (1995) cites specific events such as the first earth days, held in America in 1970s, the demand by anti-Vietnam war activists for businesses to stop producing chemical weapons, African-American and female groups' campaigns for equality in the workplace, and protests against the use and transportation of toxic materials as having an impact on the way companies were expected to run their business.

The increased public interest towards societal problems initiated the institutionalisation of many of them such as environmental issues in business and government.³¹ In Britain and the United States new laws were introduced and new agencies were created like the Department of Environment and Environmental Protection Agency respectively. Corporations responded positively to the new legislation realising first, that environmental policy could not be formulated without their expertise, and secondly, that a uniform set of national regulations would provide 'a level playing field' for business.³²

²⁹ Miller W H (1995), *More than Just Making Money* - The last 25 years have seen industry assume a new mission, corporate social responsibility, *Industry Week*, 244, 13, pp91-95.

³⁰ McCormick J (1989), *The Global Environmental Movement – Reclaiming paradise*, Belhaven Press, London.

³¹ Buchholz R (1993), *Principles of Environmental Management - The greening of business*, Prentice-Hall, USA.

³² Enloe C H (1975), *The Politics of Pollution in a Comparative Perspective*, Longman, London.

In conclusion, the meaning of corporate social responsibility in the 1970s was associated with the excluded social costs of production and the hidden costs occurred by society as a result of business activities including:

- industrial pollution and toxic waste;
- racial and sexual discrimination;
- political influence of powerful corporations;
- invasion of employees' privacy;
- deceptive information in marketing;
- product safety;
- the price of technology, effects of pesticides, aerosols and nuclear power;
- increasing concentration of wealth and income in fewer hands;
- business crime (Nader et al, 1974).

Alongside the 1970s events and the social and political movements, the statement by Milton Friedman on the social responsibility of business has been the starting point of academic discussion of corporate social responsibility.

The classical view of corporate social responsibility

Milton Friedman (1970) criticised corporate social responsibility arguments by stating that 'few trends could so thoroughly undermine the very foundations of our free society as the acceptance by our corporate officials of a social responsibility other than to make as much money for their stockholders as possible'.

The starting point in Friedman's argument is that people have responsibilities but business does not. A corporation is an artificial body created by real people, so business cannot be expected to act in the same way that people do. Friedman examines the notion of social responsibility by questioning what is implied by it. The starting point of his discussion is with businessmen and with the CEO who have the responsibility of running the business. The role that Friedman attributes to the CEO in a corporation is that of an agent. The corporation employs him to make as much money as possible. Thus "*in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation... and his primary responsibility is to them*" (Friedman, 1970, p156). Friedman does not deny that corporate executives as individuals may also act based on their own will. However, these actions are acceptable outside the area of business since the individual uses his own time and money. If the executive officer then acts in a socially responsible way, it is not in the interests of his employers, because he acts as a principal not as an agent.

Friedman saw the decisions of a few executives to spend money on social purposes as being the duty of civil servants. Whilst civil servants are appointed by government, and the executive performs the role of a civil servant, it becomes apparent that corporations accept political mechanisms and not market mechanisms as factors that determine the allocation of scarce resources.³³ Thus in Friedman's view, if firms are to exercise the notion of corporate social responsibility, the foundations of a free market system would be undermined by

³³ According to Friedman, the principle which underlines the political mechanism is conformity, where the individual must serve a more general social interest. The individual may express its own views but if overruled he must conform to the majority views.

replacing it with a centrally controlled system of governmental control of prices and wages. As Friedman puts it, if 'social responsibility is taken seriously', it would extend the scope of political intervention to every human activity. This would undermine the political principle of the market mechanism, which is unanimity.³⁴ With regard to Friedman's argument, it is important to point out that he does not claim that the corporation has no responsibilities at all. On the contrary, he argues that corporations are responsible, but only to one group of people - the stockholders, since they bring the money into corporation and appoint managers to maximise their capital (Bichta, 2000).

Before Milton Friedman, classical economists, with Adam Smith as their pioneer, also assumed that if the government would mind its own business, markets can still be 'perfect' and self-correcting, and the gross national product (GNP) could be the proper barometer of societal wealth. Friedman defines the social responsibility of business in a strictly limited neo-classical economic sense. As Roome (1997) says, the orthodoxy of neo-classical economics is that business is a collective term to describe that part of society which is concerned with the production and exchange of goods and services, in market and mixed market economic systems.³⁵ What distinguishes business organisations from other sectors of society is that their viability depends on securing profits, the excess of revenue from the sale of outputs over the costs of their production. It follows that the principal focus of business activity is the market and the main purpose of business is to make money and increase profitability. Roome also argues that by accepting that the purpose of business is to make profit this implies the acceptance of two axioms:

"First, given a risk free choice between economic opportunities, managers of business will prefer options which yield more profit to those that yield less. Second, managers involved in pure profit maximising decisions will confine their frame of analysis to an assessment of the stream of revenue and costs projected to accrue to the company from alternative investments. These streams determine profitability when considered in relation to the risks associated with each other alternative project" (p47).

Friedman's position constitutes the heart of managerial capitalism, which is built on the idea that in return for controlling the firm, management vigorously pursues the interests of stockholders. Both, however, the neoclassical view of business responsibility to society and the managerial view of capitalism has been challenged ever since the 1970s. Scholars have questioned the adequacy of the neoclassical paradigm as the adequate theoretical framework for understanding and interpreting the relationship between individuals and society and individuals and organisations. The central argument of managerial capitalism has also been under scrutiny and new theoretical perspectives have contributed to the rise of a new approach of governance in business.

³⁴ According to the principle of unanimity, in an ideal free market, cooperation is voluntary and all parties to cooperation benefit or they need not participate. Under the principle of unanimity, there are no values, no social responsibilities other than the shared values and responsibilities of individuals. Therefore society is a collection of individuals and of the various groups they voluntarily form (Friedman, 1970).

³⁵ Roome N (1997), *Corporate Environmental Responsibility, Business and the Natural Environment*, Bansal P, Howard E (eds), Butterworth-Heinemann, Oxford, pp40-62.

The new meaning of corporate social responsibility - the theory of modern corporation

The classical view of business responsibility to society has been challenged by new arguments that made their appearance in the 1980s and have seen to contribute to the development of the 'theory of the modern corporation' (Bichta, 2000). These new arguments attach a new meaning to corporate social responsibility as they consider:

- a new stakeholder approach as opposed to the traditional view of promoting the exclusive interests of stockholders;
- managerial values and discretion as being key promoters of socially responsible actions and the notion of organisational moral responsibility analogous to that of individuals;
- new aspects in corporate legitimacy;
- alternatives to the traditional view of corporate governance;
- the role of an interventionist government in enhancing corporate social responsible behaviour (Bichta, 2000).³⁶

Each of these aspects are considered in turn.

The stakeholder theory

The central position of managerial capitalism has been challenged by the stakeholder theory of modern corporation. The stakeholder theory has made its appearance in the early eighties, and the pioneers of the theory have concentrated their arguments on three main aspects of the theory: a descriptive/empirical, an instrumental and a normative aspect.³⁷ Although in the management literature, the stakeholder theory corresponds to all three approaches, the discussion in the following paragraphs concentrates on the normative aspect as the underpinning basis of the stakeholder theory of modern corporation.

The stakeholder theory calls for a revitalisation of the concept of managerial capitalism by replacing the notion that managers have a duty to stockholders with the concept that managers bear a fiduciary relationship to stakeholders.³⁸ The stakeholder theory concentrates

³⁶ The theory also explores the criteria on evaluating the legitimacy of corporate social responsibility.

³⁷ The stakeholder theory in its descriptive/empirical form is used to describe and sometimes explain specific corporate characteristics and behaviours. The instrumental aspect of the theory is used to identify the connections or lack of connections between stakeholder management and the achievement of traditional corporate objectives ie, profitability, growth. The normative aspect of the theory is used to interpret the function of the corporation, in Donaldson T, Preston, L E (1995), *The Stakeholder Theory of the Corporation - Concepts, evidence and implications*, Academy of Management Review, Vol 20, pp65-91.

³⁸ In short, the concept of the stakeholder is a generalisation of the notion of stockholders, who themselves have some special claim on the firm. In the stakeholder theory, just as stockholders have a right to demand certain actions by management, so do the other stakeholders have a right to make claims. The main question in the stakeholder theory is about the exact nature of these claims, however the theory applies the same logic used by the stockholder theory. Stakes require action of a certain sort, and conflicting stakes require methods of resolution. The stakeholder theory does not give primacy to one stakeholder group over another, though it is expected there will surely be times when one group will benefit at the expense of others. However, management must keep the relationships amongst stakeholders in balance. See Freeman R E, *Business Ethics – Readings and cases in corporate morality*, Hoffman M W, Frederick R E, Schwartz (eds) (2001), 4th edn, McGraw-Hill Inc, USA, pp160-168.

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its focus on a particular question: “*For whose benefit and at whose expense should the firm be managed*”?³⁹

To seek answers to this question, the pioneers of the theory define the stakeholders as all these groups that have a stake in, or a claim on the firm, including owners, management, suppliers, customers, employees and the local community (Evan, Freeman, 1988). Drawing on Kantian philosophy, they argue that each of these stakeholders’ groups has a right not to be treated as a means to some end, and therefore must participate in determining the future direction of the firm in which they have a stake.

To be specific, Evan and Freeman (1988) use two themes which represent two branches of Kantian philosophy and moral theory to justify the reasoning of the central argument of stakeholder theory. The first theme is concerned with the rights and duties of the owners (and their agents) of private property, and the effects of this property on the rights of others (Evan, Freeman, 1988, p148). The second theme is concerned with the consequences of managerial capitalism and the effects of the modern corporation on the welfare of others.

The view of the corporation as having no right to decide how things are going to be for its constituents is challenged by the position that “*if the modern corporation requires treating others as means to an end, then these others must agree on, and hence participate (or chose not to participate) in, the decisions to be used as such*” (Evan, Freeman, 1988, p148). Thus, property rights are legitimate but not absolute, particularly when they conflict with rights of the others. As the authors advocate “*the property rights are not a licence to ignore Kant’s principle of respect for a person*”.

In terms of corporate externalities and harmful actions, the stakeholder theory maintains that persons are responsible for the consequences of their decisions and activities, and hence any theory that seeks to justify the corporate form “must be based at least partially on the idea that the corporation and its managers as moral agents can be the cause of and can be held accountable for their actions” (Hoffman, Frederick, 1998, p148).

Thus, a stakeholder theory needs to be consistent with two principles, namely the principle of corporate rights (PCR) and the principle of corporate effects (PCE). According to the principle of corporate rights, corporation and managers may not violate the legitimate rights of the firm’s constituents to determine their own future. The principle of corporate effects retains that the corporation and its managers are responsible for the effects of their actions on others. Foremost, the acceptance of these two principles facilitates the development of two further ‘stakeholder management principles’ which serve as the foundation for articulating the stakeholder theory: the ‘principle of corporate legitimacy’ and the ‘stakeholder fiduciary principle’. The ‘principle of corporate legitimacy’ redefines the purpose of the firm in line with the principles of corporate rights and effects. The ‘stakeholder fiduciary principle’ defines the duty of management to recognise the claims of the stakeholders.

The structural mechanisms to facilitate the application of a stakeholder management concept are two:

³⁹ Evan W M, Freeman R E (1988), A Stakeholder Theory of the Modern Corporation - Kantian capitalism’, Business Ethics - Readings and cases in corporate morality, Hoffman M W, Frederick R E (eds) (1995), 3rd edn, McGraw-Hill Inc, USA, pp145-154.

- a stakeholder board of directors which will consist five stakeholder groups including employees, customers, suppliers, stockholders and community members;
- a revised and reformed ‘corporate law’ which requires corporations to be managed for the benefit of the stakeholders and allow these groups to participate in the decision-making of the firm given it will affect their welfare. For instance, some existing forms of law in this area are related to product liability and labour law.

In a later paper, Freeman has taken the view that the stakeholder theory can be unpacked into a number of stakeholder theories, each of which has a ‘normative core’.⁴⁰ The normative core however, is not necessarily reducible to the traditional view of property rights, because certain normative cores can be consistent with modern understandings of property rights ie, a feminist standpoint, an ecological or pragmatic liberalism.

Indeed, Donaldson and Preston (1995) use the evolving arguments of the property rights theory to justify the normative basis of the stakeholder theory of modern corporation. Donaldson and Preston argue that there is concurrence of opinions on the theoretical definition of a property as a ‘bundle’ of many rights, some of which may be limited. Coase (1960) adhered to the view that ‘what a landowner in fact possesses is the right to carry out a circumscribed list of actions...and his rights as a land-owner are not unlimited’.⁴¹ Authors like Honore (1961) and Pejovich (1990) have emphasised the relationship between property rights and human rights by noting that “*the right of ownership is not an unrestricted right*”.⁴²
⁴³

The notion that property rights are embedded in human rights and that restrictions against harmful uses are intrinsic to the property rights concept clearly signals the engagement of groups other than the stockholder group into the property rights theory of the firm. It is acknowledged however, that by simply bringing non-owner stakeholders into the conception of property does not provide by itself justification for stakeholder’s arguments assigning managerial responsibilities toward specific groups, ie, employees, customers. Nevertheless, it is important that the contemporary theoretical concept of property rights does not ascribe unlimited rights to owners and hence does not support the popular claim that the responsibility of managers is to act solely as agent for the shareowners (Donaldson, Preston, 1995).

In a final note, it is important to refer to the managerial implications as stated in the stakeholder theory. Accordingly, management is to play a crucial role. It must be in a position to avoid giving primacy to one stakeholder group over another. Donaldson and Preston (1995) support the view that “*managers should acknowledge the validity of diverse stakeholder interests and should attempt to respond to them within a mutually supportive framework, because that is a moral requirement for the legitimacy of the management function*” (p87). This managerial function is associated with the firm’s survival which could be in jeopardy if stakeholder interests are not in balance. As an example, when wages are too high and product quality is too low, customers may leave, suppliers could suffer and owners

⁴⁰ See Freeman R E, Business Ethics – Readings and cases in corporate morality in Hoffman M W, Frederick R E, Schwartz (2001), 4th edn.

⁴¹ Coase R H (1960), The Problem of Social Cost, Journal of Law and Economics, Vol 3, pp1-44.

⁴² For more information on contemporary arguments of property rights look at Donaldson and Preston (1995).

⁴³ Honore A M (1961), Ownership, Oxford Essays in Jurisprudence, Guset A G (eds), Claverdon Press, Oxford, pp107-147; Pejovich S (1990), The Economics of Property rights – Towards a theory of comparative systems, Kluwer Academic Publishers, Dordrecht, The Netherlands.

could start selling stocks and bonds, depressing stock price and making it difficult to raise capital at favourable prices (Evan, Freeman, 1988). Evan and Freeman (1988) have taken the managerial role in the modern corporation even further by anticipating that that managers will perform their duties better if they are elected unanimously and have no direct connection to the firm, a view which constitutes the heart of modern corporate governance.

The shift however from the traditional shareowner orientation to a stakeholder orientation with the implications it brings for managers is not free from criticism, particularly in light of making it more difficult to detect self-serving behaviour by managers ie, managers may claim that they serve some broad set of stakeholder interests while they increase their powers and emoluments.⁴⁴

The response to this criticism has been that the conventional model of the corporation has failed in both its legal and managerial terms to discipline self-serving behaviour. Indeed, the latest corporate collapses of Enron and Worldcom were not detected either by the law or its senior management. On the other hand, the stakeholder model entails comprehensive restrictions on such behaviour simply because in its very foundation it prohibits any single attention to the interests of any single constituency. As Donaldson and Preston (1995) argue, the next step is to develop the legal version of the stakeholder model.

From the above discussion it becomes clear that the aim of the stakeholder theory is to redefine the purpose of business. Whilst the conventional view is that business simply exists to respond to signals from markets and the economic system, and therefore the purpose of business is connected to profit-making, the stakeholder theory offers an alternative to both business and government institutions as to what is the very purpose of a business: that is to serve as a vehicle for coordinating stakeholder interests and to meet the claims of each of the group of stakeholders, who are affected by corporations actions (Hoffman, Frederick 1995).

But what has promoted the attack on the old view of managerial capitalism and the rise of a new theory in its place? Two arguments prevail: the first considers that today's corporations no longer seem to fit the old model. In the new model, corporations can no longer accurately be viewed as private property. Ownership separates from control, and therefore corporations seem less like instruments of their owners and more like autonomous entities capable of their own goals and decisions (Hoffman, Frederick 1995).

The second argument develops around power relationships between business and society. It postulates that social power inevitably implies social responsibility, and corporations that fail to exercise a responsibility commensurate with their power should lose that power. Society has apparently become more aware of the external costs ie, pollution, hazardous products, job dissatisfaction passed on to it by corporations. With these costs in mind, the basic assumption of the traditional view of the identity of individual and social well-being is in question (Hoffman, Frederick 1995).

⁴⁴ Orts E W (1992), Beyond Shareholders – Interpreting corporate constituency statutes, *The George Washington Law Review*, 61, 1, pp 14-135.

Decision-making in the modern corporation

The classical view of organisations being an artificial person is also under scrutiny under the theory of modern corporation. Instead scholars become interested in applying moral responsibility to organisations, analogous to that which one might apply to individuals. Goodpaster and Matthews (1982) argue that organisations can, and should be built upon the ideas and efforts of individuals and that they should therefore be expected to hold the moral attitudes that individuals hold.⁴⁵ Their position is based on the assumption that corporations consist of persons that make intentional and autonomous decisions, and therefore many of the attributes of human beings could be projected onto corporations.

In order to establish a relationship of moral responsibility in organisations analogous of that of individuals, Goodpaster and Matthews analyse the process of moral responsibility of individuals and apply it at the level of an organisation. Individual decision-making (or moral responsibility) consists of rationality and respect towards others: it involves “*careful mapping of alternatives, clarity about goals and purposes, attention to details of implementation...and concern for the effects of an individual’s decisions and policies on others*” (p134). Similar, organisations show the same kind of rationality and respect that individuals show whilst making decisions. “*Some corporations have built features into their management incentive systems, board structures, internal control systems, and research agendas that in a person we would call self-control, integrity, and conscientiousness*” (p135). Some others also pay attention to the human impact of their operations and policies and reject practices that might create controversy (p136). Thus this moral responsibility that exists among individuals also exists among organisations in the form of corporate conscience.⁴⁶

Having rejected the view that organisations are artificial persons, scholars attribute the level of weight to both managerial values and managerial discretion as promoters of socially responsible actions.

In organisational (strategic) decision-making, managerial values have a crucial role to play. Freeman and Gilbert (1988) stress that all actions taken by organisations and their constituent members are underpinned by the values held by those individuals and groups (values principle).⁴⁷ Any actions taken by them will involve decisions or choices, which in turn will be affected by the dominant value system (interdependence principle). Therefore the process of strategic management must take account of the values held by members of organisations and other stakeholders in policy formulation and implementation.⁴⁸ Consequently, Freeman and Gilbert argue (1988) that:

“corporate strategy which ignores the role of people in the organisation simply ignores why organisational members act in the way they do. Corporate strategy must return to the individual values of corporate members, before it is formulated. It must be built on these values rather than taking them as constraining forces”. (p11)

⁴⁵ Goodpaster K E, Matthews Jr J B (1982), Can a Corporation Have a Conscience?, Harvard Business Review, Vol 60, No 1, January-February, pp132-141.

⁴⁶ Between the options of the ‘invisible hand’, ‘government intervention’ and ‘management’ as mediators that ensure corporate moral behaviour, Goodpaster and Matthews are in favour of the ‘management’ option. This is because the other two notions fail to locate the source of corporate responsible behaviour in the corporation itself and rely instead on external systems and forces of the corporation.

⁴⁷ Freeman R E, Gilbert D R (1988), Corporate Strategy and the Search for Ethics, Prentice-Hall, New York.

⁴⁸ Smith D (1993), (eds) Business and the Environment, Chapman Publishing Ltd, London.

The degree of managerial discretion is important also in a company's socially responsible activities. Ackerman (1975) writes that corporate social responsibility is at the discretion of managerial actions and choices.⁴⁹ Carroll (1979) pursues the belief that managers are moral actors who are obliged to exercise the discretion that is available to them within the domain of corporate social responsibility.⁵⁰ Wood (1991) also claims that managers have the opportunity to express discretion in almost every domain of social responsibility through applying their own morality to these decisions.⁵¹ The principle implies that because managers possess discretion, they are responsible for exercising it, and cannot avoid this responsibility by referring to rules, policies and procedures (Wood, 1991, p699).

These views are important contributions to corporate social responsibility as they facilitate a new understanding of the managerial role according to which managers pursue the organisational goals but organisations also provide space for managers to define their own purpose and behaviour (Roome, 1997).

Corporate legitimacy

Corporate legitimacy is another central theme of the theory of modern corporation. Grolin (1998) offers an interesting account of three competing models of corporate legitimacy, the classical model, the stakeholder model and the political corporation model. Friedman's approach is defined as the classical model of corporate legitimacy because it concentrates on the economic functions of the corporation.⁵² The stakeholder model described earlier comprises the second model of corporate legitimacy as it requires companies to be responsive to those in society, immediately affected, in a tangible way by corporate decisions and actions.

The political corporation model reflects an increasing globalisation of the economy and a parallel weakening of national government authority, and it goes beyond the two other models by advocating that *"a corporation should adopt a clear set of moral and ethical values, which relate to the general public both globally and locally, and which can guide corporate actions irrespective of whether [the corporation] is explicitly required by law"* (p217). Grolin has based his argument of the political corporation model on the Brent Spar conflict to suggest that companies are likely to acquire their legitimacy directly from the public. In the period of the conflict, Shell was unable to solve the problem relating to the disposal of its oil storage platform through the involvement of the (British) government. Shell instead experienced a consumer boycott across the northern countries. The Brent Spar conflict suggests *"a clash between the reductionist rationality of the scientific expert and the common-sense rationality of the lay public"* (p219). It also marks a change *"in the location of the driving forces of politics from formal political institutions to groups and individuals of civil society"* (p219). Based on the weakness of political institutions and of science to establish the legitimacy of organisational activity, in the future corporations are likely to be held accountable by the public for legitimate activities (Bichta, 2000).

⁴⁹ Ackerman R W (1975), *The Social Challenge to Business*, Harvard University Press, Cambridge MA.

⁵⁰ Carroll A B (1979), *A Three-Dimensional Conceptual Model of Corporate Social Performance*, *Academy of Management Review*, Vol 4, pp497-505.

⁵¹ Wood D J (1991), *Corporate Social Performance Revisited*, *Academy of Management Review*, Vol 16, No 4, pp691-718.

⁵² Grolin J (1998), *Corporate Legitimacy in Risk Society - The case of Brent Spar*, *Business Strategy and the Environment*, Vol 7, pp213-22.

Corporate governance

The governance of a corporation is defined by Cannon (1994) as “*the sum of those activities which make up the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership and control*”. As the same author explains, changes in industrial structures, shifts in economic relationships and the interaction between business and the community are forcing society and firms to review the ways in which organisations are governed.

In particular, since the early 1980s the different groups of stakeholders have challenged the conventional view of governance. The case for corporate governance has been largely influenced by the corporate collapses which occurred in the United States and Britain due to fraud or mismanagement since the 1980s. Public anxiety about local and national economic decline, shareholder disappointment at poor financial returns and declining asset values provoked newspaper headlines and demands by politicians for reform of a company's governance with the threat of legislative action if change was delayed (Cannon, 1994). The growing importance attached to re-appraising the governance of modern businesses was also in response to public concern about the large remuneration ‘packages’ offered to senior managers, often without the approval of shareholders. Managerial capitalism is seen to benefit executives at the expense of owners even if the firm is performing poorly (Cannon, 1994).

So what are the objectives of corporate governance of the modern corporation? It first reassesses the relationship between the notions of ownership and control by separating them. The disappointing performance of many firms in late 1980s and 1990s prompted investors to search for ways of exerting more direct pressure on the firm and its management. This interventionist approach adopted by investors' groups in the United States stands particularly in contrast with non-interventionist traditions preferred in Britain. By 1991, twenty nine states in the US had adopted statutes, which specified that boards of directors have a right to consider the interests of non-shareholder, stakeholders, in board decision-making.

Corporate governance reappraises the behaviour of directors. Statutory responsibilities regulate the activities of companies and their directors. It is argued, however, that law and regulation may offer protection against abuse of power but cannot affectively deal with the use of authority and opportunity. Thus, corporate governance concentrates its focus on supporting a stronger policing role for non-executive directors, separating the roles of chairman and chief executive and advocating transparency in internal dealings ie, directors pay (Cannon, 1994).

Corporate governance also reassesses the role, relationship and reporting procedure of directors in relation to the auditing of the company.⁵³ Finally, it promotes the issues of disclosure and transparency on the issue of executive remuneration.

Since the early 1990s a number of committees have been set up to make recommendations on the new forms of corporate governance. The results of the committees' work have been published in reports tackling issues on accountability, disclosure and monitoring procedures. The Harvard Business Review set up a working group on corporate governance in 1990. The

⁵³ The audit of a company is the consolidated statement of accounts including the balance sheet, trading and profit and loss account examined by a qualified auditor and assessed as to whether these financial statements provide a true and fair account and comply with legal requirements (Cannon, 1994).

group was involved in exploring investors' rights and management accountability, the roles of executive and non-executive directors in both monitoring management performance and representing shareholders' interests, and matters relating to remuneration and the conditions of employment agreed with managers. The group's findings were published as a new compact for owners and directors. In Britain, the Cadbury Committee (1992) was set up and produced specific proposals for change in the pattern of corporate governance. The committee's deliberations suggested the strengthening of the role of the audit committee, the development of a contributory role of independent directors on the committee and the strengthening of their role in the firm. The Cadbury committee recommended that it should be the responsibility of the audit committee to discuss the audit with the auditor and approve the company accounts.⁵⁴

In 1998, the Organisation for Economic Cooperation and Development (OECD) developed a set of corporate governance standards and guidelines addressing five key areas of corporate governance namely protecting the rights of shareholders; the equitable treatment of all shareholders; the role of stakeholders in corporate governance; the need for timely and accurate disclosure and transparency and strategic guidance on the responsibilities of the board. The principles are intended to provide guidance in the development of good corporate governance for companies and other organisations and assist national government to evaluate and improve corporate governance.⁵⁵

The role of government

In the theory of the modern corporation it is argued that the government has a potential role to play towards promoting and enhancing corporate social responsibility.

Reich (1998) argues that the government should act as arbiter of business responsibility in society.⁵⁶ The importance for society of relying on the good will and responsibility of executives rather than political forces is recognised. The argument, however, is that sometimes 'political decisions may be required to answer major questions' ie, corporate social responsibility issues. This is because CSR issues also fall in the arena of public policy which is the primary government task. For instance, the question should profitable companies lay off redundant employees rather than redeploy them or retain them for new jobs is a matter of corporate (ethics) policy as well as an issue of public policy given that layoffs can impose substantial costs on former employees, their families and communities. It is suggested that a role for government in that matter may be to help firms internalise the social costs of layoffs, without causing large inefficiencies, by raising the unemployment-insurance premiums on profitable companies that engage in them and cutting premiums in companies they don not. Alternatively, if the society wants companies to take on the responsibility of finding new jobs for employees who are no longer needed, government could offer these companies tax deductions or credits. Generally speaking, the government can be an arbiter of business responsibility to society through the application of tax incentives or tax credits.

Government can also exercise the arbiter role through regulation and the setting of minimum standards to help society overcome free-rider problems. Where firms could benefit if all

⁵⁴ Cadbury A (1992), Report of the Committee on the Financial Aspects of Corporate Governance, Gee, London.

⁵⁵ Corporate Culture and Good Corporation (2002), Profiles of Codes and Frameworks, London.

⁵⁶ Reich R B (1998), The New Meaning of Corporate Social Responsibility, California Management Review, Vol 40, No 2, pp8-17.

trained their employees in skills applicable to entire industry or beyond, but no company would do training unless others did it as well, the government can impose a requirement that all firms contribute a small percentage of their payrolls to non-firm specific training, or provide tax incentives for employee training in general (Reich, 1998).

This view of government as arbiter of business responsibilities to society is reinforced by another argument that sees government as helping business to achieve corporate social responsibility through regulation, control and enforcement. This view is driven from experience in Scandinavian countries where the control/enforcement model is used to 'eliminate' the problem of cost externalisation.⁵⁷

Five possible ways/models of avoiding cost externalisation are identified:

- deregulation model: deregulation and viewing the company responsibility as directed towards the shareholders only;
- corporatist model: providing management with more discretion to take non-profit goals into account;
- control of management by an independent body: giving shareholders only an economic right but no voting right in the company and setting an independent body to control management;
- non-shareholder interests representatives model: putting representatives for various non-shareholder interests on the company's board;
- regulation and control/enforcement model: more regulation and control.

The regulation and control/enforcement model has met with great acceptance in the Scandinavian countries, mostly because Scandinavian countries are so-called welfare states and the state intervenes in all aspects of life including issues of the economy. Broberg (1996) argues that Scandinavians accept that in the past government successfully controlled externalities regarding the environment, safety at work and competition provisions. This explains why Scandinavian management currently adheres more to the regulation and control/enforcement model rather than to the deregulation model suggested by Friedman or the corporatist model and the theory of managerialism. Management in Scandinavia is very much bound by legal restrictions. The success, however, of the regulation and control/enforcement model in Scandinavia is attributed to a very detailed and well-enforced legislation in comparison with other European member states.

The model of non-shareholder interests representatives is also extensively used in Scandinavia with particular emphasis on employee representation. This model is also imposed by state regulation and necessitates the representation of employees, the local community, consumers and the environment, in the firm's meetings. Broberg (1996) expects that the membership of Scandinavian countries in the European Union will increase the enforcement of regulation and control as well as the representation of non-shareholder interests across the European industrial sector. Denmark, Sweden, the Netherlands, Austria, and Luxembourg are also examples of countries in which the representation of employees on company boards is required by law.

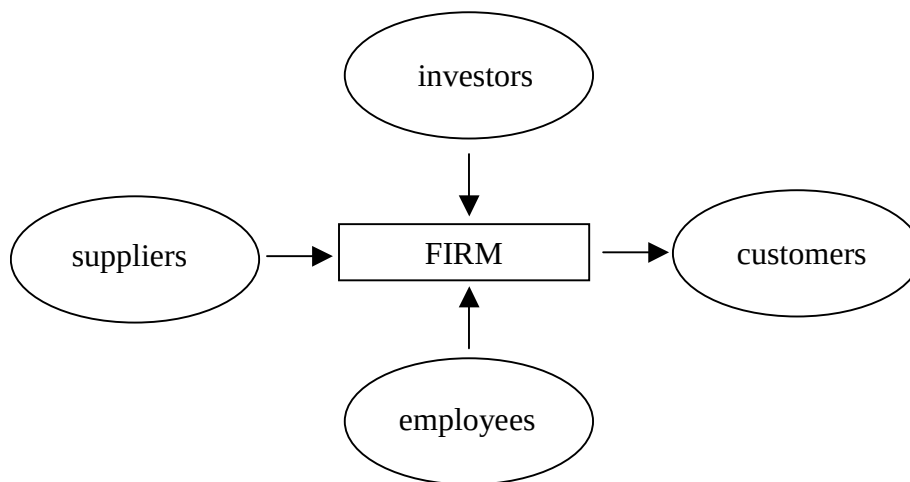
⁵⁷ Broberg M P (1996), Corporate Social Responsibility in the European Communities–The Scandinavian View, *Journal of Business Ethics*, Vol 15, pp615-622.

Contrasting models of the corporation - a schematic overview

The discussion around the conventional model and the stakeholder model of the corporation prompts the development of two contrasting models of the corporation (Donaldson, Preston, 1995).

The conventional model, called by Donaldson and Preston (1995), input-output model of the corporation postulates that contributing inputs in a firm will be transformed into beneficial outputs for customers.

Figure 1: Input-output model of the firm

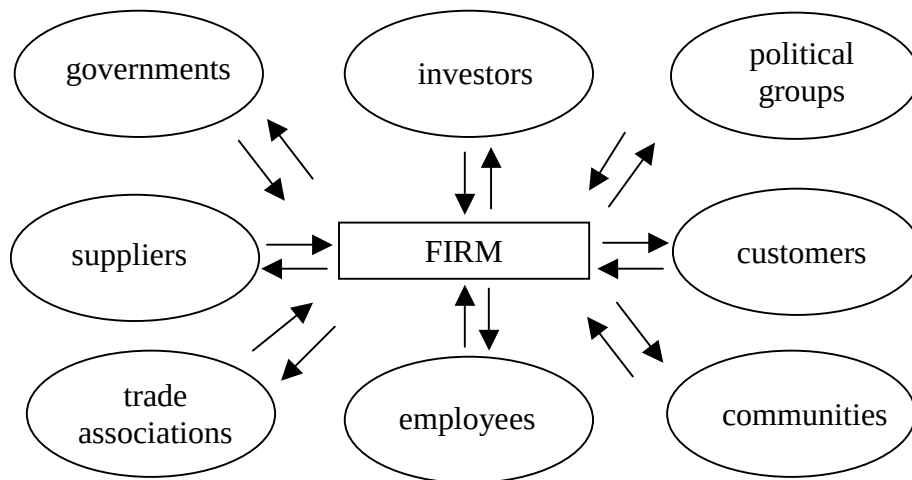


In **Figure 1**, investors, employees and suppliers are portrayed as contributing inputs, which the ‘black box’ of the firm transforms into outputs for the benefit of customers. Each contributor of inputs expects to receive appropriate compensation. According to Adam Smith, or liberal economists, in the long-run equilibrium input contributors, at the margin, receive only ‘normal’ or ‘market competitive benefits’ ie, the benefits they would obtain from some alternative use of their resources and time. As a result of competition throughout the system, the bulk of the benefits will go to the customers (Donaldson, Preston, 1995, p68).⁵⁸

Figure 2 represents the stakeholder model of the corporation which contrasts with the input-output model of the firm in all its variations.

⁵⁸ The Marxist-capitalist version of this model reverses the customers and investors’ arrows in order to produce gains for the investors ((Donaldson, Preston, 1995).

Figure 2: The stakeholder model of the firm



According to the stakeholder model, “*all persons or groups with legitimate interests participating in an enterprises do so to obtain benefits and there is no prima facie priority of one set of interests and benefits over another*” (Donaldson, Preston, 1995, p68). Therefore, the arrows between the firm and its stakeholder constituents run in both directions.

As the authors Donaldson and Preston note (1995), the extent to which the stakeholder theory is understood to represent a challenging approach to conventional views varies greatly among market capitalist economies:

“In America, for instance, shareholders have a comparatively big say in the running of the enterprises they own; workers have much less influence. In many European countries, shareholders have less say and workers more. In Japan, managers have been left alone to run their companies as they see fit, namely for the benefit of employees and of allied companies, as much as for shareholders” The Economist, 1993, p52.⁵⁹

Nevertheless, the stakeholder model of the corporation is developed around theoretical concepts ie, the meaning of property rights which are critical to the understanding of the purpose and role of corporations in society.

Business ethics

In the concluding part of the theoretical debates surrounding corporate social responsibility a reference to the concept of business ethics will also be made. This is because the concepts of business ethics and corporate social responsibility are very often confused. Also, it has been suggested that the three subjects, corporate social responsibility, business ethics and corporate governance should be integrated as a single academic domain (McEwan, 2001). Since it is outside the scope of this paper to address the relationship between the three

⁵⁹ In Donaldson, Preston, 1995, p69.

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concepts, the scope of business ethics and its relationship to corporate social responsibility are only discussed here.

In the academic literature, often the two concepts, business ethics and corporate social responsibility are used interchangeably and others in their own right. Also in the academic literature, there is no concurrence of opinions about which concept supersedes the other: for instance, in some cases, business ethics is considered part of corporate social responsibility, whereas in other cases corporate social responsibility is thought to be just one aspect of business ethics (Hoffman, Frederick, 1995). So, is there any relationship between the two academic disciplines?

Ethics is defined as the study of what is good or right for human beings (Hoffman, Frederick, Schwartz, 2001). Ethics are concerned with the goals that people ought to pursue and the actions they ought to perform. Ethics is a normative science where questions of 'what ought to be done' or 'what ought not to be done' are posed.⁶⁰ Business ethics therefore may be seen as a normative science that pursues the study of what is good and right in terms of business operations within society.

In terms of a relationship between business ethics and corporate social responsibility, there is substantial evidence to suggest an interrelationship between the two disciplines, particularly in defining business operability within society.

Similar to the notion of corporate social responsibility, a number of social events during the 1960s, including civil rights, protection of the natural environment, safety at work and consumerism stimulated the public interest for ethical activities in business. During the 1970s the public belief that business lacked social responsibility was reflected in the media. The response of academic institutions to public protest was the introduction of business ethics courses into their curricula (Bichta, 2000). Most US schools offered a course in business ethics by 1980. By offering courses in business ethics, its development into a recognised academic discipline was preceded.⁶¹ From 1980 to 1985 the business ethics field continued to consolidate with journals, research centres and conferences taking place. From 1985 to 1995 business ethics was integrated into large corporations in the form of codes of ethics, ethical training programmes and the appointment of ethics officers. Since 1995, issues related to international business activity like bribery and corruption, child labour and abuse have been included in the business ethics agenda.

It is clear that the radical social changes during the 1960s and 1970s that prompted the public concern for corporate social responsibility have also elevated the public interest for ethical activities in business operations. So is business ethics part of corporate social responsibility, is corporate social responsibility just one aspect of business ethics or have the two disciplines

⁶⁰ Ethics deals with certain norms and values. 'Norms' are seen as being collective expectations regarding a certain type of behaviour whereas, 'values' are collective representations of what constitutes good life within any given society in Van Luijk H (1994), *Business Ethics - The field and its importance*, Business Ethics -A European approach, Harvey B (eds), Prentice-Hall, New York, pp12-31.

⁶¹ Shaw W (1996), *Business Ethics Today - A survey*, Journal of Business Ethics, Vol 15, pp489-500.

developed alongside?⁶² A possible answer to this question may lie with the manner in which the two concepts have been operationalised by business itself.

Business people find it very difficult to apply any ethical terms, as we use them, on their activities. In contrast, they prefer to argue that the market itself has moral values embedded in it, and that business operates according to those values.⁶³ Since the emergence of the notions of business ethics and corporate social responsibility in the 1970s, business people have centred their discussion mostly on areas that are related to their operations and image. The notions of corporate responsibility, corporate responsiveness, and public policy are the preferred business terms when referring to social policy activities. The notion of social responsibility represents the first initial concern of business with regard to moral behaviour and activity (Bichta, 2000).

Beyond the observation however that the impact of specific social changes resulted into the emergence of new ideologies such as business ethics and corporate social responsibility, an interrelationship between the two can be explained in the underpinning principle of their central argument, which is normative. If one accepts that the normative principle serves as the underpinning basis of corporate social responsibility, then corporate social responsibility is related to business ethics as the latter is a normative science which uses deontological ethics to investigate the importance given to human priorities over and above the utilitarian business imperatives of profit making, competition and growth.

Having presented the academic view of the emergence of the notion of corporate social responsibility, the next section turns its focus on the political perspective of responsible business behaviour within society.

⁶² If one takes the view that corporate social responsibility is concerned with the proper role of obligations of corporations within society (normative), it could be argued that the concept of business ethics embraces that of corporate social responsibility as business ethics concerns the study of the relationship of what is good and right for business. McEwan (2001) takes the view that the concepts of business ethics, corporate social responsibility and corporate governance should be integrated as a single academic domain. Harvey (1994) distinguishes the two terms because corporate social responsibility is concerned with “*the debate about the social role of, especially, large business enterprises*” and business ethics with “*the raised profile in the public mind of business behaviour and the responsibilities of the corporation- in effect to questions of right and wrong*”.

⁶³ Harvey B (ed)(1994), Business Ethics, Redwood Books, Great Britain.

4 THE POLITICAL VIEW - PROPOSALS AND POLICIES

This section discusses the political view, the view of government in relation to CSR. Given the emergence of CSR in the political agendas of the UK government and the European Union, it is appropriate to present the view that the British government has taken historically in relation to CSR and the approach that the European Union currently tries to promote in relation to CSR.

A government role on CSR is worth examining given the size of the corporate sector in Britain. There are approximately 1.5m companies registered on the Companies House register, of which around 15,000 are public companies. Of those, about 2,700 are listed or quoted public companies. The vast majority of companies are private and around ninety eight per cent of these have five or fewer shareholders. In total, in Britain, companies' activities constitute almost eighty per cent of the country's economic activity measured by turnover. Companies also provide 60% of all employment.

In Britain, a mixture of legislation, regulation and voluntarism has provided the framework for defining the rights and responsibilities of the firm. Legislation centres mostly around the Companies Act, regulation is enforced by agencies such as the Securities and Investments Board and voluntarism is expressed through codes developed by the industry and under government encouragement like the City Code of Take Overs and Mergers and many others. As regards the company's constitution, shareholders have shares in the nominal capital of the company and this entitles them to a proportion of the distributed profits of the company. Directors are responsible for the good governance of the company. The obligations of directors are spelt out in legislation or defined by precedent. Traditionally, a director's liabilities for damages are unlimited but the current trend in UK law, as it will be discussed later, is towards extending the personal liability exposure of executive and non-executive directors of the firm. The company directors act in concert through the board of directors (Cannon, 1994). The following section offers a detailed description and analysis of the development of the legal company framework in Britain.⁶⁴

Corporate law and governance in Britain - a historical review

Early days

Company law governs how companies are formed and run.⁶⁵ Historically in Britain company law has been in favour of 'a private association' of the company. This has implied that company law has been primarily concerned with the fiduciary duties of company directors to their shareholders and an obligation imposed on companies to disclose financial information and hold meetings with their shareholders. British company law is in favour of the shareholders and managers to decide procedures for making decisions. Donnelly et al (2000)

⁶⁴ The section on company law and governance in Britain is mostly based on information derived from 'The Public Interest and the Company in Britain and Germany' Report funded by the Anglo-German Foundation. See Donnelly S, Gamble A, Jackson G, Parkinson J (2000), The Public Interest and the Company in Britain and Germany, Project funded by the Anglo-German Foundation 1998-1999, June.

⁶⁵ www.dti.gov.uk.

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explain that UK company law also reflects, to a large degree, the public interest in relation to the company function. This interest has been mainly concerned with profit maximisation, the protection of small private investors and limited state intervention to particular forms of company structure and governance.

In the UK company law, state intervention has been mostly associated, or at least until recently, with protection of minority shareholder rights and the setting up of market rules, such as accounting and reporting rules. British company law treats employee issues, impact of corporate activities on the local community and the natural environment as matters external to the company. As an example, employee interests have been traditionally protected through collective bargaining and legislation. Any other ‘omissions’ of the British company law have been addressed by voluntary codes of conduct introduced during the 1980s and 1990s and voluntary efforts of shareholders.

Also, groups connected with, or affected by, company activities have traditionally been regarded as ‘outside’ the company. If their interests needed to be protected by statutory intervention this would be by regulation external to company law, ‘applying to all forms of business, whether companies or not, and consisting of finite constraints on the business operations rather than acquiring a reassessment of the company’s goals’ (Donnelly et al, 2000).

This view of company law persisted during the Victorian era. In the Victorian times, it was believed that the company members were the best judges of their own interests and the role of law should be facilitative, to give binding effect to the business arrangements they wanted to adopt. Clearly this view of company law was derived from ‘property rights arguments’ which resist intrusion into the operations of a company.

In the nineteenth century and for two thirds of the twentieth century the laissez-faire principle dominated business transactions in Britain. Until the early nineteenth century UK companies were family owned or owned by individuals. However, from 1855 onwards limited liability became available in order to provide security to small investors participating in new industries.⁶⁶ By being primarily concerned with the rights of shareholders and the possibilities that limited liability opened up for enterprise and managerial autonomy, the laissez fair principle left no room for state intervention in private commercial relationships. Consequently, corporate property was treated by corporate law as private individual property. Key areas of governance were left almost entirely to private ordering ie, the structure and composition of the board. It was the 1948 Companies Act that enforced the right of shareholders to remove the company’s directors, if they decided so, by simply voting majority. The presence of ‘independent’ directors who could perform strategic and monitoring roles did not begin to take shape until the 1970s. For almost two centuries legislation required companies to have directors but it did not set out their functions, nor recognised a distinction between executive and non-executive directors. Government passed a financial disclosure regime that was imposed in stages over many pieces of legislation with the objective “*to protect outside shareholders, mainly through publicity, from dishonest and incompetent managers, and to increase confidence in equity markets and thereby facilitate the flow of finance to industry*” (Donnelly et al, 2000, p24).

⁶⁶ Until 1845, UK companies traded with unlimited liability, which meant that individual owners took full responsibility for all their actions.

The laissez-faire principle also left no room for labour representation into the governance structure of firms in Britain.⁶⁷ Instead, formation of unions was repressed under criminal law: the Master and Servant Act in conjunction with the 1825 Combination Act made it a crime to conspire to act collectively for issues involving working conditions or pay rise.⁶⁸

During the first world war the government introduced for the first time an agenda of employer-labour consultation conducted by industry on a purely voluntary basis.⁶⁹ With the end of the second world war, the Labour party sought to secure public interest through public ownership, legislation in monopolies and mergers, and legal support for trade unionism rather than structural changes to the company. The government initiated the set up of three committees towards reviewing the UK company law: the 1945 Cohen Committee, the 1962 Jenkins Committee and the 1977 Bullock Committee. None of these committees however succeeded in making a real change in British company law for reasons explained below.

According to Donnelly et al (2000), the recommendations of the first two committees were not taken forward mainly because of disputes between the labour party and the Trade Union Congress (TUC) that suppressed corporate governance in favour of a public ownership agenda. The 1977 Bullock Committee recommended a change to the fiduciary duties of boards of directors of public sector companies to reflect the importance of employee' interests. The Confederation of British Industry (CBI), despite the support given by the TUC, dismissed this recommendation. Furthermore, the conservative governments between 1979 and 1997 brought in new laws to curb the powers of trade unions and promoted restrictions on industrial action on the grounds of individual rights to enter into contracts unimpeded by third parties. The governments of Margaret Thatcher and John Major saw public interest in respect of shareholder value and firms acting without interference from unions and the state. Their governments assumed that well managed companies would pay proper attention to the needs of their employees.

Thus, for the first two thirds of the twentieth century, British industrial relations were characterised by a high level of voluntarism and a minimum of formal legislation. Both sides of industry preferred collective bargaining to be 'free' and voluntarist, and there was resistance to legal framework for industrial relations which was common in other European countries like Germany, and which would have embraced the role for labour in the company.⁷⁰

⁶⁷ In this period, working class demands on both the political and economic systems were met through a combination of political participation through extension of the franchise, early incorporation of working class issues into the political system through the Liberal Party and through court-sanctioned repression (after the passing of the 1906 Disputes Act).

⁶⁸ The Trade Disputes Act stopped the repression of worker associations.

⁶⁹ The 1919 New Ministries and Secretaries Act gave the minister of labour the responsibility to promote the formation of conciliation councils and joint industrial councils with the intention of bringing together unions and management of the firm. Due to the voluntary character of the act only 20 councils survived by the start of the second world war. The 1919 Industrial Courts Act provided for a court settlement of disputes between labour and employer but it also remained voluntary.

⁷⁰ As far as the British trade union movement was concerned there was a sharp divide between the interests of capital and of labour, and good industrial relations depended on keeping that distinction clear. This enabled trade union negotiators acting for organised labour to get the best possible deal from the capital owners. The relationship however between company and labour was heavily criticised by those who wanted to see organised labour to be fully incorporated into economic institutions and more directly involved in the formulation and implementation of the public interest (Donnelly et al, 2000).

Company law in the 1970s-1980s

The relationship between company and labour went under change in the 1970s and the following years due to trends in global economic and EU policies. Donnelly et al (2000) list three factors inspiring change in company structure and governance in Britain:

- Internationalisation: Capital mobility at the international level has placed national financial systems under growing competitive pressure to provide comparable risks and returns. Regulatory regimes face pressures from market actors and intergovernmental institutions to make corporate governance systems 'transparent' and 'open' to market actors.
- European Integration: Since 1968, the European commission has formulated a series of company directives. As a result of the 1985 Single European Act 1985, the favourite EU approach is the recognition of national law under the principle of subsidiary rather than harmonisation under a supranational structure. Company directives have been passed on to ensure that shareholders across the EU have access to sufficient and reliable information on companies. The objective of the strategy is to ensure that all EU states impose the same regulatory or structural requirements on companies, thereby levelling the competitive playing field.
- Post industrial concerns: Concerns over the company's role in community affairs have been increasingly formalised. Environmental issues, equal job opportunities for females and ethnic minorities are central topics of discussion in post-industrial society.

During the 1970s and 1980s, a string of codes and legislation was passed on in an attempt to alter the relationship between firm and some of its 'constituents' ie, investors, employees and the natural environment. In the 1970s, the Bank of England initiated a movement to encourage boards to appoint people who were independent of them with the task of performing a monitoring role. During the 1970s and 1980s, the initiatives of the Bank of England were boosted by CBI initiatives to improve board structure and performance following a series of financial scandals, which ultimately led to the formalisation of Cadbury Code in the nineties.

In the 1970s the government imposed legal standards on issues of health and safety at work and minimum standards on equal opportunity and environmental protection issues.

The 1974 Health and Safety at Work Act changed British corporate governance in respect of health and safety protection regulations at the workplace. For the first time, employers had a responsibility to prevent accidents causing harm at work, rather than merely being liable to pay damages. The act established the Health and Safety Executive (HSE) to advise the government on detailed regulations and inform business on compliance.⁷¹ The act also provided for employee participation through safety representatives in company meetings, but did not mandate them. Further regulations were passed in 1977 which allowed recognised trade unions to appoint safety representatives to participate on company committees (Barrett, Howells, 1995).

⁷¹ Barrett B, Howells R (1995), Occupational Health and Safety Law, Pitman, London.

The 1970s Equal Pay Act made it illegal to offer men and women different pay of conditions for the same type of work. The 1983 Equal Pay Regulations extended the provisions of the act to work of equal value. The 1975 Sex Discrimination Act broadened the prohibition on ‘discrimination’ to cover employment and business transactions. However, as Donnelly et al (2000) testify, business succeeded in winning exemptions particularly in cases ‘where sex could be deemed a genuine occupational qualification for the job’.

The Sex Discrimination Act outlawed sexual harassment and held employers responsible for the actions of their employees in some cases. It required companies to develop an internal policy on harassment, including grievance procedures and counter measures to protect themselves from liability in the event of a complaint. Nevertheless, the 1994 Criminal Justice and Public Order Act opened up the possibility that sexual harassment could be treated as a criminal offence.

The Race Relations Act was passed in 1976 to tackle direct and indirect discrimination on the basis of racial, ethnic or national origins.⁷² Similar to the Sex Discrimination Act, the Race Relations Act applies to all employers, with a few notable exceptions, in which race is deemed a ‘genuine occupational qualification’.⁷³

The equal opportunities commission (EOC) and the commission for racial equality were the bodies established by government to investigate complaints on suspected unequal opportunities or discrimination cases. The EOC also administer a code of practice on equal pay whereas the commission for racial equality has an agent role to improve employer’s attitudes towards discrimination.⁷⁴

Protecting the environment became a matter for external regulation affecting companies in the Town and Country Planning Act 1948, which required local authority clearance for certain types of new developments and installations. Until 1990, new versions of the act did not interfere with the internal operations or structure of companies, but simply extended the scope of application.⁷⁵

A series of financial scandals that unfolded in the 1970s suggested that providing adequate safeguards for non-managerial shareholders could not be left solely to private ordering. Companies Acts were passed to impose a regime of mandatory financial disclosure. Thus, during the eighties further legislation and codes of conduct were introduced to cover the obligations of the firm and company directors such as the Company Securities Act 1985, the Companies Act 1985, the Model Code for Securities Transactions by Directors of listed Companies and the City Code on Takeovers and Mergers.

⁷² The act required that complaints be handled through industrial tribunals in case of disputes at the workplace.

⁷³ At present, this means acting jobs, but also working in cafes and restaurants and delivering personal social services to a particular racial group. The Race Relations Act also forbids affirmative action programmes or measures aimed directly at hiring or promotion.

⁷⁴ In 1998, the Commission lobbied parliament to adopt EU directives to bring the treatment of racial discrimination in line with that for sexual discrimination. This was due to reported cases where the Race Relations Act had been ineffective among British firms. The Commission also sought greater powers for itself to monitor discrimination and initiate prosecution, and to impose on public and private managers a duty to combat discrimination.

⁷⁵ Even the 1988 Town and Country Planning Regulations, which implemented EEC Directive 85/337 mandating environmental assessments of installations, only served to widen the scope of operations subject to mandatory requests for assessments. They obliged companies to assess the environmental effects of proposed new developments on natural resources, all forms of life, the landscape, climate and the area’s cultural heritage, and to suggest means of mitigating the impact (Donnelly et al, 2000).

The Companies Act 1985 required full, complete and early disclosure by directors of information on dealings and shares. One of the central notions of the act is the notion of interest. The act requires directors to disclose all their interests in the firm including the interests of close family members ie, spouse or infant children. Further to the director's obligations, the 1985 Companies Act encouraged accountants to establish a standards-setting body that would provide some consistency to company accounts, and directors and auditors' reports. In the absence of such a body however, the 1989 Companies Act mandated an accounting standards board to regulate accounting association standards, company auditor qualifications and their practices in compliance with the EC's eight company law directive (84/253). The 1985 Companies Act also gave the Department of Trade and Industry (DTI) powers to ensure that all the provisions of the act were complied with (Cannon, 1994). It has to be said, however, that regulation passed in the 1980s - the Companies Act - may be targeted at preventing improper conduct and negligence of company directors but once again it avoided setting out the governance functions of company directors. It was left to the company and its associates to set up codes of conduct as a response to scandals and inappropriate behaviour of board members.

During the 1990s company law in Britain is characterised by a combination of industry voluntary initiatives and binding legislation.

Company law in the 1990s

In response to financial scandals and in an attempt to pre-empt formal regulation, the corporate and investment communities in Britain developed their own codes of best practice. The Cadbury committee produced the first code of best practice in 1992, whose provisions could be adopted on voluntarily basis. The major objective of the code is the appointment of non-executive directors (NEDs), the setting up of remuneration procedures and audit controls to make governance arrangements transparent and empower shareholders to pressurise management through the market or any other means, when they believe that improvements are needed.

In 1995, the Cadbury code was followed by the study group on directors' remuneration, the Greenbury committee. The committee was established in response to public disapproval of the scale of director's remuneration in privatised utilities, given that directors were paid much more than they were before privatisation for arguably carrying out much the same role. The main recommendations of the Greenbury committee were that a remuneration committee, comprised entirely by independent NEDs, should set directors' pay and other conditions. The 1998 Hampel committee on corporate governance was a private sector initiative with government support, set up to review the operations of the Cadbury code and look at the shareholder role in corporate governance. The committee concluded that the monitoring procedures laid out in the Cadbury code ought to be strengthened. The three codes have been combined in what is known as the combined code (committee on corporate governance, 1998). The 1998 combined code requires companies listed on the stock exchange to have at least one third of NEDs on the board, a majority of whom must be independent of management. It also requires companies to identify their NEDs in their annual report.

Together with industry initiatives, binding legislation determining the obligations of the firm in relation to employees, equal opportunities and protection of the natural environment has been extended in the UK during the 1990s. The UK membership in the EU has played, if not the primary, certainly a decisive role. The process, however, of shifting from a liberal market

model to a model of external regulation has not been an easy one. For instance, the UK had difficulties in implementing the 85/337/EEC directive on environmental impact assessment (Bichta, 2000). As far as Britain was concerned the directive should not be applied to projects that had entered the initial stages of the planning process prior the point in time at which the directive come into force.⁷⁶ Moreover, the British considered themselves to be more environmentally aware than other European countries and refused to accept the interference of the European commission (Haigh, Lanigan, 1995). Nevertheless, the EU membership and a revived Labour party have brought changes in the UK corporate governance since the 1990s.

A priority for the newly elected government in 1997 was to introduce a legal framework for industrial relations that would bring Britain closer into line with other EU member states. The Blair government signed the social chapter of the Maastricht Treaty which proposed social rights to be applied across all members states. The government introduced a minimum wage and, after consultation, it published its proposals on industrial relations in the white paper - Fairness at Work.⁷⁷ The government gave significant new rights to both individual workers and trade unions, including setting out conditions under which firms must agree to trade union representation.⁷⁸

Like its predecessors, however, the new Labour government opposed any further radical suggestions from the EU making it obligatory for companies to establish works councils or to provide major statutory improvements to working conditions, such as the length of the working day. The Labour government chose an 'enlightened shareholder value model of the company' and it was prepared to legislate to ensure that minimum standards and rights were protected. But clearly it did not favour a more proactive stance (Donnelly et al, 2000). These government tactics were according to the plan to keep legal constraints on companies to a minimum as they could reduce flexibility and significantly increase costs. Having said that, the Labour government introduced legislation in respect of trade unions and employment issues to ensure that organised labour and employee rights would be represented in the workplace.

The 1992 Management of Health and Safety at Work regulations built on the principles of the 1974 Health and Safety at Work Act and implemented the 1989 EC directives, to ensure company responsibility for safety in the workplace. The regulations went further in that they obligated employers to train employees and appoint safety officers for the first time. The regulations are given further substance by the approved code of practice for the management of health and safety at work, issued by the HSE. Failure to comply with the code is not an offence, but employers who violate it may be held accountable to its standards as a criminal violation under the 1992 regulations or the 1974 act. Donnelly et al (2000) explain that the employer is now given the responsibility to assess risks and hazards to health and safety in the workplace, to prevent and minimise risks, to inform and train employees and to monitor their health during working hours while taking advantage of new technology.⁷⁹

⁷⁶ Haigh N, Lanigan C (1995), Impact of the European Union on UK Environmental Policy Making, UK Environmental Policy in the 1990s, Gray T S (ed), Macmillan Press Ltd, Great Britain, pp18-37.

⁷⁷ Department of Trade and Industry (1998), Fairness at Work, 21 May, Cm 3968.

⁷⁸ Gamble A, Kelly G (2000), The Politics of the Company, The Political Economy of the Company, Parkinson J, Gamble A and Kelly G (eds), Hart, London.

⁷⁹ Health and Safety Commission (1992), Management of Health and Safety at Work - Approved code of practice, Health and Safety Executive, Sheffield.

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The 1992 Trade Union and Labour Relations (Consolidation) Act required employers to inform employees about work conditions and employment policies, but only if the company recognised trade unions. Despite EU efforts to widen this requirement proposing that all European companies inform or consult their employees on a range of issues whether or not these employees belong to unions, the Blair government has resisted the initiative (Donnelly et al, 2000).

The 1999 Employment Relations Act introduced procedures for union recognition and collective bargaining that increase the likelihood of organised employer–employee relations at the plant level for all firms with 20 or more employees. The act provides for mandatory employer recognition of unions under the direction of the central arbitration committee (CAC). Finally, the Employment Relations Act implemented the EU working time directive, which business have been opposed on account of its restrictions on the capacity of firms and employees to negotiate their terms of employment individually.

In terms of equality issues, in recent years, government policy also has shifted towards the traditional model of external regulation. Due to EU pressures, ie, directives on parental leave and proposals in the green paper - Partnership for a New Organisation of Work - employees have gained the right to take time off for family emergencies, and have easier access to the qualifying period for extended maternity leave. In this climate, the 1999 Employment Rights Act introduced a longer maternity leave (unpaid) and has also implemented the EU parental leave directive, which aims to reconcile the responsibilities of work and parenthood for both genders.

The 1995 Disability Discrimination Act requires discrimination against people with disabilities to be managed along the same pattern as sex and race discrimination. The act covers trade associations as well as employers, and details a wide number of means by which discrimination may take place in the modern workplace, both in hiring practices and in membership rules. The act also established the national disability council (NDC) under the secretary of state for Employment and Education to establish and develop a code of practice on discrimination that does not confer direct legal liability on discriminators for their actions, but could be used in hearings at industrial tribunals to provide a reference point for rulings.⁸⁰ By 1 October 1999, companies were required to change policies and practices that deter disabled customers or potential employees in accordance with the code.⁸¹ To date, however, research conducted on the NDC's behalf shows that 43% of UK businesses have not complied with the code, even when contravention has been pointed out to them (NDC, 1999).

In terms of company relations to the natural environment, a very different approach which also reflects the thrust of EU policy, has been evident first in the Environmental Protection Act 1990. The act was designed to bring the regulation of industrial pollution under the regime of integrated pollution control (IPC) – signalling a change of corporate governance practices with the intent of reducing and preventing pollution.⁸² However, the act applied the

⁸⁰ The NDC must consider the costs of its recommendations, and devotes much of its activity to developing partnerships with businesses and associations to develop role models for the rest of the corporate community. In its 1999 annual report, the NDC called on companies voluntarily to develop policies and practices to allow disabled people equal access and employment opportunities, but considered more intrusive regulation an option if firms failed to oblige.

⁸¹ National Disability Council (1999), Annual Report - April 1998 to March 1999, National Disability Council, London.

⁸² Holroyd J (1993), Issues in Environmental Law - Present and Future Perspectives, European Business Review, Vol 93, No 1, pp27-32.

less stringent standard of Best Available Technique Not Entailing Excessive Cost (BATNEEC), as the standard preferred by the Environment Agency for granting authorisation to industrial sectors to operate. BATNEEC was in itself less ambitious standard than the European Commission's preference for a Best Available Technology standard.⁸³ As McGuinness and Richards (1999) explain, the act, once more, underlined the importance of minimising the cost and intrusion on business activities.⁸⁴ Interaction between public authorities and companies was kept to a minimum by relying on prosecutions and fines for polluters under the polluter-pays principle.⁸⁵

The 1995 Environmental Protection Act created the Environment Agency which began to operate in 1996. The Environment Agencies gained the power to investigate the application of IPC (focusing on emissions), and publicise the names of companies who had been fined for environmental damage (McGuinness, Richards, 1999). A significant upgrading of corporate responsibilities, with implications for internal governance, was first passed with the Pollution Prevention and Control Act of 1999. The act implemented the European Union's Integrated Pollution and Prevention Control (IPPC) Directive (61/96), which regulated a significantly wider range of pollution sources, and consequently, a larger number of British businesses than any previous legislation.

From 1999 the Environment Agencies have been responsible for monitoring and enforcing the IPPC Directive. Companies are required to commit themselves to using best available techniques rather than the BATNEEC to prevent pollution and waste, recycle where possible, conserve energy, prevent accidents and return the site to its original condition at the end of operations. The implementation of the IPPC represents a significant departure from the cost orientation of previous legislation.⁸⁶

The 1999 Environmental Impact Assessment (EIA) regulations have implemented another EU council directive (97/11/EC) which came into force on 14 March 1999. The regulations formalise the relationship between companies and planners by requiring that local planning authorities give notice in writing, with a public justification, that a company is required to undergo the EIA. The directive allows each member state to set the thresholds at which an assessment is deemed necessary, and requires member states to publish standards, so that transparency of standards in Europe is achieved. The directive also makes assessments mandatory in 14 areas that focus on resource extraction, infrastructure projects, handling and processing of chemicals, and any process that impacts on water resources.⁸⁷

In terms of company and community relationships, the prevailing model in the UK has always been that the wider community interests are best served by pursuing the interests of shareholders. If there are adverse 'third-party' effects they should be addressed through externally imposed legislation.

⁸³ McEldowney J, McEldowney S (1996), *Environment and the Law - An Introduction for Environmental Scientists and Lawyers*, Addison Wesley Longman, Harlow.

⁸⁴ McGuinness S, Richards P (1999), *The Pollution Prevention and Control Bill (HL) - Bill 107 of 1998-99*. House of Commons Research Paper 99/58, 3 June.

⁸⁵ Cullingworth J B, Nadine V (1997), *Town and Country Planning in the UK* – Routledge, London.

⁸⁶ Environment Agency (1999), *Bringing in Integrated Pollution Prevention and Control*, Environment Agency, London.

⁸⁷ Department of Environment, Transport and the Regions (1998c), *Environmental Assessment - The EIA Directive*, HMSO, London.

These later government initiatives on environmental protection and on equal opportunity reflect an important shift in the understanding of the role of government in influencing how firms display corporate responsibility to the wider community. Yet these initiatives do not constitute a shift towards a model of engaging other stakeholders than shareholders exclusively inside the firm, as witnessed in other European countries ie, Germany.⁸⁸ The increased role of government, however, in assuming responsibility for providing incentives or regulations which make companies more responsive towards evolving social issues does mark a significant departure from the traditional British liberal model.

Current reforms - company law review (1998-2001)

The extended review of corporate law and governance in Britain suggests that the underpinning principle of British corporate law since the early nineteenth century has been the promotion of the interests of a firm's shareholders. Governance issues in Britain have been seen more or less associated with the board of company directors. Few exceptions constitute the industry's 'own' developed codes of corporate governance that leave ample room for voluntary adoption by its members. The Labour government has tried to broaden the concept of corporate governance through legislation that recognises employee and trade union rights and sets standards for environmental emissions. But no legislation, so far, has challenged the constitution of the firm and its responsibilities to social groups other than the group of shareholders. This makes it fair to argue that, in recent years, legislation on employment, equality and environmental protection issues was targeted to raise business awareness of their social responsibilities but in a way that legislation has been primarily 'facilitative' of the purpose and main activities of business.

But businesses do not act and operate out of society. A significant number of social, economic and political changes take place in the international arena, influencing domestic policies. The European markets of gas, electricity, telecommunications, railways and aviation are exposed to liberalisation as national barriers begin to fall. Global trade movements find support in Western Europe and the world's superpower, USA, as these countries are getting ready to 'rip' the benefits of a world trade market. The public in western societies becomes 'genuinely' interested in sustainable development, third world debt, increased death toll amongst children and rising numbers of children living in poverty.

Prominent social, economic and political changes raise serious questions about the purpose and contribution of business to society. The current corporate law review in Britain has not gone that far, at least not yet, but it aims to address the economic and political challenges that UK business will be asked to answer in the imminent and near future.

⁸⁸ In Germany for instance, company law has been developed in a very different way to the British. While shareholders remain the principles of the company, a more regulative approach has been adopted with regard to shareholder rights. Since the 1870s, the state intervenes in the internal structure of the firm. Rather than a voluntaristic approach to shareholder control, public authority has been used to 'constitutionalise' the interactions between shareholders and management through a densely regulated two tier board system. The two-tier system has delegated many supervisory tasks from the shareholders' meeting to a newly created supervisory board, as well as separating management and supervisory functions. Over the decades, this 'constitutional' model of company decision making has been expanding to include other stakeholders, particularly employees, through representation on the supervisory board and works councils (Donnelly et al, 2000).

The concern that business could be held back by outdated company law requirements and therefore loss in competitiveness, triggered a review of British company law. An independent three year review of company law (1998-2001) was launched by the DTI with the primary aim to address the needs of small companies and give flexibility to company law to accommodate any future developments.

An independent steering group was formed to oversee the management of the review. During the course of the review, the steering group published a number of consultation documents covering a wide range of issues.⁸⁹ The steering group presented its final report to the secretary of state on 26 July 2001, which included the following main recommendations (Company Law Steering Group, 2001).

A company law framework that encapsulates the needs of small private companies and provides for their economic prosperity was acknowledged to be imminent. This was because of the rise in number of small private companies in Britain and the lack of previous legislation in providing a supportive legal and institutional framework. The new company law framework would ensure that companies have all government support they need to prosper in the modern economy: reduced costs, the creation of a climate which encourages people to set up their businesses and make them grow; a framework which encourages inward investment and the laying out of transparency rules to attract more investors in the industry. Thus, the primary scope of company law review has remained the exploration of alternative ‘means’ to boost confidence in industry and therefore guarantee it an increased ‘competitive’ edge.

The appropriate legislative and institutional frameworks underpinning the new company law were as follows: company law and company governance should be defined in primary and secondary legislation. The approach of ‘light’ touch regulation ie, the combined code would be used when appropriate. However, the legislative framework of company law and governance will be under continuous review to ensure a flexible and responsive institutional structure for rule-making and enforcement. Secondary legislation ie, reporting and accounting rules, and the creation of a body to oversee industry compliance and advise on legislation should also be part of the new institutional framework of British company law.

The government’s responses to the steering group’s proposals were published in the white paper on 16 July 2002 (DTI, 2002). Accordingly, the government proposes to review company law by putting first the emphasis on the development needs of small companies. The government proposes to simplify the decision-making process of companies, by removing the requirement for private companies to hold annual general meetings (AGM) unless company members decide they want them, and by simplifying the rules on written resolutions to make it easier for private companies to make decisions. Whilst the government is keen to see institutional investors playing a more effective role in corporate governance, it is believed that this will be achieved by increasing the transparency and accountability rules governing companies in Britain. In terms of directors’ duties, the government has proposed that law should define them and, hence, the primary duty of directors should be the promotion of interests of a company’s shareholders. However, when circumstances require otherwise, directors must also promote relationships with employees, customers, suppliers and consider the impact of company decisions on the community and working environment.

⁸⁹ All consultation documents can be accessed online at www.dti.gov.uk/cld/reviews/condocs.htm.

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Towards improving corporate governance rules, the government proposes that the board may determine the remuneration packages of managing and executive directors.

The government also has taken the view that corporate governance in Britain will be improved by applying clearer and more transparent reporting and auditing rules. In brief, a supplementary statement will replace the existing directors report for all companies other than the large companies who will be required to prepare an operating and financial review (OFR).⁹⁰ Small companies will be defined according to the EU standards and quoted companies will be required to publish their accounts on their website within four months of their year end.⁹¹

Company law and corporate governance will also be improved by strengthening the bodies overlooking the industry's compliance with the new legislative and institutional framework. In this vein, the government proposes the creation of a standards board developed from the existing accounting standards board (ASB) and charged with the role to make detailed rules on accounting, reporting and disclosure issues. A successor body to the financial reporting review panel (FRRP) will enforce 'form and content rules' on public and private companies. Companies House will continue to enforce these rules for small private companies. The new standards board will also take over the role of the UK listing authority to review the combined code and oversee companies' compliance with the code.

A new companies bill is being drafted to materialise the government's proposals in modernising company law and governance in Britain. Overall, the draft bill is expected to result in significant savings of both money and management time, especially for small companies, through simplification and improved clarity of the law and repeal of unnecessary burdens. Work to date has identified potential yearly savings for small and private companies estimated to total £168m.⁹² The draft bill also looks into the sanctions for breach of requirements of company law. The aim is to create a coherent and internally consistent scheme of sanctions which will support the requirements to which they relate in a manner which is fair, proportionate and effective. The intention is to provide a regime which contains sufficiently dissuasive penalties, as required by European law where the draft bill implements EC directives, which are comparable for similar forms of offences. The structure and effect of each sanction will be consistent with the Human Rights Act and the European Convention on Human Rights. Enforcement will be through a variety of means, depending on the nature of the breach.⁹³ Overall, sanctions and enforcement will be maintained as at present but will be conducted on a more systematic basis.

⁹⁰ A narrative report on the company's business, the company performance and its future plans (DTI, 2002).

⁹¹ A small company is defined as follows: turnover no more than £4.8m; balance sheet total £2.4; number of employees no more than 50.

⁹² More information is available at the draft overarching regulatory impact assessment, which was published together with the white paper.

⁹³ For example, Companies House will, as now, be responsible for enforcing penalties for late filing of reports, accounts and other information required to be sent to it. The successor body to the FRRP is expected to have powers similar to those of the current panel to enforce accounting requirements and parallel new powers in respect of certain disclosure and corporate governance provisions. Some provisions are for enforcement by companies or their members, e.g. breach of directors' duties. There will continue to be a range of civil remedies or consequences available, including redress of injured parties through the courts and avoidance of particular unauthorised transactions.

British company law and corporate governance - final remarks

With regard to the evolution of British company law, it is suggested that it has gradually established legal responsibilities to safeguard particular relationships over time, by prescribing particular standards or patterns of behaviour eg, bankruptcy law to protect investors and contract law to protect business from other business, and increasingly, the protection of stakeholder interests through employment, consumer, environmental law etc.

Under the new company law review, however, the right to limited liability remains unchanged, but it will be accompanied by new measures for increased accountability.

To be in a position to protect those affected by a company's activities (eg, shareholders, creditors, employees) and to prevent abuse, the law contains new safeguards. Among these are the requirements on companies to make annual returns; to prepare and file accounts publicly in accordance with prescribed standards; to have an annual independent audit (with some exceptions for small companies) and not to make certain changes to a company's capital structure without shareholders' consent. Moreover, some requirements are aimed at protecting companies themselves, for example provisions enabling companies to require the notification to them of shareholdings exceeding certain limits.

There are certain issues in the company law review which relate to corporate governance. For the first time, the company law places duties on company directors. It is proposed that they should be made explicit in legislation and in a form that draws specific attention to the importance to business success of fostering relationships with employees, moderating adverse environmental and community impact and protecting company's reputation. The counterpart to these proposals is disclosure of information on performance in each of these areas where material. The intention is that the obligation to disclose will increase company sensitivity and strengthen the position of interested parties to put pressure on companies to improve performance (Donnelly et al, 2000).

With regard to remuneration, the government has taken the view that the private sector initiatives have not been successful and it seems ready to proceed with legislative intervention.

In terms of company monitoring issues the government has also launched an independent review to examine the role and effectiveness of NEDs ie, whether the monitoring role of non-executives is effectively carried out and whether boards have enough independent NEDs to be able to discipline management.⁹⁴

In conclusion, the British approach regarding company responsibility and accountability arising out of the company law review is that the company must retain overall responsibility to shareholders but this should be understood in a rather 'inclusive way'. As it will be argued in the next chapter, the Labour government has begun to apply economic performance criteria

⁹⁴ Following the company law review, the Secretary of State for Trade and Industry launched an independent review to examine the role and effectiveness of NEDs. The review which builds on the previous works of Myners and company law review aims to assess: the population of non-executive directors in the UK - who they are, how they are appointed and how they can be drawn from a wider pool of talent; the independence and effectiveness of non-executives; the actual and potential relationship between non-executives and institutional investors; and what could be done to strengthen the quality, independence and effectiveness of UK non-executive directors. In DTI (2002), Derek Higgs appointed to lead review of non-executive directors, press notice, 15 April.

to determine whether the economic performance of the firm might be improved by broadening the range of groups whose interests directors must consider in the decision-making of the firm.

Current political views on CSR

Following the discussion in **Chapter 2** and **3** about the role of government in CSR, it appears that there it might be a place for it but the question remains open about the nature of government role in CSR: should it be interventionist, or complementary to industry's initiated activities? It is the intention of the following sections to discuss the present positions shared by the UK government and the European Union in terms of promoting CSR at national and European levels.

The UK government position

- The view and role of UK government in relation to CSR

The Labour government has defined CSR as 'behaviours that goes beyond basic legal requirements' and it has developed three pillars to promote CSR practices amongst the business sector:

- an organisation should recognise that its activities have a wider impact on the society it operates;
- in response, the organisation should take account of the economic, social, environmental and human rights impact of the activities across the world;
- the organisation should seek to achieve benefits by working in partnership with other groups and organisations.⁹⁵

The prevailing view of this government in relation to CSR considers that in real terms, CSR must have some economic foundations and therefore assist not compromise organisational performance. By doing so, organisations preserve the interests of their shareholders but also explore new means of enhancing economic performance that in many ways could go beyond and exceed legal requirements. Two reasons account for this view supported by the UK government.

First, there are two competing perspectives in defining and practicing CSR, one derived from the stakeholder theory of the firm (see earlier pages), and another one which promotes the 'business case'.

The approach that this government has taken in relation to CSR is the widely cited 'business case' for corporate social responsibility. The government uses economic performance criteria to determine whether the economic performance of the firm can be improved by broadening the range of groups whose interests the directors of a firm should consider during the decision-making process. The government therefore sees the economic case for departing from an exclusive shareholder focus by developing and monitoring sustainable relationships with key stakeholders such as employees, suppliers and local communities. This view is

⁹⁵ Department of Trade and Industry (2002), Business and Society – Corporate Social Responsibility Report.

strongly supported by studies that reveal a value creation for companies who develop strong long term cooperative relationships with companies, employees, customers and suppliers.

Secondly, studies also show that CSR creates social value and improves social welfare, both of which constitute the primary goals of government policy. Government therefore appears willing to explore the potentials of CSR as a policy tool for improving and enhancing the welfare of its people.

In terms of government role in relation to CSR, the Labour government sees itself as having to play a complementary role in fostering CSR knowledge across the business sector and encourage it to adopt best practice. The government believes that this can be done by setting minimum standards for industry to abide by, providing fiscal incentives, encouraging industry to take the initiative and adopt voluntary measures on CSR and co-operate with government to promote CSR at the national and international level.

The UK government view on CSR has been demonstrated in particular government initiatives: the appointment of a cabinet minister, Stephen Timms, on CSR and the publication of the first CSR (UK) annual report (2002). The new thinking is also reflected in the DTI's company law review (1998–2001) which considers the merits of extending directors' duties to stakeholder groups such as the local community; and in the white paper on competitiveness (DTI, 1998c) which stresses the importance of highlighting best practice on corporate responsibility, and the 1998 pre-budget statement which announced a review of fiscal incentives which could foster the involvement of companies with the community.

Another important area of policy deliberation is the Inland Revenue's review of charity tax which helps determine the tax treatment of giving in-kind by companies and employees. Payroll giving was set up by government in October 2000 and has been seen as a tax-effective way for employees to donate to charity by authorising a deduction from their gross before tax.⁹⁶ In November 2001, the government introduced environmental reporting guidelines to help companies manage their environmental impact and set targets for improved performance. Environmental reporting guidelines suggest key indicators for industry to report against and cover greenhouse, waste and water emissions. They can be adopted by industry on a purely voluntary basis. Since July 2000, the revised Pensions Act 1995 requires pension funds to report whether they have considered social, environmental and ethical issues when invested their money.

In all these instances government saw itself as having a major role to play in influencing the development of corporate responsibility. Thus for non-employment issues the government believes that a variety of mechanisms ie, fiscal instruments such as subsidies, tax credits could influence corporate behaviour but in areas like environmental protection and equal opportunities the imposition of legal minimum standards could be proven critical (Donnelly et al, 2000).

Meanwhile, the MP Linda Perham introduced a corporate responsibility bill to parliament in June 2002.⁹⁷ The bill is supported by a private group, the Corporate Responsibility Coalition (CORE) with members, the Friends of the Earth, the New Economics Foundation, the

⁹⁶ The scheme launched with a £2m budget aims to double donations from £29m in 1998/99 to £60m a year, raise the number of employees with access to payroll giving from 1 in 5 to 1 in 3, and attract higher donors, DTI (2002), p15.

⁹⁷ The House of Commons (2002), Corporate Responsibility Bill, 12 June, The Stationary Office, London.

Catholic Agency for Overseas Development and Save the Children.⁹⁸ The main proposals of the bill favour mandatory social and environmental reporting, consultation of stakeholders on decision-making of major projects, rights of redress for people negatively impacted by business activities, directors to be subjected to fines or imprisonment if they commit CSR related offences, and the creation of a body to oversee industry compliance with social and environmental standards. Despite the support the bill received from 185 MPs, it is not expected to become law, at least not at present.

The government keenly supports an intergovernmental role in support of CSR. In this vein, the government has been signatory to international agreements aiming to encourage responsible business behaviour and best practice ie, the 1998 declaration on fundamental principles and rights at work of the International Labour Organisation (ILO), the ILO tripartite declaration of principles concerning multinational enterprises and social policy, and the OECD guidelines for multinational enterprises. In terms of sustainable development, the UK government has supported the UN Global Compact initiative which encourages companies to build nine core principles into their business strategies and report on the 'triple-bottom' line: economic, social and environmental issues.

The EU position on CSR

The European Union stood publicly in favour of corporate social responsibility in 1993 when President Delors appealed to European business to participate in the Union's fight against social exclusion. A few years later, at the European Council Summit in Lisbon in March 2002, the European Union set itself new strategic goals to pursue in the twenty first century, such as becoming the most competitive and knowledge driven economy in the world. In order to achieve these objectives however, the council addressed business directly in 'a special appeal to companies' corporate sense of social responsibility regarding best practices on lifelong learning, work organisation, equal opportunities, social inclusion and sustainable development'.

The European Union's green paper in June 2001, marks officially the launch of a European-regional debate about the development and future of a common European framework for CSR.⁹⁹ With the green paper, the EU really intended to 'kick off' a debate on Europe's position on CSR and seek views on the preferred methods to be adopted for practising CSR in Europe. The paper defined CSR as 'a concept whereby companies integrate social and environmental concerns in their business and in their interaction with their stakeholders on a voluntary basis' and acknowledged CSR as business behaviour that exceeds legal requirements'. The paper strongly promotes the 'business case' for a CSR policy in Europe in terms of business competitive advantage, increased sales and reputation, improved productivity by developing relationships and liaising with employees, local communities, customers, suppliers and business partners. It is, therefore, hardly surprising that business respondents to the green paper have welcomed the economic case for CSR and urged the European Union to enrol in further activities that enlighten the understanding of financial returns of practising a CSR policy. Furthermore, business has been in favour of a voluntary approach to CSR, and sees the EU with a role to promote best practices and transparency among member states. The UK business has been no exemption to the above rule, and in addition they have added the importance of adhering to 'low national regulatory' standards of

⁹⁸ Mathias A (2002), Voluntary vs Mandatory - CSR debate rages, Environmental Finance, July-August, p8.

⁹⁹ European Commission (2001), Promoting a European Framework for Corporate Social Responsibility, Green Paper, Employment and Social Affairs Directorate.

CSR as opposed to a common European CSR framework. A voluntary approach to CSR has been criticised by trade unions and civil society organisations who argue that such initiatives would be insufficient 'to protect workers and citizens rights' (EC, 2001).

Business, however, calling for a voluntary European CSR approach did win the day, as was demonstrated a year later in the communication published by the Commission in July 2002 which set out the European Union's framework for CSR.¹⁰⁰

The communication defines CSR as a business behaviour that goes beyond legal requirements and links CSR to sustainable development in terms of requiring business to integrate economic, social and environmental issues into existing management practices and operations. Most importantly, CSR is defined not as an optional add-on to business activities but as a method of conducting business (CEC, 2002). Like the UK government, however, the commission intends to use CSR as a tool/method that facilitates the materialisation of its long term policy objectives ie, a knowledge driven economy built on innovation and new technologies. CSR therefore can serve best this objective as it requires a reappraisal of business operations, innovative thinking, re-designing relationships with stakeholders and continuous improvement of business practice.

In terms of a CSR policy framework, the European CSR policy will built on the core principles of international agreements, adding therefore support to the ongoing role of EU to support social and economic policy issues at the international level. International agreements however will be applied in full respect of subsidiarity principles. In the communication, the EU assigns itself with the role of facilitating knowledge and best practice regarding the impact of CSR on business and society and most importantly, re-appraising transparency and reporting rules and developing common, clear and verifiable criteria or benchmarks.

The European multi-stakeholder forum launched in Brussels in 16 October 2002, promises to deliver by 2004 answers regarding the convergence and transparency of existing CSR practices and tools namely, codes of conducts, labelling, management standards, (accounting, auditing) reporting, social responsible investment and certifications schemes.¹⁰¹ The forum will also seek to define commonly agreed guidelines for consumer labelling such as organic labelling, fair trade and CSR measures supporting ILO conventions and environmental standards.¹⁰² The multi-stakeholder forum has been allocated a 'steering' role towards exchanging experience and good practice between actors at the EU level and identifying action areas at the EU level. The forum, chaired by the commission has brought together representatives of employees, consumers, civil society, professional associations and business networks, and it is expected, by 2004, to present its findings on activities the commission should engage to promote and strengthen CSR further among its member states.

¹⁰⁰ Commission of the European Communities (2002), Corporate Social Responsibility - A Business Contribution to Sustainable Development, COM (2002) 347.

¹⁰¹ See www.europa.eu.int, Corporate Social Responsibility - Commission launches European multi stakeholder forum, press release, 16 October 2002; and A New Strategy and a Pioneering Forum for Stakeholder Debate, CSR Magazine, October 2002, CSR Europe.

¹⁰² Commission of the European Communities (2002), Consumer Policy Strategy, COM (2002), 208, Official Journal of the European Communities.

Two prevailing models of corporate social responsibility

The theoretical debates and the political discussions around the notion of corporate social responsibility suggest that there is little consensus regarding the meaning and role of CSR for industry and government. The discussion in **Chapters 3** and **4** prompts the identification of two prevailing perspectives of CSR, which consequently facilitate the development of two competing CSR models.

The first perspective of CSR is derived from the stakeholder model and contains the commitment of the firm not to undertake socially unacceptable practices ie, using suppliers who employ child labour. This approach is more in line with the ethical and social norms of the rest of society and of individual managers. Corporate responsibility is interpreted proactively; the company has a positive responsibility to adopt, rather than avoid, certain norms of behaviour in relation to communities. It makes corporate citizenship a central issue for business strategy, particularly as regards policy on human resource management and recruitment policy. This approach also assumes that this 'licence to operate' will not be static. As social trends and attitudes evolve so will the terms of the licence (Donnelly et al, 2000). Corporate social responsibility issues correspond to the mission and vision of the firm and hence become an integral part of daily decision-making.

The second perspective supports the widely cited 'business case' for developing and monitoring sustainable relationships with key stakeholders including employees, suppliers and local communities. These relationships are used to provide companies with legitimacy and trust, in other words with a 'licence to operate', which constitutes a source of competitive advantage. Consequently, there is no long-run trade-off between the interests of stakeholders and shareholders.¹⁰³ The same perspective also promotes the 'business risk case' from failing to practice CSR. Corporate social responsibility becomes the new risk management tool that allows firms to increase opportunities having evaluated the risks involved by developing and practising a CSR strategy and vice versa.

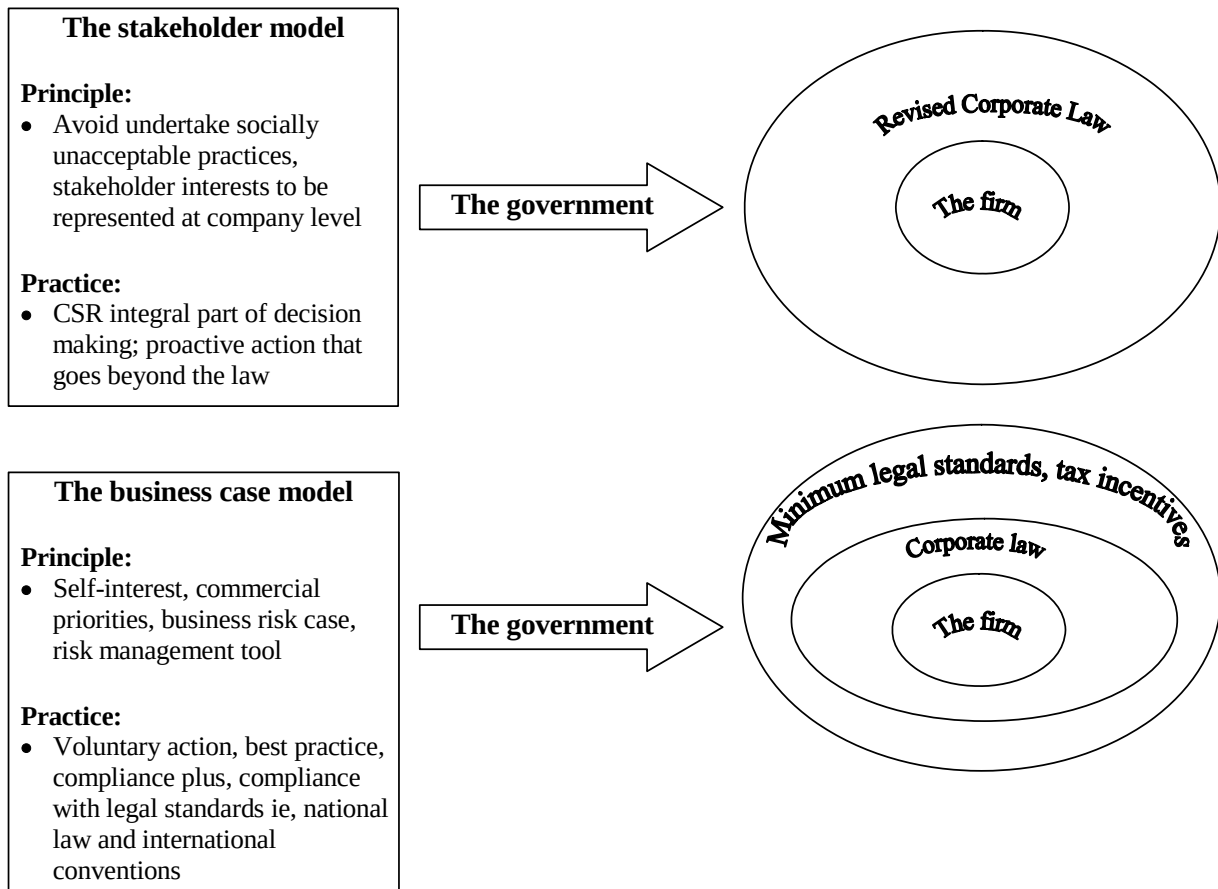
The first approach requires firms to practice CSR proactively as CSR is embedded in organisational values, and firms are required to demonstrate behaviour that goes beyond legal requirements. The second approach expects firms to adhere to 'best practice' standards developed either voluntarily by industry or jointly developed by industry and government.

There is a place and role for government under both perspectives in that the stakeholder model of the firm expects government to revise corporate law and make it obligatory for firms to have the interests of stakeholders represented in board meetings and the decision-making of the firm. The business case for CSR recognises two sets of corporate-legal standards; the corporate law ie, the promotion of interests of the firm's shareholders and the setting of legal standards ie, environmental protection, labour practices, human rights, discrimination etc. Government may also intervene through tax incentives and subsidies under the business case for CSR.

These two prevailing perspectives of CSR prompt the development of two contrasting models of CSR. **Figure 3** provides a schematic overview of the two models.

¹⁰³ Grayson D (1996), *The Community as a Stakeholder*, Corporate Governance and Competitiveness, Westall A (ed), Institute for Public Research, London.

Figure 3: Two contrasting models of CSR



5 THE REGULATED INDUSTRIES

Introduction

This chapter comprises the empirical part of this research report. It discusses the current status of CSR in the regulated industries as it is currently understood and practised by the industry players themselves.

Corporate social responsibility issues have increasingly become an important element of strategic decision-making in the industrial sector. In recent years, the importance of CSR for the UK regulated industries, namely, the water, energy, transport and communications sectors, has been recognised due to the ‘unique’ position these sectors hold in relation to customers and society. That is, the water companies are licensed to supply customers with clean water, the energy and transport companies are expected to prioritise, over and above business imperatives, the health and safety of customers, and the integrity and privacy of a telephone call is a prerequisite of a ‘license to operate’ for a telephone company.

Slowly, but gradually, actors of the regulated industries begin to associate their long-term prosperity with the possession of a ‘moral licence’, granted to them by customers and government, in recognition and as a reward of their involvement and contribution to community’s welfare.¹⁰⁴

At the UK level, the regulated industries appear to make progress towards addressing corporate social responsibility issues in their boardrooms. Business in the Environment (BiE), a business led organisation for business environmental responsibility in the UK and abroad, conducts an annual survey of FTSE listed companies to identify the best performers on environmental issues. In last year’s annual survey approximately one third of the companies in the top twenty were the listed parents of regulated industries (Carey, 2002). Companies such as BT, Railtrack, Seven Trent, Powergen and Thames Water are cited often as examples of companies who have improved social, environmental performance and communication with stakeholders.¹⁰⁵

It is the objective of this chapter to discuss the current status of corporate socially responsible practices in the context of the UK regulated industries. To do so, this chapter draws information from the annual and company reports that companies publish in relation to CSR. Empirical information will be used to demonstrate whether the information reported by companies corresponds to CSR practice, as defined in the early chapters of this report. CSR practice will be distinguished from merely compliance with law. Chapter 6 will state the implications arising out of current CSR practices in the regulated industries for government, and government policy, in general.

Hence, this chapter is structured as follows:

¹⁰⁴ Carey A (2002), CSR and Corporate Governance, Regulated Industries - The governance contract, CRI Proceedings 30, University of Bath.

¹⁰⁵ The Business in the Environment (BiE) website (2002), <http://www.business-in-environment.org.uk/casestudies.html>.

- a description of the current legal framework for the regulated industries, which is important to clarify the political context that is likely to influence/determine the level of CSR activity of the sector;
- later, the discussion moves to a description of activities that government departments and regulators currently undertake to promote CSR across the sector;
- the final section is devoted to an empirical analysis and discussion of CSR activities at company level in the utilities and network industries.

The legal framework for UK regulated industries

In the context of this paper, it is very important to identify the existing regulatory framework for the regulated industries, for three main reasons:

- to facilitate an understanding of the current role and level of government involvement/intervention in the sector's socially responsible affairs;
- to facilitate a critique of opportunities created and outputs delivered by industry under the existing legal framework;
- finally, to reflect on this framework and discuss the scope for government involvement in the CSR practices of the regulated industries.

The present institutional and regulatory framework of the regulated industries has its origins in the early eighties, when most British national industries were privatised.¹⁰⁶ The objective of privatisation was to protect consumers from abuse of monopoly power of natural monopolies like gas, electricity, telephony, water supply etc. Over the years, market competition has been increased gradually through regulatory intervention. Competition led to improvements in the economic efficiency of the regulated companies, reductions in price and increased consumer choice, particularly in terms of new available products and services.

During the past twenty years, the regulatory framework of the regulated industries has been tested and developed around four main pillars:

- the government;
- an independent 'economic' regulator;
- the regulated companies;
- customers.

During these years of privatisation, the role and responsibilities of these bodies have remained the same, but they have also developed. For instance, the principal role of the 'economic' regulator is to protect the interests of consumers by improving the economic efficiency of the sector through the means of incentive regulation. In the telecommunications sector, the office of telecommunications, Oftel, currently reviews market segments to 'lift' regulation where competition has been effectively developed. In the rail industry, the Strategic Rail Authority (SRA) and the Office of the Rail Regulator (ORR) have signed a memorandum of understanding (MoU) which claims a collaboration of the two bodies in policy development for industry and its passengers. A similar MoU was signed by the postal services regulator, Postcomm and the postal services consumer council, Postwatch, with the aim to enhance representation of consumer interests in the postal services sector.

¹⁰⁶ Bichta C (2002), Regulation of UK Postal Services, Industry Brief, CRI, University of Bath.

One, therefore, could argue that the ‘role’ of the principal actors of the regulated industries has been crystallised during the years of privatisation whereas, their ‘responsibilities’ have been evolved and could evolve further depending on market and political forces.

Vass (2002) has articulated the main elements of the regulatory framework currently applied to the regulated industries into a generic framework (of regulation), enforced across the sector.¹⁰⁷ The main elements of this regulatory framework are defined as follows:

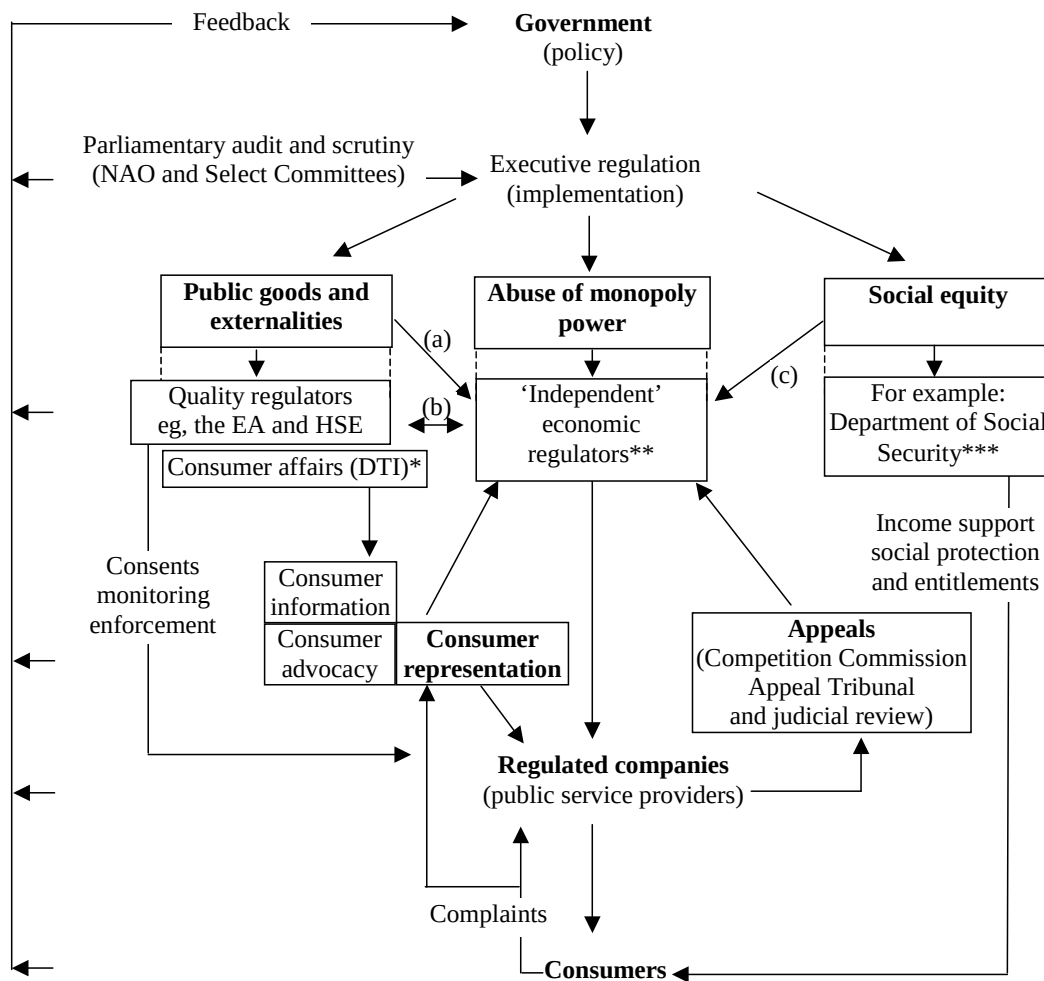
- “the **government** which is responsible for regulatory policy and setting the output requirements (in general or specific terms as required). The government must ensure that the regulatory framework as a whole is consistent and effective, that is, each regulatory element properly plays its part in the context of the whole. The government’s regulatory framework will have to have regard to the ‘institutional endowment’ and constitutional context of the country.
- the **regulators** who are responsible for the executive implementation of that policy, with the appropriate degree of ‘independence’ and discretion;
- the ‘**regulated**’ **companies** which focus on customers, but with the protection of an appeal process to the Competition Commission, or the courts (judicial review), where regulators’ actions are considered unreasonable or arbitrary.¹⁰⁸
- the **customers** who look to the companies to provide good service and to address, where necessary, complaints. However, customers are protected by consumer committees which can represent them, and have powers to take up unresolved complaints on their behalf (or to remit them to regulators for enforcement).
- finally, **feedback** is an important element in the evolution of an effective regulatory system” (Vass, 2002).

All elements that comprise the existing regulatory framework of the UK regulated utilities are represented in a ‘two-way, tri-partite model’, as shown in **Figure 4** (Vass, 2002).

¹⁰⁷ Vass P (2002), The Principles of Better Regulation – Separating Roles and Responsibilities, Regulated Industries – The Governance Contract, Proceeding 30, CRI, University of Bath, pp21-42.

¹⁰⁸ The suitability and effectiveness of the appeal remedies currently available are much debated, it being suggested that there is insufficient protection against arbitrary regulatory decisions. In any event, rights of appeal may in due course be affected by the recent incorporation of the Convention on Human Rights, and the government has decided to set up a competition appeal tribunal (CAT) which is to be separate from the Competition Commission, proposals which are incorporated in the Enterprise Bill 2002.

Figure 4: The regulatory framework



The next section discusses specific activities that government, its departments and the economic regulators are currently undertaking to foster CSR practices across the regulated companies.

CSR activities in UK regulated industries

The government and its departments

As discussed earlier in Chapter 4, the Labour government sees a role for itself in promoting social responsibility across the corporate sector. This role is a ‘facilitative’ one and comprises:

- to raise awareness of the business case for CSR;
- to lend government support to business own initiated activities;
- to promote consensus of common codes of practice at the international level;
- to support the development of a common framework for reporting and labelling.

To execute this role, the government has developed a CSR strategy, which was announced in the CSR annual report (2002) and which sets out to encourage both private and public sector institutions to account for their economic, social and environmental footprint on the planet, and hence operate in a manner that considers any adverse industrial impact on the social and natural environment.

In the following paragraphs, the particular initiatives and activities that government and its departments are committed to, in order to foster CSR in the UK regulated industries, are considered. The reader could use the CRI's research report - Regulatory Framework – Institutional Responsibilities and Relationships – to study the institutional structure and decision-making of government departments for the UK regulated industries.¹⁰⁹

The importance that the UK government attaches to CSR is evident in its decision to mainstream CSR across government departments. In this vein, since its formation in 2001, the Department for Environment, Food and Rural Affairs (Defra) has been assigned the responsibility for protecting the environment, Britain's countryside and wildlife, supporting the development of rural areas and delivering sustainable development. With the aim of increasing the environmental responsibility of the corporate sector, Defra produced environmental reporting rules, setting out environmental performance indicators of waste, water and air emissions for the industrial sector to report against.

The government sponsors and monitors programmes which promise to deliver a sustainability management system (project SIGMA) and assist with the implementation of environmental management systems (EMS) on small medium enterprises (SMEs) (project ACORN). Another government programme, the so-called 'Make a Corporate Commitment (MACC2)' has brought together participants from both private and public sector bodies. The participants are expected to improve environmental performance against the government set targets, but in addition, to improve performance against other areas which may include use of raw materials, biodiversity, green travel planning, and further reduction of air emissions. Amongst the signatories to the programme are companies from the regulated industries such as BAA, British Gas, BT and Seven Trent.

Defra and the DTI have lent their support to business initiatives to develop sector specific guidelines for achieving sustainability and improving sectoral performance proactively. Water UK, the industry association for UK water and wastewater service suppliers, has published a set of indicators which cover water services, environmental management, biodiversity, and the use of energy.^{110 111} The water companies use these indicators as a benchmark for reducing emissions and contributing to sustainable development.

The Home Office has launched the Active Community Unit (ACU) with the aim of encouraging individuals from the corporate community to contribute personal time and skills to the communities in which they live. The 'community tax credit' and the 'community development venture fund' are government incentives for encouraging corporate donation in the community. The former aims to attract private investment through Community

¹⁰⁹ Lawrence G, Simmonds G, Vass P (2002), The Regulatory Framework – Institutional responsibilities and relationships, Research Report 13, CRI, University of Bath.

¹¹⁰ Water UK (2000), Towards Environmental Sustainability, May; Water UK (2001), Towards Sustainability – A step forward, June; Water UK (2002), Towards Sustainability – A step forward, March. All three reports can be downloaded from <http://www.water.org.uk>.

¹¹¹ The Society of Motor Manufacturers, the British Retail Consortium and the UK Offshore Operators Association have also published sector specific guidelines with regard to sustainable development.

Development Finance Institutions (CDFIs) in both not-for-profit and profit-seeking enterprises in under-invested communities. Qualifying investments attract tax credits worth 25%, spread over a period of five years.¹¹² The latter is a funding partnership between government and the venture industry to provide venture capital finance to firms operating in disadvantaged areas (DTI, 2002). The Giving List for companies listed in FTSE 100 recently rated companies from the regulated industries amongst the top 35 givers of 1% of pre-tax profits to charities, voluntary organisations and community projects.^{113 114}

To summarise, the UK government has taken a favourable role of CSR across the industrial sector and the regulated industries. At the moment, this role strives to encourage CSR behaviour through the development of a supportive legal framework and the use of fiscal instruments - provision of economic/tax incentives.

How the ‘independent’ economic regulators in the regulated industries add their support to this government approach, is examined in turn.

The ‘economic’ regulators

The role of the economic regulator in the regulated industries is to act ‘independently’ from government in that the regulator is required to:

“monitor and enforce the required outputs, and provide incentive models (whether by competition or price control) to promote efficient and innovative delivery of the outputs (with suitable rights of appeal by the companies to the Competition Commission)”. (Vass, 2002, p38)

Economic regulators, however, are required to have regard to social and environmental guidance issued by government and government departments. Consequently, regulators are placed under the duty to promote social and environmental policy objectives in the sectors they regulate through regulatory and/ or non-regulatory tools, which may include:

- enforcement of conditions into the licence of operators;
- the application of sector specific codes of conduct;
- the setting of quality performance standards etc.

With the exception of the water regulator, all other regulators are required to play a role in assisting company activity on social and environmental issues. The Water Bill that is currently going through parliament, includes a clause that will also allow the secretary of state to issue social and environmental guidance. The progress achieved to date across the offices of the economic regulators is the topic of discussion in the following paragraphs.

The UK gas and electricity markets are regulated by the gas and electricity markets authority and the office of gas and electricity markets (Ofgem). The authority is responsible for the statutory duties and for developing strategy and policy. Ofgem is responsible for day-to-day operations and implementing policy.¹¹⁵ The Utilities Act 2000 which amended the

¹¹² An investor putting in £100K will be able to reduce his or her tax bill from other activities by £5k per year for five years (DTI, 2002).

¹¹³ The Giving List is published jointly by The Guardian and the Business in the Community PerCent Club.

¹¹⁴ The Guardian, FTSE-100 givers, The Giving List, 25 November 2002.

¹¹⁵ Simmonds G (2002), Regulation of the UK Electricity Industry, CRI, University of Bath

Electricity Act 1989 requires Ofgem to have ‘particular regard to the interest of individuals who are disabled or chronically sick, of pensionable age, with low incomes, and those living in rural areas’, and a responsibility to provide guidance on the social and environmental objectives of the sector (Simmonds, 2002). Ofgem is expected to publish annually an environmental and social action plan, demonstrating how the regulator has helped the facilitation of the social and environmental objectives issued by government for the gas and electricity markets. To assist government in achieving its environmental objectives set for the energy market, Ofgem is required to develop the environmental action plan around the following areas:

- energy efficiency;
- energy efficiency commitment;
- energy services;
- renewables;
- embedded generation (Simmonds, 2002).

In the first environmental action plan, Ofgem published the results achieved in relation to its environmental responsibilities. These included:

- completion of accreditation of generators and certification of renewable energy as exempt from the climate change levy;
- guidelines for ‘green supply’ offerings;
- publication of a review of the effects of the new electricity trading arrangements (NETA) on small generators;
- proposals for action by distributors on interim measures for connecting charges for distributed generation;
- proposals for the reform of electricity transmission access and losses in England and Wales, to move towards locational pricing signals;
- inclusion of environmental performance in the output measures forming part of the price control for gas transmission and distribution; accreditation of Ofgem’s office under the ISO 14001.¹¹⁶

Ofgem is also required to make a contribution to government’s social policy objectives, which, in relation to the energy sector, are laid down in the government’s fuel poverty strategy. Ofgem has published three social actions plans containing the activities undertaken to facilitate the government objectives. So far, these actions involve:

- revised guidance notes to improve the delivery of suppliers’ social obligations, resulting in new codes of practices;
- steps to reduce prices through the NETA and price controls;
- operation of the third energy efficiency standards of performance (EESoP) scheme, in which sixty five per cent of the funding is directed to disadvantaged customers;
- the establishment of an industry working group to develop a process to enable prepayment meter customers with debts to transfer supplier;
- the establishment of a working group to review the operation of ‘fuel direct’ for customers in receipt of means-tested benefits, and to recommend improvements to the scheme; encouraging suppliers to develop a range of innovative new schemes to help the fuel poor (Simmonds, 2002, pp124-125).

¹¹⁶ For more information see Ofgem (2002), Environmental Action Plan – Annual review 2001-02, June.

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The regulator of gas and electricity markets is also required to set guaranteed standards of performance for electricity suppliers under the Electricity Act 1989 (as amended by the Utilities Act 2002). The Electricity Regulations 2000 prescribe the penalties to be paid by companies to consumers for failure to meet the specified performance standards (Simmonds, 2002). Since October 2000, Ofgem has embarked in a review of the performance standards applying to the previous public electricity suppliers (PESs) for distribution, supply and metering and the revised performance standards are enforced through conditions in the licence of electricity market operators.

In the water sector, the Office of Water Services (Ofwat) serves as the economic regulator. The primary duties of the director general of Ofwat are to act in a way that the director judges will enable efficient companies to finance and carry out their functions. Decision and policy making in relation to environmental issues is the responsibility of Defra with the active role of the Environment Agency in licensing the abstraction of water from the environment and awarding consents for discharges of treated wastewater into the environment (Bailey, 2002). It is expected however that the water bill will alter the duties of the regulator by:

- aligning the objective to protect the interests of consumers, through the promotion of competition with the two existing primary duties of the regulator;¹¹⁷
- introducing a duty to contribute to the achievement of sustainable development.¹¹⁸

However, the economic regulators of the telecommunications and postal services sectors are already required to have regard to social and environmental policy issues of the markets which they regulate. As stated earlier, the water bill includes a clause that allows the secretary of state to issue social and environmental guidance which the regulator should have regard to.

Under the Telecommunications Act 1984, Oftel, is responsible for promoting the interests of consumers with regard to price, quality and variety of services. Under the 1992 Competition and Services (Utilities) Act, the director general of Oftel is also required to set standards of service to be achieved in individual cases and to determine compensation where those standards had not been met and set standards of overall performance. In telecommunications, quality of service has been concerned with tariffs and charges, the size of domestic bill, fault repairs and compensation schemes. Some of the activities the regulator has undertaken to promote quality of service involve:

- the independent collection of information and publication of quality of service indicators;
- the launch of Oftel's consumer department to investigate and offer advice on consumer complaints;
- the launch of Oftel's price assurance standard (PASS) accredited to websites which provide accurate and up-to-date price information for consumers;¹¹⁹
- the launch of a website for comparable performance indicators.

With the launch of the Office of Communications (Ofcom), the regulator is also placed under the duty to protect consumers and take action against industry if the latter fails to develop an efficient consumer protection regime.

¹¹⁷ Bailey P (2002), Regulation of UK Water Industry, CRI, University of Bath.

¹¹⁸ The bill also introduces additional duties for the regulator to have regard to the interests of certain groups.

¹¹⁹ Oftel (2002), The Oftel Price Assurance Standards – The new accreditation scheme giving consumers confidence in websites providing price comparison of telecoms services.

In telecommunications, social policy objectives have also been pursued through the use of regulation ie, allowing for number portability.¹²⁰ Health, safety and environmental issues fall under the responsibility of the Department for Transport and the Health and Safety Executive (HSE).

The postal services regulator, Postcomm, is expected to have regard to social and environmental guidance issued by the secretary of state for trade and industry. To date, Postcomm, has practised this role by enforcing conditions into Consignia's licence, requiring the company to devise special arrangements for vulnerable groups and provide free services for the blind and partially sighted. The regulator ensures through Consignia's licence, that the company will not show undue preference to, or unduly discriminate against, any one person or class of persons and will deal fairly with its suppliers and customers. Postcomm is expected to play a future role in determining environmental issues in the postal services sector, which at the moment, are principally determined by the government's transport policy (Department for Transport) and environmental regulation (Defra).

In the rail sector, the scene is quite different given that the responsibilities of the economic regulator are focusing mainly on monopoly issues and on setting the contractual and financial framework of the industry. The rail regulator can issue guidance to Railtrack plc relating to environmental matters. Railtrack is required to produce a policy for minimising environmental impact. Consumer interests and health and safety issues are the responsibility of the Strategic Rail Authority (SRA) and HSE. The SRA oversees the environmental impact of activities connected with the provision of railway services.¹²¹ Consumer interests relating to ticketing, passenger security, penalty fares and the interests of the disabled are also the responsibility of SRA.

The HSE looks after passenger safety. Railtrack is also responsible for overseeing safety of the track on a day-to-day basis through the independent railways safety activities (ISRA) body. Soon however, the industry is to have a new rail industry safety body, which will take over the ISRA's responsibilities and will be involved in developing railways safety standards.¹²² The HSE will retain its ability to prosecute but a rail accidents investigation branch will be set up to conduct inquiries of any serious crashes.

The regulated companies

The discussion now turns to the regulated companies. The objective is to unravel the current status of social responsibility, as is understood and practised by the companies themselves. The following sections provide a description of the sector in general and the companies used as the research sample.

¹²⁰ BT and Kingston Communications are bounded by their licences to provide a telephone line on reasonable request; to make available special tariff packages to assist those people with special needs, particularly those on low incomes; and to establish disconnection procedures which provide people with adequate opportunities to pay bills. As a result, BT has introduced different user schemes for residential and business customers in order to ensure that low-income families could have access to telephone (Bichta, 2001).

¹²¹ Bichta C, Lawrence G (2002), *The Rail Industry in Great Britain – Institutional, financial and regulatory structures*, 2nd edition, CRI, School of Management University of Bath.

¹²² ORR (2002), *Consultation on establishment of a new rail industry safety body*, Press release; ORR (2002), *Establishment of a Rail Industry Safety Body – Provisional conclusions*, October.

Description of the sector

The term ‘regulated industries’ is used to describe mainly companies from the utilities, transport and network sectors. In other words, the term encompasses water, gas, electricity, train, bus, airports, telephone and postal services companies.

The regulated industries in the UK have undergone vast changes from the post-war period to date. During the post-war period, the prevailing view was that the market failures in the utility industries were great enough to justify state ownership, vertical integration, and monopoly. State ownership ‘resolved’ the conflict of interests between the private and public good. Vertical integration ensured that customers bore the risk of upstream sunk investments, and, monopoly prevented the destructive competition, which had pervaded the industries in the 1920s and 1930s.¹²³

However, state ownership was abandoned in the 1980s because of monetary, budgetary and ideological reasons. Companies with a value of £100bn were transferred to the private sector. With privatisation under way, the merits of vertical integration and monopoly were increasingly questioned and the possibility of introducing competition was actively considered.

In this environment, Mercury was created as a competitor to British Telecom (BT) in the early 1980s. For certain companies in the state sector, the 1980 Competition Act abandoned the statutory monopoly, the 1982 Oil and Gas (Enterprise) Act limited British Gas’s vertical integration into the North Sea, and the 1983 Energy Act provided for private purchase tariffs and network access in the electricity industry (Helm, Jenkinson, 1997).

These early tentative steps led eventually to the idea of retail customer choice for all gas and electricity customers, the arrival of cable to rival BT, and plans to introduce competition into the supply of water. The electricity and (eventually) the gas industries were broken up, and the railways were split along vertical and horizontal lines.

Gradually, the concept of supply competition caught up on both continents - Europe and the USA. In line with the 1987 Single European Act 1987 and the aim to create a Single European Market, the European Commission passed on a number of directives in telecoms, energy, and postal services resulting to the creation of a European utility policy as a process of gradually prising open the utility markets (Helm, Jenkinson, 1997).¹²⁴

All these events have helped shape the regulated industries in its present form. Currently, the UK regulated industries play a vital role to the national and local economy, to investment community and the consumers, for four main reasons:

- they make up 10% of annual gross domestic product;
- they represent at least 12% of the market capitalisation of the UK stock market;
- they provide employment for 4% of the labour force;

123 Helm D, Jenkinson T (1997), The Assessment – Introducing competition into regulated industries, Oxford Review of Economic Policy, 13 (1),pp1-14.

¹²⁴ In the USA the 1996 Telecoms Act further liberalised the telecommunications market, while the 1992 Energy Act and the subsequent order 888 by the Federal Energy Regulatory Commission (FERC, 1996) provided for the transition to a more competitive electricity supply market, at least at the wholesale level. Other countries also followed the trend of introducing competition, ie, New Zealand, Chile, and Australia (Helm, Jenkinson, 1997).

- they provide essential services to every member of the UK population and to the European Community in one form or another.¹²⁵

The present structure of the regulated industries is very different to that when their constituent companies were privatised in the 1980s and 1990s. This is due to mergers and takeovers that took place at privatisation. As Carey (2002) explains, the current structure of regulated industries is complex since companies are part of multi-utilities ie, Scottish Power and United Utilities, foreign companies have acquired domestic companies and others represent a small part of the total business of their ultimate parent company.

Description of the research sample

The discussion now turns to the companies which were selected to represent the sample in this report. **Table 3** lists the (companies) research sample with their parent companies.

The selection of the sample was largely based on company market share; therefore, companies with the highest market share were selected to represent the research sample. The decision was based on the grounds that the investigation of CSR practices across the whole sector would require the use of a survey, which was outside the scope of the present report.

Table 3: The research sample

Sector	Company	Parent Company
WATER	Anglian Water Services Ltd	AWG
	Dwr Cymru Cyfyngedig (Welsh Water)	Glas Cymru
	Northumbrian Water Ltd	Suez Group
	Severn Trent Water Ltd	Severn Trent
	Southern Water Services Ltd	First Aqua Holdings (with a bid from Vivendi being considered by the Competition Commission)
	South West Water Ltd	Pennon Group
	Thames Water Utilities Ltd	RWE
	United Utilities Water plc	United Utilities
	Wessex Water Services Ltd	YTL Power International
	Yorkshire Water Services Ltd	Kelda Group
ENERGY	British Energy Generation	British Energy
	LE Group	Innogy Holdings Electricité de France
RAIL	Railtrack plc	Network Rail Group
TELECOMS	BT	BT Group
	Vodafone	Vodafone Group
POSTAL SERVICES		Royal Mail Group

¹²⁵ Carey A (2002), Regulated Industries – The ‘Governance Contract’, CRI Conference.

The following paragraphs present the current status of CSR in the research sample of UK regulated industries. The information provided is derived from company reports and published documents accounting for the company's social and environmental responsibility and performance.

The water companies

Ten regional companies supply both water and sewerage services in England and Wales. The water and sewerage companies (WaSCs) are the successors to the publicly owned regional water authorities established under the 1973 Water Act.

The 1989 Water Act privatised the ten water authorities, created ten water and sewerage plcs and, conferred on the secretary of state the power to appoint companies to be the water and sewerage undertaker for England and Wales (Bailey, 2002). A wholly owned subsidiary company of each plc was appointed as the water and sewerage undertaker for a distinct geographical area. These subsidiaries are known as the water and sewerage companies and have been chosen for the research sample in this report.

CSR policy

The term CSR, as defined in Chapter 2, is just picking up in the water industry. The majority of regulated water and sewerage companies examined in this report do not have a defined CSR policy or strategy. CSR appears to be part of existing operations systems, ie, investing in processes that improve environmental impact, maintaining relationships with customers and suppliers, local community and improving employee performance.

At the moment, only three out of the ten regulated water and sewerage companies have developed CSR policies and, consequently, have defined business actions and targets to report performance against. The scene, however, is different amongst the other companies who appear to 'lag' behind the leaders. Within the context of CSR, the companies' priority to date is to improve and report environment performance. This is justifiable given the arousing concerns over the quality of drinking and bathing water at the UK and the EU levels since the early 1990s and the recent regulatory developments in the UK to tackle green house emissions ie, the climate levy.

Whilst, clearly, the weight lies on improving and reporting environmental performance, the water companies show signs of being challenged with sustainability, stakeholder perception of the firm and concerns of integrating economic, social and environmental policy and performance. As a typical example, the majority of water sewerage companies publish environmental reports but they also begin to incorporate material that directly relates to social performance and refers to company relationships with groups the company identifies as stakeholders.

The role and meaning of CSR

For the three water sewerage companies which have set out a CSR policy, this is developed around corporate principles and objectives. The CSR policy describes how the firm will operate in relation to different groups of stakeholders and the priority likely to be given to each group in decision-making. Generally speaking, community and the natural environment

are highly prioritised in CSR policy and are usually followed by customers, employees, suppliers, added value for shareholders, the regional economy and community.

The CSR policy strives to deliver objectives, which vary depending on the firm and the priorities the firm has set in decision-making such as:

- to establish and preserve reputation;
- to generate shareholder value and wider benefits for social groups;
- to protect and enhance the well-being of the physical environment in which the firm operates.

Depending on the objectives, consequent actions and targets are identified such as investing in environmental control, enhancing company procedures on reporting and transparency and investing in community relations through employee involvement, donations in kind etc.

Thus, according to **Table 4** a typical CSR strategy appears to consist of three main elements:

Table 4: CSR strategy - elements

Policy	Objectives	Targets
Statement	⇒ Reputation	⇒ Support of community programmes
	⇒ Shareholder value	⇒ Investing in renewable energy
	⇒ Interest to protect and enhance the well being of social and natural environment	⇒ Investment in new sewerage systems
		Flexible working hours

As for the remaining water and sewerage companies, those who have yet to develop a CSR policy and strategy, CSR is approached within the following lines. Information derived from companies' reports suggests that companies are very much concerned with reporting on environmental protection and performance. Seven out of ten water and sewerage companies publish environmental reports, some with exclusive reference to sustainability. Protection of the natural environment and reporting environmental performance is an important aspect of CSR but it clearly constitutes representation of one stakeholder group in corporate decision-making (cf. Chapter 2). Generally speaking, water and sewerage companies tend to refer to relationships with customers, employees, suppliers and local community either in their annual reports or by incorporating sections in their environmental reports.

CSR activities of the water and sewerage companies

In this section the activities that the water and sewerage companies undertake in the context of CSR are discussed. The discussion focuses on six areas of company activity, notably reporting, type of report, reporting principles, internal groups, adoption of accredited management systems, independent verification and voluntary participation in CSR indexes. With regard to reporting, all the water and sewerage companies publish reports relevant to a

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CSR subject.¹²⁶ All ten companies report environmental performance, and, as mentioned above, four companies have moved towards reporting on corporate social responsibility and publish in this context ‘a social and environmental performance report’.

The ‘bulk’ of all reports is devoted to reporting targets and emissions relating to issues with an environmental impact. Environmental targets relate mainly to water abstraction, water quality, wastewater and sewerage treatment. CO2 emissions produced from transportation and sewage treatment, energy efficiency, use of renewable energy are equally important themes extensively covered throughout companies’ reports. To the same end, companies report on sludge treatment and management and biodiversity plans.

The next, frequently cited, information refers to customer service standards and quality of service. The majority of the ten water and sewerage companies discuss any progress and results achieved in comparison to customer service standards set by Ofwat. Employees are a critical asset to business success and this is recognised by all the water and sewerage companies used as research sample. To this end, companies have invested in schemes like ‘investors in people’, ‘equal opportunities’, ‘whistleblowing’ and with greater emphasis being given to health and safety management systems.

Company reporting also covers relations with supply chain and subcontractors, as found amongst the companies ‘leaders’ of the water sector. Generally speaking, companies report specific activities they undertake to educate suppliers and contractors in order to improve their environmental performance and therefore assist company’s efforts in support of sustainability. All companies report activities corresponding to community involvement. These activities vary from financial support, donations in kind, partnerships with community, and support of government programmes for the community’s benefit ie, waste landfill tax credit scheme.

With regard to the reports published, three out of ten companies publish reports on sustainability, two out of ten publish reports on environment, quality and conservation, four out of ten publish reports on environment and society, and one company reports CSR in its annual report and accounts. The variety of reports used to report and communicate CSR information suggests that the water sector has yet to develop a clear view and ‘vision’ of sectoral reporting on social and environmental performance, which will allow for better comparisons of performance across water and sewerage companies.

As for the reporting principles and guidelines that the companies use to report performance, these are mainly in line with government’s published guidelines for emissions and waste, followed by sectoral specific guidelines published by trade associations, international reporting guidelines and corporate guidelines. Specifically, seven out of ten companies use Defra’s guidelines for greenhouse emissions. Out of these companies, three also use corporate guidelines and trade association guidelines (ie, Water UK sustainability indicators,

¹²⁶ AWG (2002), The Right Structure for Sustainable Growth, Sustainable Report; Welsh Water (2002), Annual Report of the Quality and Environment Committee; Northumbrian Water (2001), Environment and Society Report; Severn Trent (2002), The Environment is our Business – Environment and CSR report; Severn Trent Water (2002), Care 2002 – Conservation Access Recreation and Education Report; Southern Water (2001/02), Sustainability Report; Pannon Group (2002), Enhancing the Environment – Environmental and Social Report; Thames Water (2001), Environment and Conservation Review – Care, respect and performance; RWE (2001), Environmental Report; United Utilities (2002), Social and Environmental Performance Report – Reliable, Resourceful and Responsible; Wessex Water (2002), Striking the Balance; Kelda Group (2002), Annual Reports and Accounts.

Association of British Insurers, Electricity Association Environmental indicators, BiTC reporting structure) in combination with the UK government reporting guidelines, and two companies use international reporting guidelines (ie, Global reporting initiative) in conjunction with the UK government reporting guidelines. The need to comply with existing legal standards appears to drive reporting amongst the water and sewerage companies at the moment. It may be that reporting is still voluntary, but for the water and sewerage companies reporting means to adhere to compliance with legal standards, thus attention is given to report in line with the UK government reporting principles and guidelines.

In the water and sewerage companies, the boards of directors have responsibility for strategic direction and prioritisation of any CSR related issues. The water and sewerage companies, however, have also set up 'CSR' committees with the responsibility to review and approve implementation and performance of systems and targets agreed at the corporate level. Specifically, eight out of ten companies have set up internal groups or committees with responsibility to overlook the implementation of environmental programmes, environmental management systems, health and safety systems and sustainability issues. The name of these groups varies from company to company. Some of these, for example, are 'ethics and environment committee', 'health and safety committee', 'environment committee', 'sustainable development panel', 'corporate social responsibility steering group', 'advisory panel on environment and sustainability'.

The use of environmental management system and particularly ISO 14001, is quite wide spread across the water and sewerage companies. Half of the companies have already in place the ISO 14001, whereas one company is working towards implementing the system. Independent verification of environmental reports is also developing fast amongst the water and sewerage companies. Six out of ten companies have called upon independent verifiers to test the accuracy of published information to stakeholders and suggest possible areas for corporate improvement.

Finally, two water and sewerage companies are included in the FTSE4Good, the newly index designed by FTSE to ease investment in companies with good records on CSR. Two companies are listed on the Dow Jones Sustainability Indexes which provides a benchmark for investment based on the concept of corporate sustainability.

CSR or legal compliance?

The above analysis of corporate socially responsible behaviour in the water and sewerage companies prompts the question as to whether the companies' current attitude and behaviour corresponds to socially responsible behaviour or just simply corresponds to compliance with existing legal requirements. It is argued that both determinants of corporate behaviour were found in the research sample. It is, therefore, claimed that the current attitude of water and sewerage companies corresponds to socially responsible behaviour, as currently defined (Chapter 2), but it is also largely determined by existing legal requirements. In addition, the drive for continuous improvement also appears to inspire and guide the current behaviour and practices of the research sample.

Activities that correspond to socially responsible behaviour were found, in the light of company relationship with the local community and others, that could make a difference of a company's impact on the natural environment, notably, support of biodiversity programmes.

CORPORATE SOCIAL RESPONSIBILITY

The long established tradition amongst UK firms to support community and be involved in community affairs (Chapter 4) was found in the companies selected. The water and sewerage companies are active community members and contribute to its well being with charitable donations, donations in kind and employee time spent in community work. For a few of them, community work extends beyond national borders as companies co-operate with European governments in programmes that will either increase environmental awareness of youngsters in deprived areas or will help them with their education.¹²⁷ Support of biodiversity projects also adds to the community's well being and companies work together with wildlife organisations in programmes which protect and enhance a region's biodiversity. These activities however, are also in line with the UK local Biodiversity Action Plans. Ultimately, CSR activities will improve shareholder value and secure company brand and image. The impetus, however, of existing and forthcoming legislation on companies' policy and performance is predominant. Employee issues, customer relations and most importantly, issues of environmental significance are highly, if not exclusively, determined by legal requirements (existing and forthcoming).

Companies operate health and safety policies whose effectiveness is measured against the Health and Safety Executive's (HSE) targets and the Institution of Occupational Health and Safety codes, namely, the UK HSE's Climate survey tool, HSE Commission Code of Practice, The Asbestos at Work Regulations and Code etc. Like customer standards, the impact of legislation is predominant in reporting health and safety performance. This is not surprising, as changes in water regulations have made health and safety training compulsory for many employees at all levels on the water supply of the business. One of the three companies with a CSR strategy admits the strong impetus of the latest Health and Safety Executive strategies on the company's continual improvement and awareness of such matters.¹²⁸ Overall, despite existing health and safety policies, the water and sewerage companies could improve further their records for eliminating the number of deaths at work and lost working hours due to work injuries.

Companies report customer service in line with customer services standards set by the industry regulator. The majority of the sample of companies examined restricts themselves in measuring and reporting customer service performance almost exclusively in relation to the regulator's standards.

Compliance with law is predominant when it comes to environmental issues. At present, water companies undertake a significant number of investment infrastructure programmes for contamination, drainage, sludge, waste and land management, and this is also justifiable in the light of existing revised and forthcoming legislation from the UK and the EU governments including the water framework directive and the bathing water and sludge

¹²⁷ As an example a company works with the German labour office and offers nine months training to adults with little education. Another company funds an environmental project in Hungary that promises to increase environmental awareness of local children.

¹²⁸ These strategies include the 'revitalising health and safety' and 'securing health together'.

directive (both currently under revision).¹²⁹ The UK government climate change levy (a levy on all sources of energy used for non domestic purposes) has also played a catalytic role in driving companies to invest in renewable energy, notably, use of natural gas, biogas (energy from sewerage gas produced from combined heat and power (CHP)) and wind power.¹³⁰ The water and sewerage companies examined are reviewing their energy strategies and looking at renewable energy production strategies (in response to government targets to reduce CO2 emissions by 20% by 2010).¹³¹ Thus, a strong degree of regulation and avoidance of penalties and prosecutions guides the attitude of the research sample with regard to the environment.

Whilst legislation drives the companies' environmental policy and performance, company investment in new processes maximises economic efficiency and assists continuous improvement, as found in many of the companies. In this vein, companies' invest in new sewerage systems that break down pollutants in sewage before the water is released into rivers. Companies invest in enhancing waste treatment processes. They also invest in sludge management methods as sludge can be used on land for non-food purposes and 'industrial crops' can be refined for producing energy. All the above activities comply with the UK government strategy for sustainable development but they also assist with the company's continuous improvement process, whilst maximising efficiency of processes.

The electricity companies

Four types of activities characterise the electricity industry:

- generation, which is concerned with the production of electricity in power stations;
- transmission, which is the transfer of electricity from individual generation stations to distribution system entry points, and in certain cases, directly to the premises of end users;
- distribution, which describes the systems of low voltage networks of overhead wires, underground cables, and substations constructed to bring electricity to end users;

¹²⁹ The water framework directive is a new directive whose overriding principle is the protection of both people and the environment, encompassing drinking, bathing water, wildlife and habitats. It is expected to have a large impact on how water is managed with a number of components to be implemented between now and 2015. The European Union also considers changes to the bathing water directive, under the stricter guidelines for bathing waters issued by the World Health Organisation. Issues being considered are the use of health standards to underpin water quality standards and involve the public in developing action programmes and use the Internet for information provision. Finally, a revision of the sludge directive, which provides for quality controls on sewerage sludge that is used in agriculture, particularly to avoid the build up of heavy metals in soil, is expected in 2003. In Wessex Water (2002), *Striking the Balance*.

¹³⁰ The Climate Change Levy was introduced in April 2001. It is a tax on electricity, gas, coal and liquefied petroleum gas (LPG) used by the non-domestic sector. The levy is intended to encourage business to use energy more efficiently in order to help meet the UK's targets for reducing greenhouse gas emissions. The levy includes an exemption for most of renewable energy and for fuel used by good quality combined heat and power systems, to encourage these environmentally friendly energy technologies. The levy includes an 80% discount for energy intensive sectors of industry, provided they enter into agreements to meet energy efficiency targets. In HM Treasury (2002), *Tax and the Environment – Using economic instruments*, November.

¹³¹ At Kyoto, the European Union as a whole agreed to reduce greenhouse gas emission by 8%, and the UK subsequently agreed to a 12.5% as its share. The UK government has since set a separate domestic target of reducing CO2 emissions by 20% below 1990 levels by 2010. Reduction of CO2 emissions are part of the UK sustainable development strategy which sets out to achieve the following objectives: to increase investment in people and equipment for a competitive economy; to improve energy efficiency and tackle waste; to reduce the level of social inclusion; and to work with others to achieve sustainable development internationally.

- supply (or retailing) of electricity which involves the purchase of electricity in bulk from generators and its sale on to customers (Simmonds, 2002).

The companies chosen for the research sample operate in the generation, distribution and supply areas of the electricity industry. In particular, British Energy Generation, a division of British Energy plc, operates eight nuclear power stations in the UK. Since the demerger from National Power in 2000, Innogy is the UK's number one supplier of electricity (through npower its supply business subsidiary) and number two supplier of gas, by volume. LE Group (part of the Electricite de France Group) is currently the largest UK distribution network operator.

CSR policy

Do the electricity companies have a CSR policy and strategy? What is the role and meaning that the companies attach to CSR?

The companies selected have an established tradition in reporting HSE performance since the mid 1990s. It appears, however, that the development of a CSR strategy and reporting on CSR is a recent development for these companies. Two out of three companies published the first annual report on CSR in 2001, containing corporate information on social and environmental performance.

The meaning the companies attach to CSR is discussed in turn.

The role and meaning of CSR

For the generation company, primary responsibility is to keep safe the operations of nuclear reactors according the law. Consequently, this is the highest priority in conducting business responsibly over and above anything else. Having safeguarded the safety of plants, responsibility lies with overseeing the health and safety of employees and minimising environmental impact of nuclear reactors and processes. All the above company decisions are prescribed by legal requirements.

For the distribution network operator, CSR is about measuring and reporting performance that affects positively and negatively the firm's stakeholders. Through the process of measuring and reporting, the company aims to demonstrate how it manages the economic, social and environmental impact of its businesses and therefore improve performance and build relationships with the company's stakeholders.

Unlike the two other electricity companies (and like the water and sewerage companies), the electricity supplier has developed a CSR policy, which outlines the objectives and targets to be achieved that are to maximise value for the company's shareholders and stakeholders but without compromising social and environmental policy objectives.

Therefore for the electricity companies, a CSR strategy seems to consist of the elements outlined in **Table 5**.

Table 5: CSR strategy - elements

Policy	Objectives	Targets
statement or measuring and reporting procedures	⇒ deliver shareholder value ⇒ deliver profitable solution to stakeholders ⇒ operate in an environmentally and socially responsible manner ⇒ build relationships with stakeholders ⇒ minimise negative impacts, optimise positive ones	⇒ invest in renewable energy ⇒ build off shore wind farms ⇒ review existing health and safety systems ⇒ identify the causes of fuel poverty etc.

CSR activities of the electricity companies

Like the water and sewerage companies, CSR activities of the electricity companies will be discussed in the context of company reporting, type of reports, reporting principles, internal groups, adoption of accredited management systems, independent verification and voluntary participation in CSR indexes.

The generation company publishes an annual review on HSE issues.¹³² The review concentrates on the health, safety of employees and impact of company activities on the natural environment, and compares performance against achieved HSE performance in the past five years. Performance is measured against regulatory and industry association specified HSE targets. Specifically, plant and reactor safety is measured against international standards such as the international safety rating system (ISRS) and the criteria set by the world association of nuclear operators (WANO) for automatic shut down of reactors by its safety systems.

Employee safety is measured in terms of injury rate – the number of injuries leading to one or more days off work in 100,000 man hours - and exposure to radiation. A responsible stance to safety also extends to company contractors who are required to undertake, together with the company employees, training and risk assessment courses. Overall, in 2001/2002 the company improved performance against the injury and radiation dose targets which it had set itself in the previous year.

Together with the health and safety of employees, the company also reports environmental performance. Environmental reporting concentrates on the areas of energy efficiency, nuclear fuel use and waste management. Targets met are measured against legal requirements.

All sites are certified to ISO 14001 and one power station is also certified to the European Eco Management and Audit Scheme (EMAS). Company's waste management policies for radioactive and non-radioactive by-products are according to authorizations granted from the Environment Agency.

¹³² British Energy (2001/02), Safety, Health and Environment Review – Passionate about tomorrow, today.

CORPORATE SOCIAL RESPONSIBILITY

As mentioned earlier, both the distribution and the electricity supplier operators have published their first reports on social and environmental performance in 2001.¹³³ Companies' reporting principles are derived from different sources ie, the distribution network operator reports in accordance with the BiTC rules 'Corporate Impact Reporting Initiative plus', whereas the electricity supplier uses the government's sustainable development objectives as indicators and targets to report performance against.

Reporting environmental performance is highly significant in both companies. Most issues reported are on energy consumption, fuel use, carbon dioxide emissions, water use and waste management (general, special and controlled waste). Due to its commitment to sustainability, the electricity supplier has also identified indicators for emissions, biodiversity and landscape.

The importance the companies attribute to the health and safety of employees is demonstrated in the operation of occupational health and safety policies, drugs and alcohol and work life balance solution policies. One company also invites employee participation in company meetings that will affect the future of corporate HSE policies. To enhance employee performance, companies also operate investors in people schemes, codes of conduct and equal opportunities policies. Reporting on health and safety policies, however, takes place against legal requirements such as the Royal Society standards for prevention of accidents and work, and the government's strategies for occupational health and safety.

Customer satisfaction is also reported and justified as part of the companies' legal obligations. Research activities the companies undertake to eliminate fuel poverty are also aspects of socially responsible behaviour. Companies refer to projects they are engaged with in understanding the causes of fuel poverty and help vulnerable customers potentially at risk of cold. These actions however, are a way for companies to fulfil their obligations under the regulator's social action plan (see earlier).

The companies selected also endorse community involvement. The generation company publishes statements about public health and how it might be affected from radioactive discharges. Under the UK Biodiversity Action Plan, the company has developed its own land management plan to protect and enhance biodiversity. In a similar way, the other two companies encourage employee participation in community schemes, offer their financial support to charities and promote amongst pupils education of the safe use of energy and electricity.

Two out of three companies have also set up committees to review performance related to social and environmental policy issues, so called 'corporate social responsibility committee', 'health, safety and environment policy and review group', 'health, safety and environment committee', 'environmental steering group', 'human resources review group'. One company has assigned the committee with the responsibility of developing the company's CSR policy and set targets and objectives consistent with that policy.

All companies selected are certified to ISO 14001, allowing companies to achieve continuous improvement. The advantages of management systems towards continuous improvement have been realised and have led one of the companies to explore the possibility of adopting

¹³³ Innogy (2001), Environmental and Social Performance Review – Realising our vision to provide sustainable performance; LE Group (2001), As One – Environment and corporate responsibility report.

OHSAS 18001 for occupational health and safety and AA1000 to increase stakeholder engagement in company activities.

Interestingly, both companies who reported social and environmental performance sought independent verification for the accuracy of non-financial data in their first published non-financial reports. None of the companies selected participated in indexes for measuring corporate responsibility or sustainability.

CSR or legal compliance?

To what extent do all above activities correspond to the notion of corporate social responsibility? It is argued that practices amongst the electricity companies conform with existing legislation, and this extends from environmental, health and safety, customer service to community affairs issues.

Government action in pollution reduction and climate change has played a decisive impact on the policy and practices adopted by the electricity companies. All three companies undertake investment to improve energy efficiency ie, the generation company explores how to improve the efficiency of nuclear fuel use, the electricity supplier recently constructed a new combined heat and power (CHP) plant to replace the operating coal and oil fired stream boiler plant, in the knowledge of energy efficiency and environmental benefits accruing from the new plant.

In line with government strategy for the reduction of CO₂ emissions and increase of renewable energy, two of the electricity companies have already moved into renewable generation through the development of offshore wind farms and wind power stations.¹³⁴ To comply with government targets for sulphur dioxide emissions (SO₂) and oxides of nitrogen (NO_x) the companies either invest in clean coal technologies or strive to optimise generation of electricity from the existing plants. Generally speaking, companies aim to meet the authorised limits for emissions whilst optimising the generation of electricity which they supply. Reporting on greenhouse emissions is in line with Defra's guidelines and none of the companies selected had reduced emissions beyond the legal limit. It seems that because of the type of business the electricity companies operate and with a portfolio of coal, gas fired, oil, CHP and wind power generation, they find it really hard to cut down on emissions.

The companies also review their existing health and safety systems in order to company with the government targets for occupational health and safety. Surprisingly, none of the companies has moved beyond compliance in issues relating to health and safety, with exception the case where employees represented their interests in company decision-making likely to affect the company's HSE policies.

Ofgem's social action plans have also played a decisive role in encouraging firms to get involved in the complex issue of fuel poverty and help low income families to save money and energy by replacing old inefficient fridges with modern energy efficient ones (through company participation in energy efficient programmes for vulnerable and low income users).

Nevertheless, the firms selected begin to realise the benefit from operating a CSR policy. For instance, one company has used the landfill tax rebate to buy land, which will be used for tree

¹³⁴ Companies invest in off shore wind farms in recognition of government plan to achieve a target of 10% of all generation from renewable sources by 2010.

planting by a local trust. The new woodland will also allow the company to have a CO2 offset value of 15,000 tonnes, thus enabling the company to reach its annual emission reduction targets. Companies could soon use similar schemes to facilitate their entry into the UK emissions trading scheme.

Company activities, however, which went beyond the law were found mainly in the development of procurement policies and evaluation procedures of suppliers and the manner in which they operated towards the environment. Investment in AA1001 which helps companies to improve accountability and performance through stakeholder engagement and the ethical charter are promising steps, likely to assist companies move from mere compliance to 'compliance plus' in the name of social responsibility.

The rail network operator

The sale of the railways in Britain stands amongst the largest network privatisation. The process leading to privatisation and competition within the rail industry began before the 1993 Railways Act was passed. In 1993, Railtrack was established as a separate division within British Rail and it was given control of the rail network, consisting of all of the track, signalling, stations, bridges etc. The company was set up to bear the responsibility for developing and maintaining the rail infrastructure, for controlling railway operations and for planning and operating the national rail timetable.¹³⁵

Following the passage of the 1993 Railways Act, the actual ownership of the rail network was passed from British Rail to Railtrack which commenced operation in April 1994 as a separate government owned company. Railtrack was floated on the London Stock Exchange on April 1996 and the floatation made Railtrack a publicly owned company, accountable to its shareholders. On 7 October 2000, the government decided to put Railtrack into administration. The decision was based on the grounds that the company had failed consistently to deliver specified targets for network maintenance and improvement, and was insolvent due to financial mismanagement of investment programmes (Bichta, Lawrence, 2002). On 3 October 2002, Network Rail, a company limited by guarantee (CLG) acquired Railtrack plc.

CSR policy

Railtrack plc has not produced a formal CSR policy or strategy. The company recognises its social responsibilities in the name of safety and network reliability as well as protection of the natural environment. How the company manages these issues in order to operate in a socially responsible manner is elaborated within the following paragraphs.

The role and meaning of CSR

Being Britain's network operator and infrastructure manager, the company sees its primary responsibility to be the high maintenance of rail network and the delivery of a safe and reliable railways. Safety relates to network safety and safety at workplace. Beyond safety, responsibility lies to protect the environment and deliver network improvements in a way that

¹³⁵ Bichta C, Lawrence G (2002), The Rail Industry in Great Britain – Institutional, financial and regulatory structures, 2nd edition, CRI, School of Management University of Bath.

are not detrimental to it. Having delivered the objectives of HSE policy, responsibility lies in communicating this policy to interested industry associates, namely Train Operating Companies (TOCs), Freight Operating Companies (FOCs) and subcontractors in order to help build a homogeneous safety culture throughout the industry.

CSR activities of the rail network operator

Railtrack publishes two major reports containing information on the company's HSE policy and strategy, the 'network management statement (NMS)' and the 'safety and environment plan'. Both reports are published to meet the company's legal obligations for greater accountability and transparency following the Hatfield accident in 2000.¹³⁶ Under the industry regulator's guidance, the Railtrack Group has set up a railway's safety body, which is responsible for railways safety and is soon to be absorbed by a new rail industry safety body and the rail accident investigation body.¹³⁷

Following the tragic accidents at Hatfield and Potters Bar, Railtrack has conducted an appraisal of company safety procedures. Safety issues concentrate on four particular areas including:

- strategic safety management;
- catastrophic risk and public concern;
- train operators, station operators and infrastructure contractors;
- health, safety of employees.¹³⁸

Safety management is approached with a new safety risk management framework, responsible for identifying and assessing safety risks. Network safety is safeguarded and enhanced through network modernisation, and Railtrack has published action plans regarding network enhancement in line with the SRA's procurement framework for enhancement projects.¹³⁹ Network enhancement is also in line with forthcoming European directives on interoperability and safety.

In anticipation of the dangers posed on the safe operation of the network when signals passed at danger, malicious acts, trespass, structure failures and incursions take place, passengers at stations and level crossings are not properly taken of, the company develops and installs a number of technical equipment to mitigate and prevent occurrence of these situations. Consequently, the company has installed the train protection and warning system (TPWS), a warning system for trains travelling up to 75 miles per hour. The system is later to be replaced by the Automatic Train Protection (ATP) system which stops trains at higher speeds from colliding. The ATP will also be in compliance with the European Rail Traffic Management System (ERTMS) standards.

¹³⁶ The NMS is produced in accordance with a requirement in Railtrack's network licence to describe maintenance, renewal and enhancement plans for the benefit of train operating companies and rail industry stakeholders. The safety and environment plan is the responsibility of the safety and operations directorate and is underpinned by the Railway Group Safety Plan, the HSE's and SRA's strategy for railways.

¹³⁷ In accordance with recommendations made in the Lord Cullen/Professor Uff report.

¹³⁸ Railtrack (2002), Network Management Statement – Volume 1, National Plans; Railtrack (2002/03), Safety and Environment Plan.

¹³⁹ SRA (2002), The Strategic Plan.

Level crossings have been identified as the second most significant risk in network operations. The company is soon to announce the development of a new strategy of level crossing having sought stakeholder consultation.¹⁴⁰ To enhance passenger safety at stations and on platforms, the company undertakes risk assessments of areas that could cause accidents to passengers and will inform passengers through poster campaigns.¹⁴¹

To prevent imported risks into the network from the activities of train operators, station operators and infrastructure contractors, Railtrack and the above parties have recently agreed on a new safety system, based on the principle of transparency, which allows Railtrack and operators to share their safety reports, review trends and agree improvement actions.

Employee safety and welfare is upheld and enhanced through the operation of internal health and safety systems. The company is looking to implement a new occupational HSE strategy, targeted to assess compliance with legislation at least in the early stages.¹⁴² Track worker safety is reviewed and plans are announced for making more green zones available for work and implementing automated warning systems in red zones.¹⁴³ Internal surveys are conducted to identify the training and development needs of company employees.

For Railtrack, areas of environmental concern are visual impact, pollution management, resources and energy use, noise and contaminated land.

The company operates an environmental management system that claims to be compatible with ISO 14001. On an annual basis, it also undertakes a review to identify any positive and negative impacts on the environment. To date, 36 negative and 7 positive impacts have been identified.¹⁴⁴ Pollution management issues arise out of oil storage at light maintenance depots (LMDs) and discharges associated with surface water drainage from the track. To this end, the company implements the LMD prevention to reach compliance with the Oil Storage Regulations 2001 within the next three years. The company has set annual targets for reducing water and energy use. In the light of a forthcoming European directive on assessment and management of environmental noise, the company is currently reviewing the system which manages construction noise and is developing a new methodology for railway noise mapping. Contaminated land issues are handled in compliance with the 1990 Environmental Protection Act.

CSR or legal compliance?

Most of the activities described above are underpinned by Railtrack's legal obligations as a regulated company, and, as a consequence of the accidents at Hatfield and Potters Bar.

There are activities the company undertakes in the context of continuous improvement like the development of an assurance system for enhancement work for contractors and the

¹⁴⁰ Amongst other things the strategy aims to reduce risk from automatic level crossings, data loggers to be fitted to all automatic crossings etc.

¹⁴¹ That is water leak areas on station roofs.

¹⁴² Named HAZID.

¹⁴³ Green zones are zones where work is physically separated from train movement and red zones are those where work is taking place under traffic.

¹⁴⁴ Top positive environmental aspects: recycling, biodiversity, modal shift, wood use, integrated transport; Top negative environmental aspects: operational noise, construction noise, fly tipping and discarded materials, contaminated land, liquid fuel storage, spent ballast, pests, fauna only, protected sites and species, surface water drainage, graffiti, vibration, fugitive sources. In Railtrack (2002/03), Safety and Environment Plan, pp49-50.

communication of assurance process to internal and external stakeholders. There are also a few other activities that could be seen to meet the current definition of CSR. The company plans to make it mandatory for the supply chain to use Forestry Stewardship Council (FSC) certified timber for fencing and noise mitigation; the implementation of an internal ‘walkabout’ programme to encourage senior executives to develop further the culture of safety leadership, and the development of joint ‘walkabouts’ by the company executives and representatives from TOCs, FOCs and station operators to foster an industry safety culture.

It remains to be seen whether changes in ownership will also make a difference in the way CSR issues are approached by the company.

The telephone companies

In the UK, the telecommunications industry was the first to be privatised and liberalised. Competition began with the development of a ‘duopoly competition policy’ between British Telecommunications (BT) and Mercury, with the licensing of cable operators to provide telephony services, and in recent years with the increase of competition in mobile and internet services.

In the telecommunications industry, a distinction is made between network operation and service provision. Thus, four main types of sectors can be distinguished in telecommunications, which are:

- local fixed network operation;
- local mobile network operation;
- long distance network operation;
- service provision over combinations of the above networks.¹⁴⁵

The telecommunications companies selected to represent the sample in this report are both network operators and service providers for fixed and mobile telephone services.

CSR policy

Both companies have a policy on corporate social responsibility. This policy is derived from corporate principles and sets out to describe how the company will behave towards its stakeholders. The companies rank with almost the same priority the groups of stakeholders namely customers, employees, community, the environment, supply chain, and government.

Companies’ CSR policy is being developed around the ‘triple bottom line’ ie, assessing and reporting on the company’s economic, social and environmental performance. In this manner, companies believe they increase value for shareholders.

The fixed telephone services provider has a long tradition in reporting environmental performance since 1992. The mobile service provider also operates an environmental

¹⁴⁵ Armstrong M (1997), Competition in Telecommunications, Oxford Review of Economic Policy, Vol 13, No 1, pp64-82.

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policy.¹⁴⁶ In recent years, the company have developed the CSR policy to encompass both social and environmental areas of business operations.

The role and meaning of CSR

The fixed telephone services provider defines CSR as the voluntary actions the company can take to contribute towards the wider societal goals of sustainable development. For the mobile services provider, CSR encompasses the impact of company activity on social, environmental and economic issues, thereby CSR is a process of measuring, reporting and communicating company performance on all above areas.

In the same way as the water and electricity companies, these companies have developed a CSR strategy. Accordingly, few elements of the CSR strategy of the telephone companies are outlined on **Table 6**.

Table 6: CSR strategy - elements

Policy	Objectives	Targets
⇒ 'Passion for the world around us' ie, to manage the company impact on three main areas – society, environment and economy	⇒ return value to the company ⇒ return value to customers, people and the world ⇒ maximise the benefits of information and communication technology for individuals	⇒ minimise environmental impact but also achieve efficiency that helps reducing company costs ⇒ instituting a CSR management system enabling the systematic management of corporate social and environmental risks
⇒ To be at the heart of the information society	⇒ contribute to the communities the company operates ⇒ minimise any adverse environmental impact	

Corporate business principles are at the heart of the CSR policy, which strives to deliver value for shareholders and other groups of company stakeholders.

CSR activities of the telephone companies

Like all other sectors, CSR activities of the telephone companies are discussed in the context of reporting, type of report, reporting principles, internal groups, adoption of accredited management systems, independent verification and voluntary participation in CSR indexes.

Reporting on CSR and relevant subjects seems to be a widespread activity for the telephone companies selected. Both companies publish annual reports on CSR.¹⁴⁷ Issues of health, safety, mast stations and environment are the next important topic of discussion in

¹⁴⁶ Vodafone Group has produced an environmental policy statement, the main elements of which consider: the use of technology that is not harmful to people and/ or the natural environment; the purchase of environmentally friendly products only; a commitment to recycle waste when practical; the effort to minimise use of CFCs; the commitment to preserve natural conservation; and efforts to minimise the visual impact of company's equipment.

¹⁴⁷ BT (2002), Better World – Our commitment to society; Vodafone (2001/02) The World Around Us – Corporate Social Responsibility Report.

companies' reports.¹⁴⁸ The fixed telephone services provider publishes a gamut of reports covering sustainability, stakeholder engagement and company impact on society issues.¹⁴⁹

In terms of reporting principles, these are derived from business principles. Business values have been identified and company reporting develops around the company's main stakeholders such as shareholders, governments, customers, employees, communities and society, health and safety and business partners and suppliers. In essence however, reporting strives to assess company performance on triple bottom line ie, social, economic and environmental aspects of business.

Both companies have set up internal groups to steer, enforce and implement CSR policies and activities at corporate and subsidiary levels. In the fixed telephone services provider, the 'corporate social responsibility steering group' is being set up to oversee the implementation of all social and environmental programmes across the group. The company has been proactive in setting up the 'European stakeholder advisory panel' and the 'social and environmental report independent advisory panel' responsible for launching debates and dialogues with key stakeholders either through e-mails or on-line over the internet. The mobile operator has also assigned 'a group policy committee' and a 'group operational review committee' with the responsibility for formulating the company's CSR policy. Eighty CSR representatives are allocated with the task of making this policy operational across subsidiaries.

So how exactly do these companies practice CSR? The investigation of company reports suggests that CSR for the telephone companies is mainly associated with customers, employees, the environment, community involvement, supply chain and government issues.

Customer satisfaction is approached with surveys over quality of products and services, and development of services for customers with disabilities. Employee issues are enhanced with company participation to the UN declaration of human rights and the international labour organizational (ILO) core conventions. As a result, the companies declare commitment to respect human rights in the countries they operate, to enhance plant-working conditions and retain basic pay. In 2001/02, the companies published results from visiting plants in east asia. Both companies employ a diversity of people, they operate 'investors in people' schemes, and have developed working schemes to match the employees' personal life. The fixed telephone services provider operates the 'freedom to work' initiative which allows people to develop their own work attendance patterns. Both companies allow employees to participate in company share schemes. The fixed telephone services provider has set up a company retirement plan, in which employees receive pension linked to the performance of the fund rather their final salary at the company. Employee' opinions are sought through annual surveys on regional or corporate issues. The mobile service provider operates internal leadership programmes for staff development. Employee issues are safeguarded with the appointment of a group health director and human resources director, as in the case of the mobile services provider.

Both companies have similar environmental problems to tackle: energy, fuel use and waste. The mobile operator also faces the problem of unused handsets and the visual impact of base stations. Energy is used to power the operators' telecommunications network, amounting to

¹⁴⁸ BT (2002), Masts, mobile phones and health; Vodafone (2002), Answering your mobile phone questions – Mobile phones, masts, health and the environment.

¹⁴⁹ See at www.btplc.com/Betterworld/StandardsandPublications/Publications.htm.

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electrical energy equitable of 110,000 UK households, as in the case of the mobile services provider. From electricity produced, tonnes of CO₂ are omitted. In the area of energy consumption, the fixed telephone services provider appears to be in the driving seat. Last year, the company purchased 4.6 % of electricity consumption in the UK from renewable sources. The company also signed a contract for the supply of 1.6TWh of electricity from combined heat and power, which will further reduce the company's CO₂ emissions. In its latest CSR report, the company claims to have achieved a 63% reduction of CO₂ due to the energy programmes it has operated since 1991, which brings the company well ahead of government targets for 20% reduction of CO₂ by 2010.

Companies operate waste management programmes. Waste is produced by the network and by offices and is classified as non-hazardous ie, electrical equipment, cables, metal, wood, handsets. The mobile services provider operates a recycling system for handsets which is already adopted by eight subsidiaries. Last year, the company collected 800,000 tonnes handsets, batteries and accessories due to this program. The company is also developing with one supplier an environmentally friendly handset likely to use recycled plastic and have an energy free charger.

Base stations are of particular concern to telephone companies for two main reasons: First because they could cause visual obstructions to the build environment, and secondly, there are research suggestions maintaining that exposure to radio frequency from mobile phones and their base stations could cause adverse health consequences.¹⁵⁰ The companies adopted the pre-emptive approach, first, by using facilities on existing buildings and designing antennas and equipment to fit in their surroundings - in terms of height, mass, design and colour. Secondly, by commissioning independent research into radio frequencies (RF) and impact of base stations on health ie, the mobile services provider has announced investment of \$7million between 1999 and 2007 on research on electromagnetic fields (EMF) and possible effects on people.

Research on radio frequencies (RF) and the impact of base stations on health is frequently used by companies as an example to illustrate corporate commitment to community and the general public. Community involvement also extends to educational programmes, charity fund raising and employee involvement. The fixed telephone service provider runs school tours and offers presentations. Through the Per Cent Club, the same company donates 1½ % of its annual pre tax profit to-not-for profit causes. Last year, the mobile service provider allowed 800 company employees to get involved in community projects.

The companies CSR policy extends further to engage company suppliers. The fixed telephone service provider currently reviews the procurement process at the corporate level, in order to incorporate environmental considerations into procurement activities. Therefore, suppliers are asked to identify their environmental impacts. The same company also launched a supply chain initiative 'sourcing with human dignity' aiming to establish principles for working conditions that the supply chain would subscribe to.

Both companies admit to the impact of regulation on corporate affairs but they distinguish themselves from making donations of any kind to political parties.

The fixed telephone service provider has operated in accordance with the ISO 14001 since 1999, whereas four subsidiaries of the mobile service provider are certified with the same

¹⁵⁰ Independent Expert Group on Mobile Phones (2000), Mobile Phones and Health.

system. The mobile operator also relies on an internal management system to drive and shape the group's CSR activities.

The mobile operator is listed in the FTSE4Good and the Dow Jones Sustainability Index. The fixed telephone service provider was ranked the world's number one telecommunications company in the 2002 Dow Jones Sustainability Index.

CSR or legal compliance?

The exercise of corporate social responsibility as an activity that goes beyond the law and represents the interests of non-financial shareholders is a practice the telephone companies are familiar with. The analysis of the evidence suggests that the telephone companies practice CSR in a manner that goes beyond the law and which places them on the highest place amongst peers from the UK regulated industries.

Environment is a stakeholder whose interests are represented in the company's decision-making. The fixed telephone service provider has begun to look at product stewardship, which is to minimise the environmental impact of products through the entire life cycle. The company has completed an eco-design assessment of 18 products supplied to it, with the intention of using the assessment to make recommendations to manufacturers on how to minimise resource use, extend product life and assess second life options. As part of the company CSR management system, the mobile service provider begins to integrate HSE issues into the internal training courses. Improving environmental awareness through experience is also popular amongst these firms ie, the fixed telephone service provider has conducted a number of internal studies to quantify the social and environmental impact of videoconferencing and e-business. The lessons taught are now used to educate customers regarding the potential benefits and drawbacks of using them. A socially responsible stance also extends to include the supply chain and procedures are established to ensure ethical sourcing in supply chain.

Both companies honour legislation and many of the activities they describe in the context of CSR are dictated by existing and possible forthcoming legislation. The fixed telephone service provider provides equipment and services to match the needs of disabled, individuals with special needs and those people on low incomes but this is also in accordance with one of its licence conditions. The mobile service provider has allocated a considerable amount of time and money on research exploring the possible links and effects of human exposure to EMF. Could however, the company have done otherwise when the UK government has taken the precautionary principle and distributed leaflets to children to encourage them from limiting the use of mobile phones?

Whilst payroll giving is another popular activity amongst the companies, it also falls under the fiscal instruments operated by the UK government to encourage responsible behaviour. Overall, it appears that a mixture of voluntary activity and legal compliance can best describe the socially responsible behaviour of the telephone companies.

The postal services operator

The Royal Mail Group plc has dominated the UK postal services market since the 1960s. The Group became a wholly government owned company when the 2000 Postal Services Bill received royal assent and it was renamed into Consignia. A reversion to Royal Mail was finally agreed last year. Currently, the Group serves customers through three main brands, namely Royal Mail, Parcelforce Worldwide and Post Office.

CSR policy

The group has not developed a formal CSR policy or strategy yet. It is in the process of publishing its first environmental report in 2003. Therefore, a lot of information discussed in the following paragraphs will be in the context of company environmental performance, as it is the only information easily accessible.¹⁵¹

The role and meaning of CSR

At the present stage, the company's main responsibilities lie in relationships with society, community and the natural environment. Business focus is on retaining and building relationships with people, the company recognises the impact of business activities on the environment and commits itself to take full account of environment affects and ethical consequences.

The company has produced an environmental policy statement setting out to deliver sort and long term objectives. This policy attains the evaluation and reduction of company impact on the natural environment. The objectives to achieve are: to integrate environmental and social considerations in business decision-making; establish performance indicators along with key measures and associated improvement targets; develop and implement EMS; comply with environmental regulation; promote transparency through company reporting; promote the prudent use of fuel, energy, water and raw materials, minimise waste; reduce air emissions; encourage the implementation of environmental programmes by company employees; support community programmes; work with suppliers to minimise impact of company operations.

Table 7 summarises the main elements of the corporate environmental strategy for the Royal Mail Group.

¹⁵¹ All information was retrieved from the company's main website, see www.royalmailgroup.com/society.

Table 7: Corporate environmental strategy - elements

Policy	Objectives	Targets
⇒ evaluate and reduce environment impact	⇒ integrate environmental and social considerations in business decision-making ⇒ establish measurement and reporting procedures ⇒ develop and implement EMSs ⇒ comply with the law ⇒ promote prudent use of fuel, energy, water and raw materials ⇒ reduce air emissions ⇒ encourage implementation of environmental programmes by company employees	⇒ develop an EMS for implementation across all business subsidiaries ⇒ build environmental considerations into supplier selection ⇒ develop innovative technology for electric vehicles etc

CSR activities of the postal services operator

At the corporate level, weight is currently placed on assessing, measuring and reporting environmental performance. The executive board member for strategy and business development has responsibility for environmental policy and performance. The head of environment is responsible for developing environmental policy and ensuring that the group has deployed it. The company has also plans to appoint environmental policy representatives to communicate the policy throughout the business.

Areas of environmental concern for the company are energy, water and fuel use, waste and emissions from transport. The company has produced environmental targets to achieve in relation to the above areas, which reflect both short and long term strategic environmental management. These targets include:

- a reduction in overall energy consumption for building use by 10% over 5 years;
- a progressive increase in the usage of renewable energy rising to 10% by 2010;
- a reduction in water use by 5% over 5 years;
- a reduction in group wide fleet fuel usage by 5% per year;
- a reduction in CO2 emission arising from company distribution operations by 5% over a rolling 3 year average;
- a reduction in the quantity of solid waste of 5% based on landfill tax paid, year on year.¹⁵²

In the meantime, the company is already taking steps towards meeting these targets. Many company sites are certified with ISO 14001. The company is also in the process of developing an EMS to be implemented across the organisation. This system is designed to allow for measuring and reporting performance of company units and identifying areas for improvement. Specifically, under the system, energy and water consumption is measured, poorly performing sites are identified and actions for improved performance are sought.

¹⁵² www.royalmailgroup.com/society.

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With regard to energy consumption, the company has set a target to use 1% of renewable energy in 2003. To meet this target, it operates 21 combined heat and power plants. Waste is produced from paper machinery and IT equipment. Under the company EMS, a waste management system for recycling and/or reuse of bikes, uniforms, computers, and toner cartridges is in operation.¹⁵³

Air emissions are created from distribution operations, personal business travel and running of company properties. The company has introduced an e-meetings service for company employees and video and audio conferencing facilities in an attempt to reduce travel for business meetings.

To be able to reduce emissions from transport and fuel use, the company invests in alternative vehicle technology which promises to reduce use of non renewable fuels. A small number of company vehicles are powered with alternative fuels like biodiesel, biodiesel mixtures, fast charge electrics etc. Since 1997 the company operates electric vehicles for distribution in London and the surroundings areas as they produce zero emissions and reduce noise significantly.

The company recognises the importance of sustainable development and uses its procurement strategy as the path towards it. Sustainability is one of the seven criteria for performance measurement of all suppliers participating in the company's first class supplier programme.

While the general public sees the Post office in Britain as being an essential part of the British culture, the company wishes to retain this culture by investing time and resources into community work.¹⁵⁴ In continuance with its tradition of producing resources for schools, the company produced last year the 'Let's all write together' pack to teach children how to explore different forms of letter writing. Similar school sources comprise 'The big book' which covers events that have shaped the world and images linking up to the millennium stamps.

The company supports charity work. In January 2001 it set up the 'stepping stone fund' that raises money for charities helping adults to improve their writing skills. 45 projects will be sponsored from the fund in 2003. Employees are also encouraged to donate to charities through the payroll-giving scheme administered for Royal Mail by Charities Trust. Company employees donated £12.5m to charities last year.

The company conducts also a number of activities that form part of the company's strategy for continuous improvement and which, is believed, are likely to contribute and enhance the company CSR stance. Specifically, the company works with EA technology and Transport Action Power Shift to trial an innovative fast charge technology for electric vehicles which extends the usable range of depot based electric vehicles by virtue of its ability to recharge batteries very quickly. Through its procurement strategy the company is working to build environmental considerations into supply chain and encourage them to implement sustainable development standards. The company has also prepared a stakeholder dialogue plan which has identified the company's environmental stakeholders and procedures for developing dialogue and communication with them. The programme will come in effect in 2003.

¹⁵³ For example, bicycles which are replaced are sent to charities for reconditioning and then dispatched to Africa.

¹⁵⁴ Bichta C (2002), Regulation of UK Postal Services, CRI, School of Management University of Bath.

CSR or legal compliance?

A number of activities the group undertakes to meet its social and environmental policy objectives are also in compliance with legal requirements. The company expresses a commitment to provide a postal delivery to every address in the UK every working day, thereby meeting a condition on its licence to operate.

The company has introduced new measures for improving services for disabled customers, also in compliance with its licence condition.¹⁵⁵ New measures the company has undertaken in packaging are also underpinned by its legal obligations and compliance with codes of practices. Being involved in the development of packaging solutions, the company had to comply with packaging waste obligations, which require the producer to consider the environmental impacts of product. The company discharged this obligation through membership of a packaging compliance scheme.

Whilst clearly the emphasis is being put on environmental performance, it remains to be seen whether, and how, the postal services operator will use this experience to develop a cohesive social and environmental policy and strategy.

¹⁵⁵ Some include lap trays for people who are unable to access the counter; pengrips for people with reduced manual dexterity; pension book templates and signature guides to help visually impaired people, available on line at www.royalmailgroup.com/society.

6 CONCLUSIONS

The objective of the research report has been to explore the role of corporate social responsibility (CSR) in government policy. The report has used the experience of current CSR practices in the UK regulated industries to examine the relevance of CSR in government policy and in the UK regulated industries in particular.

The report has paid attention in defining corporate social responsibility and explaining the competing views surrounding the notion, which consequently have shaped the development of two competing models of the corporation, the ‘input-output model’ and the ‘stakeholder model’ of the firm.

The report has concentrated on describing the development of political views surrounding issues of corporate governance and social responsibility of the private corporation in Britain. Attention has been given to political proposals and policy development which reformed corporate governance in Britain during the twentieth century, leading up to the current review of company law and the proposals to widen the duties of company directors and require from companies environmental and social reporting. The discussion on the political reforms pertaining to the social responsibility of business has also captured the current prevailing views offered by the UK and the EU government for increased socially responsible behaviour of the corporate sector, which maintain the economic justification of CSR, its voluntary adoption, the business case for it and its contribution to the objectives of sustainable development.

In turn, the report has focused on the experience of CSR practices in the UK regulated industries. Seventeen companies have been selected for the research sample, representing the water and sewerage, the electricity, the telephone, the rail and postal services network operators. Investigation and analysis of company reports and published documents was the method used to shed light to the current status of socially responsible behaviour in the UK regulated industries.

The implications of the research findings for government, industry and the notion of CSR are discussed in this chapter.

The practical meaning and role of CSR for the UK regulated industries

The first important question to address is what is the practical meaning and role of CSR for the companies examined?

According to the current definition of CSR (Chapter 2), it describes corporate behaviour that exceeds legal requirements and involves decisions representing the interests of other stakeholders of the firm rather than shareholders, which may include employee welfare, working conditions, protection of the natural environment, relations with customers, supply chain, local community and the government. To what extent current practices in the UK regulated companies match to this definition?

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To elaborate upon the current meaning and role of CSR in the regulated industries, the examples of two cross cutting issues for the companies examined, green house emissions and occupational health and safety, will be used.

Green house emissions are an area of concern for most of the companies-sample. Companies develop in-house strategies to reduce emissions, which could also help tackle climate change.

Towards developing a strategy to reduce green house emissions, the research sample appears to have considered the interests of various groups of corporate stakeholders. Specifically, the first stakeholder the companies have considered is the government: Companies have looked at the legal requirements imposed on them. The second stakeholder the companies considered is the environment: companies set targets regarding the minimum and/or maximum amount of CO₂ tonnes they could emit per year or over a longer period of time. Some companies also engage the company employees: they develop internal training programmes to increase employee awareness about energy use and efficiency, to encourage efficient use of energy in the office and the efficient use of equipment. Companies also examine how the supply chain could possibly contribute to the corporate strategy for reducing green house emissions: companies review procurement policies, they use environmental performance criteria over suppliers' selection and educate suppliers how to best practice environmental control. In some cases, companies have also engaged the local community and the final customer: proper use of the product and product stewardship are beginning to be explored as practices to optimise the company strategy for improving energy efficiency and reducing CO₂ emissions.

The above findings suggest that the concept of stakeholder engagement begins to develop amongst the UK regulated companies. The companies' behaviour, however, towards reducing green house emissions do not meet the current definition of CSR (as described in Chapter 2). This is because, with the exception of one company, none of the companies examined had reduced emissions beyond the legally required levels.

From the above, it can be suggested that whilst companies are moving towards engaging stakeholders in strategy development, attitudes and behaviour of the UK regulated companies are mostly in compliance with the law and cannot be described as 'corporate socially responsible behaviour'. The government seems to be the major driving force behind corporate activities and measures to reduce green house emissions, and tackle climate change, ie, the government commitment to achieve 10% of energy generation from renewable sources by 2010.

On the other hand, health and safety issues in the UK regulated industries are approached with a manner, which in many cases has exceeded legal requirements.

In their majority, the companies health and safety policies have been informed by existing legal requirements, amongst which the HS standards for occupational health and safety and the Discrimination and Equal Opportunities Act. The companies, however, also begin to engage their employees. Companies conduct surveys to assess employee satisfaction regarding existing HS schemes; other companies invite employees to participate in meetings in which health and safety policies are decided. Companies also begin to question their suppliers about working conditions in their sites.

Therefore, in the light of developing a strategy for health and safety, a number of corporate stakeholders have been considered in the formulation of the companies' health and safety

policies. It appears that the UK regulated companies are beginning to explore the benefits of consulting the corporate stakeholders in decision-making and implementation.

Overall, it is believed that current practices amongst the research sample correspond to ‘best practice’, as companies begin to assess the impact of company activity on corporate stakeholders, explore the benefits of investing in alternative energy sources and examine product stewardship and the entire life cycle of both products and processes.

It has also become clear that ‘best practice’ is driven by efficiency gains, commercial benefits or the ‘business case’ for it. Investment in combined heat and power plants has improved the economic efficiency of the companies by reducing the amount of energy purchased from the national grid. Investment in sludge management methods can assist the companies’ energy efficiency plans further with the production of ‘industrial crops’ that can be refined towards producing energy.

Government pressure to deliver outputs and the risk of pressure from corporate stakeholders underpins the current behaviour of the UK regulated companies. The business case drives ‘best practice’ and not CSR decisions in the UK regulated companies.

The impact of CSR practices on regulatory policy

If the current practices in the UK regulated industries do not conform to CSR behaviour, what are the implications for government and government policy?

It has been argued that current practices in the UK regulated companies conform to best practice rather than to CSR. Companies also find it difficult to adopt best practice and invest in new technologies. For instance, by being in the business of producing energy, the electricity companies find the government targets for renewable energy and sustainability a real challenge. Large companies in the sector have only recently began to experiment with offshore wind farming whose future success will depend on customer demand.¹⁵⁶ In the water sector, there is a clear division between ‘conformers’ with environmental regulation and ‘leaders’ in environmental control with undergoing investment programmes in energy efficiency and wastewater management methods.

Government, therefore, might have a role to play to promote best practice amongst companies and help companies move towards socially responsible behaviour.

To help companies realise the benefits of best practice, government need to make them measurable and quantifiable. To this end, environmental and social reporting guidelines need to be accompanied by measurable performance indicators. These indicators could have been the collective work between government, industry and trade associations.

¹⁵⁶ On September 2001, LE Group launch the green tariff for residential customers of London Electricity and SWEB. Customers are invited to make a contribution to the Green Energy Fund, which is used to fund community based, small scale renewable energy projects around the UK. In return, LE matches the customers contribution to the fund, provides customers with an energy efficiency package and matches the customers consumption with energy generated by renewable sources. Since months after its launch, the tariff had attracted 14,000 customers and generated funding around £250,000. LE Group (2001), Environment and Corporate Responsibility Report, p.22.

Companies will be more prone to move towards best practice, if there is sufficient collective evidence to support increased value return resulting from social and environmental policies. Of course, there is the question of whether performance indicators should concentrate on sectoral performance or whether they should also measure issues of international interest like sustainable development. International frameworks like the UN Global Compact and the Global Reporting Initiative may provide a useful framework for developing performance indicators at the national level, which can also be used for comparing and measuring performance at the international level.

The government, therefore, can set the mood for industry to move towards best practice. The experience acquired from the regulated industries suggests that there is little consensus amongst the reporting principles used by the firms to measure and report performance, thus making it very difficult to compare improvements in performance across the companies. If industry is reluctant to enforce its own standards for sectoral reporting, then mandatory company reporting might be one of the most powerful tools used by government to encourage firms move on measuring and quantifying economic, social and environmental performance.

In turn, the 'soft measure' of mandatory company reporting enhances corporate exposure to public scrutiny. Given the attention that the research sample has paid to the relations of the firm with its customers, the community and the general public, it can be assumed that a well informed consumer can exert a certain amount of pressure on a company's social and environmental performance. The public has the power to seek change of corporate policies either by putting direct pressure on the firm or through consultation meetings with government that could lead to the development of legal measures.

Overall, the 'enabling' role of government can be seen as being twofold:

- to create the environment for business to adopt best practice;
- help business realise the benefits of seeking legitimacy from the corporate stakeholders as well as the company's shareholders.

The impact of CSR practices on the institutional structure of the UK regulated industries

If companies in the UK regulated industries are not prepared to take the initiative for practising CSR – and given the 'enabling' role that government can play in social responsibility – what is the impact of the research findings on the institutional governance structure in the UK regulated industries?

First, there is the question of regulation. To what extent is current regulation supportive of CSR?

It appears that the social and environmental guidance issued by government to the economic regulators is beginning to produce results. Companies from the electricity sector undertake research programmes designed to address fuel poverty. The postal and telephone services operators have introduced schemes for improved services for disabled customers and people with special needs.

To the above, the government could also examine the possibility of mandatory reporting and developing with industry performance indicators for measuring and comparing performance in economic, social and environmental issues.

In the light of the role of the economic regulator, the government approach is that “*the economic regulator should make an appropriate contribution towards achieving sustainable development.....and economic regulation should be conducted in a way that is alert and consistent with the government’s wider and social and environmental goals*”.¹⁵⁷ Therefore, it may be that the economic regulators should expand on its role to assist government with its social and environmental policy objectives by initiating stakeholder engagement in the development and implementation of social and environmental policy. After all, social responsibility is about stakeholder representation in decision-making and the economic regulator can play an important role in furthering stakeholder dialogue (through consultation meetings, community surveys, meetings with target groups) and assisting with the representation of stakeholder interests at the corporate level.

To the task of helping government to enhance the social responsibility of companies in the regulated industries, the economic regulator can assist first, by engaging in effective stakeholder dialogue and second, through effective price control. This latter view maintains that if companies within regulated markets are to implement social requirements, the economic regulator will have to be engaged in setting the price controls correctly, so that companies are able to cover the costs of social responsibility and allocate resources from profitable to less profitable customers (The Utilities Journal, 2001).

There is, of course, a role to play for the companies themselves. A more proactive industry stance in CSR reporting must be adopted and the conformers of the regulated industries should consider learning lessons from the leaders and work together towards the development of cross sectoral reporting of social and environmental performance. The existing indicators developed by trade associations – like the UK Water Industry Environmental Indicators – could be used as the platform for the development of cross sectoral standards thus allowing for measuring and comparing performance across the UK regulated industries. This will allow for consistency in reporting and it will increase the opportunity for optimising performance through the experience acquired from comparing performance at the sectoral level.

Finally, the consumer can also make a real difference. There are suggestions claiming that the percentage of consumers committed to use their purchasing power consistently to support the providers of environmentally and socially responsible products and services is no more than 5% of the population. Reliable and ethical information however, remains a very important determining factor in decision-making and the purchasing behaviour of consumers. Therefore, it might be that there is not enough ethical and reliable information available for consumers which they can actually use to act upon. Most importantly, there is substantial empirical evidence pertaining that levels of ‘green’ consumerism will rise as the price difference drops and the retailers offer the products and label them clearly. Nevertheless, the price difference will drop as ‘irresponsible’ production starts to be ‘hit’ by new costs like legislation, increased transport costs and reputation issues. Clearly, there is a wider scope for government and consumer activity to help increase the social responsibility of business in society!

¹⁵⁷ The Utilities Journal (2001), CSR or Regulation?, February, pp.14-15.

Final remarks

Going back to the two competing models of CSR (Figure 3), it appears that current practices in the UK regulated companies fall within the ‘business case’ model of the firm rather than the stakeholder model. The narrow definition of the firm as being an entity that exists to maximise the interests of the firm’s shareholders seems to prevail. But the companies examined also begin to realise that the ‘licence to operate’ is not static and current social trends and attitudes have a direct impact on business conduct and activities. For the UK regulated companies, CSR is a risk management tool that is used to defend company practices in the light of emerging social trends and can be used to explore further the commercial interests of the company, by applying ‘best practice’.

For the stakeholder model of the firm to gain more ground, research work and government activity need to concentrate on, and elaborate upon, its legitimacy, accountability and practicability, and provide evidence lending support to the notion that ‘CSR is not an activity conducted at the risk of the company owners but, on the contrary, it forms behaviour that contributes to a company’s and the society’s increased welfare’.

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