

presenting case studies of corporate social responsibility

- financial exclusion
- social reporting
- community involvement
- corporate giving
- socially responsible investment



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Welcome to the first issue of **Ethical Performance Best Practice**, the quarterly publication that presents examples of best practice in corporate social responsibility.

Ethical Performance Best Practice is produced by Dunstons Publishing, which also publishes the independent business newsletter **Ethical Performance** and its online companion, ethicalperformance.com

Ethical Performance Best Practice is published in association with the Institute of Business Ethics, which was established in 1986 to promote high standards of corporate behaviour and the sharing of best practice. A registered charity, the IBE provides practical advice on ethical business practices.

Companies featured in **Ethical Performance Best Practice** do so at the invitation of the Institute of Business Ethics and of **Ethical Performance**. The case studies are written by the editorial team at **Ethical Performance**.

We have approached companies that we consider have a good story to tell, in the belief that one of the most effective ways of spreading best practice is to do so by example.

If you feel that your company would benefit from inclusion in **Ethical Performance Best Practice**, please contact the publisher for more information.

■ **Ethical Performance Best Practice** welcomes comments and feedback from readers. Contact details are in the box (see right). The companies concerned would also like to hear your comments. The contact details relating to each company are given at the end of each best practice case study.

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Ethical Performance Best Practice provides a forum for companies to present their activities in the area of social responsibility. **Ethical Performance Best Practice** is sent free of charge to at least 5000 named individuals known to be interested in corporate social responsibility. These persons are stakeholders and key opinion formers in the UK, Europe and the rest of the world. Further issues are available at £6 (€11, US\$11) incl. postage and packing.

The Best Practice case studies featured are also available at ethicalperformance.com

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PROVIDING SOCIAL AND ENVIRONMENTAL INVESTMENT RESEARCH

Investment firms currently manage significant socially responsible investment funds on behalf of pension funds, churches, charities and private clients. The last decade has seen a dramatic increase both in the number and the size of such funds. Furthermore, recent legislative changes to the reporting requirements of pension funds have increased the need for a broader approach to social and environmental performance across a wider range of institutional funds.

The senior Directors of Global Risk Management Services (Global Risk) were previously investment management professionals within the investment management divisions of global institutions. Four years of investment success and a *Financial Times* Business Award mobilised the resources and energy to establish a dedicated non-financial investment research firm.

TAILORED RESEARCH

Global Risk's fund management heritage has enabled it to design a first-class social and environmental investment research product that meets the needs of Fund Managers. Global Risk understands the needs of investment clients and knows how to respond, by providing solid research foundations. Where possible, Global Risk research is adapted to cater for specific client needs. This ensures the approach chosen fits with a client's investment philosophy and allows Global Risk to provide a comprehensive research product for its clients, enabling them to develop a universe of companies that meets their investment principles.

The research goal of Global Risk is to deliver analysis of outstanding quality that directs investments towards companies that take seriously both their non-financial and their financial performance.

To achieve this, Global Risk sets demanding research standards. Its dedicated team of professional analysts deploy a wide range of research tools. These include:

- financial and industry research
- analysis gathered from consultants, public sector organizations, charities and investment houses
- in-house analysis conducted by the Global Risk team.

Global Risk also engages with companies at a variety of levels, both in the course of research and to assist clients who wish to develop their own engagement policy. On occasions, Global Risk also sponsors research.

WEALTH OF RESEARCH

The clients of Global Risk most commonly request information relating to the direct social and environmental performance of companies. However, some clients also ask us to carry out additional investigations in certain areas, such as human welfare, marketing policies, local employment and human rights. In addition, fund management clients often wish to take account of how globalization and sustainability may affect their investments. This may involve challenging the basis upon which investments are made in companies involved in areas including tourism, mobile telecommunications, the internet, biotechnology, pharmacogenomics and transgenics.

Global Risk provides the analytical framework and the information needed to meet the investment preferences of clients to the fund management industry.

They provide fund managers with a diversified universe of securities that is responding positively to non-financial issues. They also provide coverage of the benchmarks clients require, be that a specific index or a bespoke universe of companies. Whilst the research provides a detailed account of how a company performs, both from a business and a non-financial perspective, it can also focus on specific areas identified by clients. These areas can include highlighting companies that have significant involvement in armaments, pornography, gambling, tobacco, alcohol and nuclear power.

Alternatively Global Risk can investigate companies that take part in road construction, test cosmetics or certain pharmaceuticals products upon animals, pursue activities which may affect human health, or operate sweatshops.

RESEARCH STANDARDS

Global Risk believes that it is important to take account of the relationship between a company and its operating environment when making investment decisions.

Global Risk identifies those companies which are skilled at creating value both for their stakeholders and for their shareholders – the mark of a well-run organization. At the same time, Global Risk marries this information to its extensive knowledge of the strategy, management quality, and organizational and business practices of the companies concerned.

Global Risk understands companies in the context of their industrial sector and the world economy. Most companies listed on large liquid stock exchanges followed by global investors have international links, whether through suppliers, distribution channels or customers. To maintain high standards of professional integrity, companies must address global issues.

International standards set by competent authorities establish many of the social, environmental and welfare expectations of businesses. Equity values can rise and fall in instances where companies measurably underperform.

The international community delegates the authority to establish standards to the United Nations and agencies such as the International Labour Organisation. Global Risk recognizes the value of this work. The UN Declarations, Covenants and Conventions adopted by the General Assembly and the ILO Core Conventions act as performance indicators for the analysis of companies by Global Risk.

inspiration by example

The traditional focus on philanthropy remains, but companies are now developing strategies that link social responsibility policies with wider business objectives. However, there is a general lack of awareness of how this new approach can benefit companies and society, says Baroness Greengross

CORPORATE SOCIAL RESPONSIBILITY (CSR) is a phrase we hear more and more often, but how many people really know what it means? Some might characterize it as the responsibility of business to the wider community. But what does this actually mean? What exactly is CSR? Is it measurable? Is it always a 'good' thing? CSR is about more than just the impact of job losses and it requires more strategic thinking than simply marching on the City of London, although events such as these tend to attract the media and dominate the headlines. Doesn't it mean more than just business giving money, however welcome that form of philanthropy is?

Answering questions about CSR like these is half the battle, both for businesses and the general public. This includes Members of Parliament and Peers. It is the main reason why I am establishing a new all-party group in Parliament, with cross-party support from over 30 MPs and Peers and the backing of Business in the Community and PricewaterhouseCoopers. Put simply, we need to explain CSR.

Our job is made much easier by having real examples of good practice. That is why it is so welcome to read the case studies presented in this issue of *Ethical Performance Best Practice*. We need case studies to inspire the business community and to provide examples of CSR in action that can be replicated – rather than always seeking to re-invent the wheel.

In Parliament, just as in the wider business community, we have to get across that 'doing good' is in fact good for business and can be shown to be so. CSR should be integral to any business. It should not be an add-on.

By using Business in the Community's 'Winning with integrity' model, which provides a framework for companies to measure and report on their impact on society, we now have a yardstick by which businesses can judge their own performance. Well done to all those featured in this edition of *Ethical Performance Best Practice*.



Baroness Greengross



Baroness Greengross became a life peer in 1999 and until last year was director general of Age Concern England, one of the largest charities in the UK. She is a founder member of the new All-Party Parliamentary Group on Corporate Social Responsibility

BEST PRACTICE

building the business case

Corporate social responsibility (CSR) is a response to market forces, not a challenge to them. It can help businesses to build profits and add shareholder value, although the bottom-line benefits are hard to measure precisely. Best practice studies are important because they help to build the business case

Critics charge that corporate social responsibility is a vogue that distorts the market by deflecting business from its primary role of making profits. The business case for adopting corporate social responsibility measures is weak, they argue, and probably non-existent. A well-managed company exists to create profits, not protect the environment and make society a better place.

In the other camp lie corporate social responsibility's supporters. They argue that its growth is a response to the changing market conditions in which companies operate and is driven by market forces. Companies are not being forced to comply with new CSR regulations. On the contrary, they are choosing to embrace CSR because it helps them to build and defend profits and shareholder value.

Surprisingly, there is common ground here. Both groups, with a few exceptions, agree that companies exist to make money. The question therefore is, does corporate social responsibility help companies to do this? There is no simple answer – for at least three reasons.

First, there are good and bad ways in which a company can show it is behaving in a socially responsible manner. The work has to be effective: a badly planned stakeholder dialogue can waste just as much money as say, installing a computer network that does not do the job it is supposed to. It also has to be done with an open mind: community involvement, for example, needs to involve different groups in society and not be a one-way dialogue.

Second, CSR can help companies to manage reputational and operational risks. Yet risk management involves assessing the likelihood that a particular event will occur, making it hard to identify precisely how CSR policies may contribute to risk avoidance.

Third, the CSR field is still developing. This also makes it difficult to measure results and draw conclusions from companies' experiences at such an early stage. The analytical tools needed to assess the business case for corporate social responsibility are still quite rudimentary, so it is hard to quantify the benefits, and few companies have deep experience in the field.

This quarterly publication will contribute to the development of CSR by providing a regular flow of information on best practice to companies and other interested parties. It will spread best practice by disseminating case studies and will help to answer the claim that CSR is simply a cosmetic used by business. Corporate social responsibility is no more, and no less, than a business tool companies can use. If they use it effectively, the business benefits. If they do not, then the business does not.

The case studies featured show how companies are using CSR as a business tool to help achieve their goals. They illustrate the range of topics CSR embraces – this issue alone covers health and safety, financial exclusion, social auditing, socially responsible investment, training for work, social exclusion and staff motivation.

Ethical Performance Best Practice is being sent to more than 5000 individuals in the UK, Europe and the rest of the world with a professional interest in the social responsibility practices of companies. Its readership includes senior executives working within companies in all industries and the policy directors of non-governmental organizations active in the fields of development aid, energy, human rights, social exclusion and animal welfare, and also business schools.

The publication is also being widely distributed within the investment community, including investment directors, fund managers, analysts and independent financial advisors known to be interested in socially responsible investment. Politicians interested in CSR, journalists, senior personnel in institutions such as the World Bank and industry bodies and professional service organizations all play an active part in furthering the debate on CSR, and will receive *Ethical Performance Best Practice*.

The companies covered – Barclays, Camelot, Diageo, Friends Ivory & Sime, Seaview and Transco – have been selected

because their work was judged by the Institute of Business Ethics and *Ethical Performance* to represent CSR best practice. They were approached, and appear, by invitation. Three of the companies – Barclays, Diageo and Friends Ivory & Sime – are members of the Institute of Business Ethics.

This first issue focuses on best practice in the UK. Future issues will review international best practice and may have a specific theme, such as human rights or socially responsible investment.

We gratefully acknowledge the help of the companies, and also the Department of Trade and Industry, in providing financial support towards the production and distribution of *Ethical Performance Best Practice*.

■ **Ethical Performance Best Practice** and the companies featured would be interested to hear your views on the contents of this first issue. Contact details are given on page five and at the end of each case study

**Best Practice
will help to
answer claims
that CSR is
simply a
cosmetic
used by
business**



PHOTONICA

COMMUNITY INVOLVEMENT

helping unemployed people

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

When riots erupted in England's inner cities in the early 1980s, the damage inflicted on areas such as Toxteth, Handsworth, St Pauls and Brixton was the catalyst for a number of initiatives aimed at tackling the joblessness that was a root cause of the unrest. It was also the spur for corporate action to tackle unemployment.

In 1984, for instance, the food and drinks group Grand Metropolitan created GrandMet Trust, a UK charity helping long-term unemployed people into work through training and advice. Grand Metropolitan felt that helping people find jobs was not just 'doing the right thing', but also helping to create a more favourable economic environment for the company.

Much has happened in the ensuing 17 years. In 1995 GrandMet Trust became Tomorrow's People. In 1997 Grand Metropolitan merged with Guinness to create the combined food and drinks group Diageo. Along the way, the trust has helped more than 350,000 people in their search for a job. Tomorrow's People now employs 150 staff, has received £20million from Diageo, and has attracted £150m of funding from other sources. Its work has been a template for similar projects to help the unemployed, and the UK government acknowledged the influence the trust has had on its Welfare to Work programme.

Tomorrow's People acts as an intermediary between government, business and individuals, helping to reduce unemployment. It runs schemes that enable unemployed people to acquire skills needed by local employers, puts the two parties in contact and provides follow-up support after they start work.

One of the charity's recent projects is New Steps – a community task force for unemployed 16-24 year olds who work on projects such as refurbishing a changing room at a sports centre damaged by vandals. In return, the teenagers get training, help looking for a job, and six months' support once in work. Many participants either go into paid work with local firms, or on to vocational training. New Steps operates in Brighton, Glasgow and Plymouth.

INNOVATIVE PROGRAMMES

Another successful project to assist the long-term unemployed is Getting London Working, a seven-year scheme in partnership with 12 public, private and voluntary organizations, including Diageo subsidiary Burger King. Launched in December 1999, it was shortlisted for the Lord Mayor of London's Dragon Award, which recognizes business involvement in the community.

Tomorrow's People has developed many such

■ **New Steps allows 16-24 year olds to learn skills – such as painting and decorating – that improve their chances of getting a job while benefiting their local communities**



innovative programmes over the years, helping with everything from writing CVs to providing a mentor. It worked with 7867 people last year, of whom more than 2300 went into jobs. Just over 1000 took other options such as further vocational training, and a further 2200 remained on a trust programme.

From the start, Diageo was keen for Tomorrow's People to run on business lines. This has been vital to the charity's success. The trust is run by independent staff, but company managers assist in areas such as strategy and financial control and act as trustees and mentors – for example, Diageo's director of corporate citizenship, Geoffrey Bush, is a trustee.

This has helped the trust to establish partnerships with government agencies, including Training and Enterprise Councils, and also with more than 50,000 employers, including Burger King and AstraZeneca. 'The more partners we have the more credibility we have – and the greater the chance of accessing our target groups,' says Bush. 'That means we're more likely to meet the needs of our unemployed clients'.

The societal and financial benefits of Tomorrow's People are easy to see – the government estimates that it costs £9000 a year to keep someone unemployed. But there have been more subtle benefits for Diageo. Bush says Tomorrow's People

Tomorrow's People has helped more than 350,000 people in their search for a job since it was set up in 1984

has fitted well with the company's 'core value' of 'allowing people the freedom to succeed.' Tomorrow's People has helped to build a strong corporate culture within Diageo and enabled the company to become recognized as one of the most socially responsible businesses in Europe.

'We feel such long-term, high-level commitment to tackling one of society's most pressing problems has differentiated us from many other businesses, and that has created huge rewards,' he says.

The reputational benefits are difficult to quantify precisely. Diageo highlights the skills employees acquire while working with the charity, the high-level partnerships it now enjoys with government and other bodies, and the goodwill generated in communities. Diageo companies also benefit by recruiting employees from trust projects. Diageo supports the programme on the basis of enlightened self-interest, and not for purely philanthropic reasons, Bush emphasises.

Tomorrow's People has become less reliant on Diageo in recent years. Its long-term ambition is to become an independent trust with no formal ties to the company, though it will continue to work with Diageo on individual projects. This should further increase the trust's money-raising potential.

■ Further information: Geoffrey Bush, director of corporate citizenship at Diageo on +44 (0) 20 7927 5200



the company

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

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

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

■ Tomorrow's People has fitted well with the company's core value of 'allowing people the freedom to succeed'

ibe comment **DIAGEO**

This case illustrates that community investment by large companies is not a new phenomenon. Diageo's predecessor, Grand Metropolitan, recognized in the 1980s that stable communities offering reasonable employment prospects could help the company to become more successful. Their commitment has been a long-term one and has done much to enhance the company's reputation for social responsibility.

The lessons to be learned from this case study include:

- The most successful community investments are based on real partnerships between business and local organizations
- Companies intending to get involved in community projects should research what has worked best in other areas. Organizations such as Business in the Community can provide helpful advice.
- The best initiatives often take on a life of their own and can eventually operate independently of founding corporate sponsors
- Companies should not underestimate the value of their skills and resources in the contribution they can make to resolving local social and economic problems.

KEN RUSHTON, INSTITUTE OF BUSINESS ETHICS

SOCIAL AUDITING

starting a dialogue

Camelot consulted a wide range of stakeholders to create two landmark social reports that analyze the impact of its business activities on different groups. Its award-winning social auditing work has helped to consolidate its position as UK national lottery operator and offers investment opportunities for the future

Trust is everything when it comes to running a national lottery. To help build that trust, and to demonstrate its social responsibility, the UK national lottery operator Camelot has been carrying out an ambitious social audit of its activities that has led to two social reports – the first published last year and the second released in May 2001.

Camelot, a six-year-old private company, has put significant resources into analyzing the impact of its business activities on a wide range of interested parties, including employees, customers and lottery ticket sellers. In the process it has tackled head-on a number of sensitive issues, such as directors' bonuses, under-age gaming and the impact of its activities on the incomes of poor families.

The audit led directly to the publication of the first social report, which appeared in April 2000 and has been acknowledged as a landmark in the new discipline of corporate social reporting. Only 19 of the FTSE 350 companies listed as of May 2000 have produced reports detailing their social performance, according to UK-based Next Step Consulting, which maintains a database of all publicly available corporate reports that include social and environmental information. But the number is rising. Camelot's work in this area has helped to blaze the social reporting trail.

The quality of its social report was recognized at this year's UK Social Reporting Awards, where Camelot won the award

for best newcomer in social reporting. The report had 'good objectives, policy statements and performance measures', the judges said, and a strong stakeholder dialogue process.

Ed Mayo, executive director of the New Economics Foundation, a non-profit body that has pioneered social auditing in the UK, says Camelot's social report is 'one of the most complete social audits conducted by any company world-wide'.

Work on the audit began in mid-1998, when Tim Holley, the then chief executive, decided the company needed to focus more on corporate social responsibility measures. 'The feeling was that we were doing very well, but taking criticism over various matters, such as "fat cat" pay and our profit

levels' says Andrew Jones, Camelot's head of public affairs. 'We had a good track record on community investment, had established the Camelot Foundation and were giving more than four per cent of our profits to community investment, but there was no focus for our work on corporate social responsibility. We wanted to open ourselves up to the scrutiny of our stakeholders and to find a mechanism for benchmarking our performance against expectations.'

GETTING AN INDEPENDENT VIEW

In autumn 1998 Camelot appointed Sue Slipman as director of social responsibility. Slipman, the former head of the Gas Consumers Council, assembled a three-strong team to carry out the audit. Working with the New Economics Foundation, the team set up an independent panel to oversee the work. Each panel member represented one of the company's eight stakeholder groups, identified as the public, employees, community, retailers, suppliers, pressure groups, subsidiaries and shareholders. The panel's chair became a non-executive director on the Camelot board, allowing stakeholders' views to feed into the highest levels of governance at Camelot.

Meanwhile, an internal steering group comprising representatives of each company department was set up to make audit recommendations. 'Before talking to stakeholders, we needed further to develop policies on community investment, staff, responsible gaming and so on', says Jones.

Once the policies were in place, the social audit team spent a year collecting and analyzing the views of 6000 stakeholders. This established the degree to which each stakeholder group thought Camelot's policies reflected its stated values, and issues they

the chair of the independent panel that represents the stakeholder groups sits on the board of Camelot



■ Camelot's social audit team spent a year collecting and analyzing the views of 6000 stakeholders, including lottery ticket sellers

felt were important. In this way, Camelot was able to identify how best to improve its social performance.

A total of 479 people were consulted on a one-to-one basis and another 5,469 through polls, focus groups and questionnaires. Questions relating to the company's social performance were added to Camelot's regular surveys of satisfaction levels among players, staff and retailers. Ten per cent of Camelot's 900 staff were involved in some form of dialogue, along with suppliers and distributors.

The audit team consulted a range of organizations to assess the National Lottery's impact on low-income families, people with gambling addiction problems, the under-16s and disabled people.

The findings were brought together in the social report, which was subjected to the same disciplines as an annual report. Covering the period January to December 1999 and written in-house, the 44-page document featured performance indicators such as:

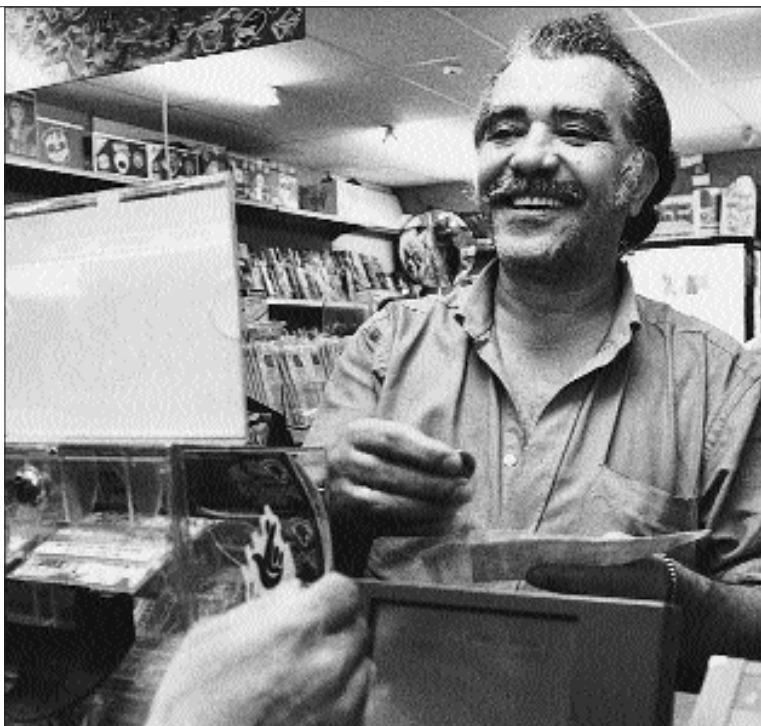
- the number of players who feel the National Lottery is trustworthy
 - the number of employees in accredited training
 - percentage of pre-tax profit put into community investment
 - the number of complaints received from retailers.
- Issues which were identified as being of concern to stakeholders were mapped out, and in the second social report Camelot focused on what was actually being done to tackle those issues. For example, a 'model company group' was set up to look at how the company can achieve best practice in all areas of the business.

'We were aware that given our high public profile, we might have been accused of producing a social report that was just a public relations exercise', says Jones. 'It was therefore important to create a thorough methodology and validation process. New Economics validated the report and helped to ensure we were asking the right questions.'

Camelot believes social reporting has positively influenced its business performance, and will continue to do so. 'The real benefits are yet to come in terms of perception of the business,' says Jones. The company is now working towards a reporting approach covering a combination of financial, social and environmental performance and will publish a report drawing all three elements together in autumn 2002.

Its first social audit cost £250,000, plus £100,000 for web site development. These figures include set-up costs, but not all associated staff costs. The second social report cost considerably less. 'This was an investment for us,' argues Jones. 'The social reporting process has helped us to embed strategies for social responsibility across the business. The better we can perform as a business, the more money we can raise for good causes, which in turn can help transform lives and communities around the UK. That's a real win-win situation.'

■ Further information: Andrew Jones at Camelot on +44 (0) 1923 425 492 or www.camelotplc.com



the company

Camelot operates the UK National Lottery, employs 900 people and had pre-tax profits of £56million on lottery ticket sales of £5billion in 2000. It:

- has a disability policy that promises to 'dismantle social and practical barriers' for disabled lottery players and staff
- won a commendation in Business in the Community's 2000 Impact on Society Awards for 'outstanding work in the field of corporate social responsibility'
- gave £1m to the Camelot Foundation during 2000 for distribution to community initiatives
- spent £385,000 to tackle 'excessive lottery play' during 2000.

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

■ the social report assessed the potential impact of National Lottery ticket sales on low-income families, people with gambling addiction problems, the under-16s and disabled people



comment **CAMELOT**

Camelot is a good example of how triple bottom line accounting can be used to build trust. The growing number of companies experimenting with such reporting is welcome; transparency is vital to reputation management.

The lessons to be learned from this case include:

- CSR is more profound than mere philanthropy
- A commitment to CSR and ethical conduct requires leadership from the top of the organization
- Social reporting and stakeholder dialogue have to be done professionally if they are to be meaningful. They are neither easy nor cheap to do well.
- Key performance indicators and independent verification of social reports are essential for external credibility
- There is a payback for investing in stakeholder dialogue in the contribution to strategy development and improved operating practices.

In time, we would like to see integrated triple bottom line reporting rather than a proliferation of reports. The Company Law Review could stimulate moves in that direction.

KEN RUSHTON, INSTITUTE OF BUSINESS ETHICS

SOCIALLY RESPONSIBLE INVESTMENT

engaging behaviour

Fund manager Friends Ivory & Sime argues that institutional investors have a responsibility to encourage companies to improve their governance of ethical and environmental issues. Its new Responsible Engagement Overlay service enables investors to use their influence to encourage positive change

Three years ago, Friends Ivory & Sime began to detect a shift in attitudes to socially responsible investment (SRI) among its pension fund clients.

After years of indifference, many of the London-based fund management firm's clients were taking a greater interest in the social and environmental performance of the companies in which they invested, partly as a result of the UK government's decision to introduce a regulation requiring fund trustees to publish their policies in this area.

At the same time, most of these clients complained that traditional approaches to SRI, which identify 'unethical' companies and then exclude them from share portfolios, conflicted with the views of some pension fund members. They also worried that screening was incompatible with the fiduciary duties of trustees.

The Responsible Engagement Overlay programme has been developed by FIS specifically to address these concerns. A new model for social responsibility in investment, it allows institutional investors to hold shares in any company, but commits them to 'engage' with the companies to persuade them to behave in a more socially responsible manner.

USING INFLUENCE TO BRING ABOUT CHANGE

FIS believes Reo allows institutional investors to meet the growing demand for a more responsible approach to ethics in investment without increasing risk. Moreover, it fits with FIS's conviction that investors, as owners of public companies, should use their influence to bring about change, and not simply withdraw. 'We believe ethical investment should be as much about changing behaviour as about staying clear of unpalatable activities,' explains Craig Mackenzie, who heads the Reo team. 'We are shareholders and when we argue for change based on the business case for social responsibility we can be a powerful force.'

Once a pension fund has agreed to allow FIS to apply Reo to its investments, FIS's 11-strong SRI research team swings into action. The team is currently split into five groups specializing in climate change, forestry, human rights, labour standards, and property and construction. Each group identifies areas where companies need to improve their ethical performance, and then engages with senior executives at face-to-face meetings.

One of Reo's most successful engagement programmes in the past year has been on labour

the company

FIS, the asset management arm of the life assurance group Friends Provident, made pre-tax profits of £24.7million in 2000 on turnover of £71.3m. It employs 400 people and:

- has employed socially responsible investment techniques since 1984
- has £37billion under management and manages £18bn of this using its Reo service
- ran a year-long series of seminars on human rights during 2000/1 in conjunction with the International Business Leaders Forum
- manages the investments for the pension funds of Oxfam and Christian Aid using Reo
- is a member of the SRI Forum, which brings together investment institutions and businesses, and has produced guidelines on ethical investment.

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

standards. In early 2000, FIS wrote to 11 British clothing companies asking them to explain what they were doing to tackle child labour in their supply chains. The responses analyzed, FIS then met with each company, often at chief executive level. 'We found some companies were managing these issues rather well, but that five hadn't even started,' says Mackenzie. 'We focused on those five and argued quite firmly that we thought this was a serious risk.'

eleven clothing retailers have now taken steps to address labour standards in their supply chains

The results were encouraging. The Welsh clothing company Peacocks, for instance, quickly adopted a clear policy on labour standards and now requires suppliers to sign up to a code of practice. Others were not so easily convinced. One company steadfastly maintained its customers were not interested in labour standards. FIS's response was to organize a private seminar at which clothing industry executives spoke to company heads about the problems they might encounter if they did not tackle the labour

standards of their suppliers in developing countries. 'The risk manager at that company was convinced there and then,' says Mackenzie. 'They've since done everything we've asked them to do.' All 11 companies have now taken steps to address labour standards in their supply chain.

The Reo team also forms alliances with 'constructive stakeholders' such as Amnesty International and WWF on certain issues. All negotiations are based on two core Reo principles:

- engagement takes place only on issues where a broad consensus amongst clients is expected
- engagement focuses on issues where the argument for change is backed by a convincing business case.

SHARING A COMMON AGENDA

FIS developed its consensus approach after commissioning an NOP poll of 1000 pension scheme members that found some traditional ethical investment areas, such as alcohol, concerned only a small minority of respondents. Other issues, such as arms manufacture, produced strong feelings both for and against. Crucially, there were others – such as pollution reduction, alternative energy, human rights and equal opportunities – where around 90 per cent of those polled shared a common agenda. Reo focuses on these concerns.

'Pursuing a tobacco company to stop making cigarettes would not be supported by a large number of scheme members, and is not likely to be successful', says Mackenzie. 'But we might, for instance, look at getting a tobacco company to change its marketing strategy in the developing world. We have to be clear that engagement doesn't solve all moral problems.'

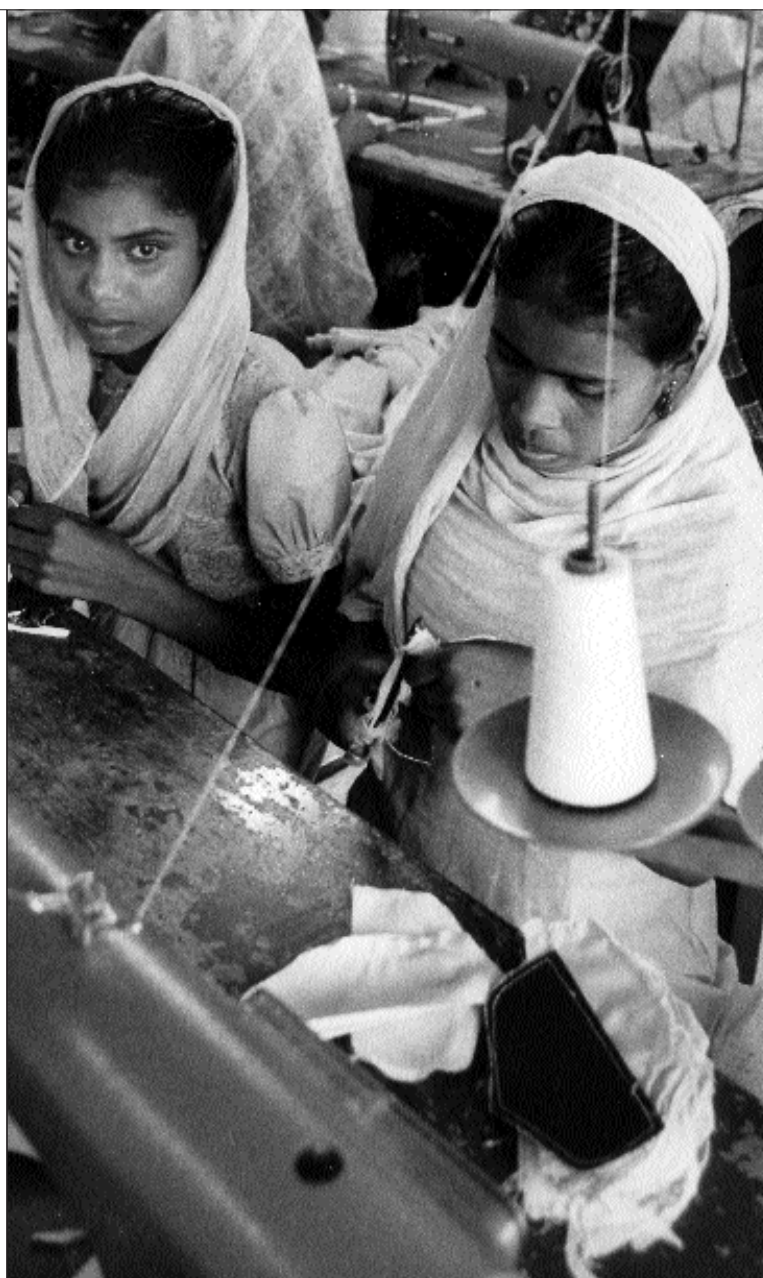
If boardroom engagement produces no results, then voting at annual general meetings is FIS's 'action of last resort'. For Reo clients, FIS will not pull out of an investment solely on ethical grounds, but will send to fund managers information on a company's policies on issues such as child labour. They may then, on purely financial grounds, reduce investment in 'laggard' companies to lessen risk.

Reo has helped FIS to win new business from institutional investors, including PPGM, the second largest pension fund in Holland. In addition, 318 of FIS's 320 existing institutional clients have adopted it.

FIS hopes that Reo, or variations of it, will become commonplace in the institutional investment community. 'We want to work with other mainstream investors to put CSR at the top of the board agenda, and to hold company directors to account for their ethical and environmental performance, just as we do on other corporate governance issues. This is a world away from traditional ethical investment.'

■ Further information: Craig Mackenzie at Friends Ivory & Sime on +44 (0) 20 7506 1538 or c.mackenzie@friendsprovident.co.uk

■ Friends Ivory & Sime believes that engagement on issues such as child labour has a more lasting effect than screening



PANOS



comment FRIENDS IVORY & SIME

This case sets out the way a large investment house responds to its clients' requirements for investments in socially responsible companies. Instead of excluding companies because of a dubious reputation, product or practice, FIS 'engages' with them. Meetings with senior executives raise awareness of mainstream issues involving corporate social responsibility such as pollution, human rights and equal opportunities. Positive changes have resulted.

Features that impress about this model include:

- The likelihood that companies will listen and, where necessary, change their practices. This helps to improve governance of corporate social responsibility.
- Engaging on issues where consensus is possible, thus avoiding vociferous single issue disputes
- Working with others where possible to achieve a coherent approach by, for example, forming alliances with 'constructive stakeholders'
- Insisting on transparency with clients.

Constructive engagement is more productive than confrontation. This approach can generate a positive relationship between shareholders and the company.

SIMON WEBLEY, INSTITUTE OF BUSINESS ETHICS

SOCIAL EXCLUSION

tackling financial exclusion

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

Doorstep trading and very high interest rates offer the only access to credit for many in Salford. In the most run-down areas of this once thriving conurbation just a couple of miles from Manchester city centre, those who have no access to credit from conventional lenders typically borrow money at interest rates of more than 40 and sometimes over 100 per cent a year.

Now Barclays – which, like all the main high street banks, has attracted criticism for not adequately addressing financial exclusion – has taken what it believes is a significant step towards providing Salford residents with a more socially inclusive banking package.

LENDING TO THE LOCAL COMMUNITY

Thanks to a partnership involving almost all sections of the local community, the bank has been instrumental in setting up an innovative new company, Salford Money Line, that provides unsecured loans to individuals and small businesses unable to borrow money from a bank or building society. Money Line opened its doors to borrowers in December 2000 and is offering loans in its first year to the residents of Seedley and Langworthy, an area of Salford blighted by economic

decline and social deprivation. Its ageing terraced houses periodically feature on BBC's *Newsnight* programme, which is following the progress of attempts to regenerate the area. If the pilot is successful, Money Line will expand to other parts of Salford and Manchester.

Thanks to a two-year secondment of Barclay's area manager Steve Unsted and financial support of £250,000 from the bank, Barclays – with Money Line's other founding partners, Salford city council and the University of Salford – has managed to pull together more than £2million of funding available over the next five years. Unsted began work on the scheme in August 1999, when the bank offered him the chance to spend the two years before his retirement working as project manager while it paid him his normal salary.

He has raised money from several sources. Salford city council has loaned £500,000 over five

Money Line is not just involving local people as customers – its board is also made up of locals

■ Money Line was set up in Seedley and Langworthy, an area of Salford that has been in economic decline since the 1970s



SALFORD MONEY LINE

years. The Phoenix Fund, a new central government fund, has put in £434,000. The university and three local housing associations have each put in £25,000. This funding is underpinned by £188,000 of European Union money over two years and a promise of £637,000 over six years from the UK government's single regeneration budget, which helps local authorities to regenerate run-down inner city areas.

Using this money, Money Line plans to make 150 loans totalling £150,000 in its first year. The loans, of between £50 and £10,000, have been tailored to fit the needs of the target market. The Fresh Start Loan helps pay off accumulated debts in one go, the Getting to Work Loan is for items such as a suit for a new job, and the Small Business Loan is for start-ups. One of the strengths of Money Line is that it does not give the financially excluded special treatment. Instead it offers them tailored services, just as other financial providers provide for wealthier market segments.

WIDENING THE SCOPE OF FINANCIAL HELP

The response has been encouraging: local newspaper advertisements and word of mouth have resulted in around 60 loans made to date. 'We're getting the level of business we want and we're reaching the people we want,' says Unsted. Clients can discuss a loan with two full-time staff and if approved, the money is put into the client's existing bank account or a Barclays 'no frills' cashcard account is opened.

By providing the loan through a bank account, Money Line hopes to fulfil its long-term aim of helping people on low incomes to enjoy a full banking package. According to the Financial Services Authority (FSA), this is one of the top priority needs for financial products identified by financially excluded households, and not having a bank account is seen as a barrier to obtaining a job.

Bank account holders can also save money by using direct debits to pay bills, which can save up to £46 a year, according to research cited by the FSA.

In the future Money Line hopes to provide clients with insurance, mortgage and other financial services. 'If all we do in the long term is provide loans then I think we will have failed because we are closely linked to the financial needs created by regeneration,' says Unsted. 'It's really about how we bring more money into the area, how we help people create their own businesses, get jobs and provide better living standards for themselves.' Ultimately, he says, the intention is for loan income to cover overheads, with any surplus put back into the community. The target for 2002 is to lend up to £400,000 in total to 400 individuals. Money Line then plans to make 1000 loans a year to clients in other parts of Salford and to cover costs by 2005.

Money Line is not just involving local people as customers: its board is also made up of locals. Board members include three local residents from Seedley and Langworthy, plus representatives from a firm of local solicitors, the city council, local housing

the company

One of the UK's largest high street banks, Barclays employs around 75,000 people in some 60 countries and has more than 15 million customers. Last year it made profits of £3.5 billion before tax on operating income of £9.6bn. It:

- published its first social report in November 1999
- has written off £1.4bn of debt owed by developing countries
- offers unsecured loans of up to £5000 through the Prince's Trust charity to help young unemployed people in the UK start a business
- was a founding member of the Cares Incorporated programme, which encourages UK companies to release staff for community work
- was one of the first financial institutions to agree to support the UK's Universal Bank, which will provide basic banking services for the financially excluded
- in response to the recommendation of the Social Investment Taskforce, Barclays was the first UK bank to disclose its activities in under-invested communities.

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

associations, and the Single Regeneration Budget partnership working to revive the area.

Community involvement has produced clear benefits for Barclays' reputation in the Salford and Manchester area. 'There are people who say "what's in it for them?"', but others have said, "Barclays are having the guts to do this – let's give them credit"', says Unsted. 'For a lot of people it's their first contact with the bank, and it's a favourable one.'

Unsted warns other businesses considering such ventures that partnership projects are not easy to pull together, but is adamant they will only work if all parties are on board. 'The partnership approach is our bedrock. This is public and private sector, local and national government, local businesses, university and local residents, all involved. It's not just an example of how you get people credit. It's an example of how to get a partnership together.'

■ Further information: Salford Money Line on +44 (0) 161 832 3033 or Rachael Barber at Barclays on +44(0) 20 7977 3627



comment **BARCLAYS BANK**

This case centres on a large business's relationships with the community. Barclays wanted to learn about the large number of people in parts of Salford with no bank account. The deprived local community wanted access to reasonably priced loans. Local, national and international programmes to help poor areas joined the venture. Barclays provided some cash and the know-how; others saw their grants begin to change attitudes and lives.

Features about Barclay's Money Line plan that impress are:

- A company's willingness to provide seed money can leverage significant sums to help socially deprived people
 - The realistic expectations about the venture working out in reasonable time
 - The make-up of the board, which engenders trust in the area
 - An equal partnership approach, used in other countries to include the excluded.
- Though public corporations are responsible to shareholders for the use of their money, the disposition of funds for schemes like this can be justified if the bank's reputation and its increased knowledge about small-scale banking are both enhanced.

SIMON WEBLEY, INSTITUTE OF BUSINESS ETHICS

CORPORATE GIVING

rising to the challenge

Transco has applied fresh thinking to long-standing concerns for health and safety with an initiative that has dramatically reduced accidents in the workplace, saved money and demonstrated the company's social responsibility while raising large sums for Mencap, a charity which helps people with learning disabilities

As a gas pipeline operator, Transco regards safety as its most important value. But delivering its ambitious commitment to 'an injury-free working environment' has never been easy. Despite high-profile safety campaigns, progress on reducing accidents at work had rarely been to its satisfaction—until managers decided on a different approach.

The Safety Charity Challenge involves asking all Transco employees to report and eliminate hazards, such as exposed electric cabling, that could lead to injuries and lost time.

For every hazard eliminated, the company gives around £4 to the learning disability charity Mencap (in Scotland, known as Enable.) If more serious hazards are identified and eliminated, this triggers a correspondingly larger donation.

Mencap also benefits whenever one of Transco's 18 office locations reports a drop in the number of accidents leading to time lost. The fewer such 'lost-time accidents' reported, the higher the sum paid by Transco to Mencap, with a bonus scheme to reward locations with the most vigilant employees.

The results of the Challenge greatly exceeded expectations. In the 18 months after the launch in September 1999, the number of lost-time accidents at the company fell by 33 per cent, saving 2521 workdays. In the same period, the Challenge triggered donations to Mencap of more than £1million from 14,000 eliminated hazards, making Transco the charity's biggest corporate donor.

Sandie Marshall, Transco's social and community affairs manager, says the response from employees has delivered 'almost unimaginable improvements', and has shown the value of linking corporate improvement to socially responsible behaviour.

Managers agreed that providing an incentive for staff was essential, and that a charity donation was the most practical solution. Nominations for a 'community action partner' were sought from all employees and Mencap was chosen because of its strong community links and high profile.

The nuts and bolts of the Challenge were developed in consultation with interested parties, including employees and civil servants. From the

14,000 hazards have been eliminated in the first 18 months, triggering donations of more than £1m



MENCAP

outset, Transco chief executive officer Phil Nolan and his directors provided backing for the Challenge to show the company meant what it said on safety.

The directors encouraged the development of the programme through the Health, Safety and Environment (HSE) department, and were keen to do all they could to get employees to take part. With this high-level support, the HSE department set up a national network of employees designated as 'Challenge Champions' through the company's existing national health and safety teams. The champions run the initiative in their local area.

Local involvement has been the cornerstone of the initiative. Employees' attention is focused on local hazards, local results are matched against local targets and the money going to Mencap is spent locally. This encourages maximum 'buy-in' by employees, who can see the outcome of their efforts.

■ Transco found that celebrating the scheme's success, as here with Olympic athlete Denise Lewis, was essential

‘Effectively, on the day of launch, we created 14,000 new health and safety ambassadors in the business’, says Marshall. It was no good motivating staff, however, without showing them what hazards to look for. Videos, posters and the staff newspaper were used – and even an audiocassette for the company’s mobile workforce to play in their repair vans. Regional bulletins carried the monthly totals of hazards removed and money raised. When this sum reached £750,000, company employees and Mencap families joined the Olympic gold medallist Denise Lewis in a celebration at London Zoo.

It was important to ensure the system for logging hazards could cope, so new hazard-reporting procedures were brought in. The regional Champions report monthly figures to headquarters, where totals are calculated. The information is then passed to Mencap and to the communications department and fed into the business and to other interested parties, including the energy regulator Ofgem and the government’s Health and Safety Executive.

CREATING SAFETY AMBASSADORS

The money raised by the Challenge will fund a nationwide network of 15 Mencap community support teams that provide local services to families of the 1.2 million people with learning disabilities. Each two-hour support session costs Mencap £50 to provide, so the money raised so far equates to 20,000 extra support sessions in the community.

The benefits to Transco have been equally dramatic. In the 18 months up to the launch of the Challenge the company lost 7650 workdays due to injury, but in the next 18 months that figure fell to 5129, with improvements across all regions.

Furthermore, at least 200 employees are thought to have been saved from personal injury. ‘If you look at the cost of injuries in terms of stress, pressure on families and so on, then the direct benefit for staff and the company becomes enormous,’ says Marshall.

‘The community element has enthused employees, which is why it has succeeded where other education programmes on health and safety have failed,’ she says. ‘The Challenge has helped staff embrace the safety-conscious culture.’

Less tangible, but also important, are the contacts forged between Mencap local staff and volunteers and company employees. The Challenge Champions have learned new skills, while other staff members describe how working with people with learning disabilities has enriched their lives. Marshall says the Challenge has had a noticeable impact on morale, and on how staff view Transco’s commitment to their personal safety.

In a general company opinion survey carried out by MORI in February 2001, every question relating to health and safety received an increased positive approval rating, compared with the same survey carried out two years earlier. The Challenge has also enhanced Transco’s reputation. To take but one

the company

Transco is a gas pipeline operator that delivers gas to 19.5 million consumers around the UK. Formerly part of British Gas, it is now a member of the Lattice Group, employs 14,000 people, and is based in Solihull. Lattice made pre-tax profits of £1 billion last year on turnover of £3bn. Transco:

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

the background The world-wide community spend of UK companies during 1999/2000 was around £450 million, an 11 per cent increase on last year (£405m), according to the annual survey by *Corporate Citizen* magazine, published by the Directory of Social Change, a voluntary-sector training body.

example, the Health and Safety Executive has supported the Challenge as an example of how dramatic results can be achieved through the right motivation. Trade unions have been pleased to see accident rates fall.

A significant reduction in employee absenteeism, leading to improved efficiency, ‘will positively impact on shareholder value’, Marshall points out.

The Challenge was to have run for a year, but this has been extended. However, it cannot be expected to deliver dramatic improvements over a long period. Marshall says: ‘Something like this can’t stay fresh for ten years, so we will look at how it can evolve to keep the safety culture alive’.

■ Further information: Sandie Marshall, social and community affairs manager at Transco on +44 (0) 121 623 2704



comment **TRANSCO**

There is plenty of discussion about the business case for sound ethical practices, but very little research or case studies. The Transco case helps to fill the gap. It addresses a genuine business need – lost time and money due to accidents – and the needs of a national charity for funds. Transco matched the two in an imaginative programme which is eminently repeatable elsewhere.

Some outstanding features are:

- The linkage between corporate safety improvement and socially responsible behaviour
- The involvement of employees in the choice of the charity
- The chief executive officer’s wholehearted involvement in the programme
- The involvement of the charity beneficiaries in company events – and *vice versa*
- The embodiment of a safety culture throughout the company.

The company claims that the programme will have a positive result on shareholder value. It has certainly raised Transco’s reputation among its employees.

SIMON WEBLEY, INSTITUTE OF BUSINESS ETHICS

EMPLOYEE RELATIONS

building a team

Corporate social responsibility is not practised only by large companies. A small hotel in southern England has developed innovative policies designed to improve the welfare of its staff. This has helped to strengthen the business and keep employee turnover rates at a low level

At the eastern end of the Isle of Wight, in a village overlooking the Solent and the English Channel, lies a small hotel. It only has 16 bedrooms and a standard room can be had for £70 a night in low season. Hardly the kind of place, you might imagine, where management would concern itself with ethical charters and stakeholder dialogue.

Yet earlier this year the Seaview Hotel became one of the first businesses to win accreditation from KPMG, the professional services group, for an ethical business charter run by the internet company GoodCorporation.

The Seaview has signed up to the GoodCorporation's commitments relating to different stakeholder groups, including customers and local communities. But the main focus to date has been to improve the welfare of its staff.

Attracting and retaining staff is one of the biggest headaches for any small company and is a particular problem in the hotel and catering sector, where, according to Mayday Employment Consultants, staff turnover rates are in excess of 50 per cent a year.

Nicky Hayward, who co-owns the hotel with her husband Nick, says keeping staff is an 'enormous problem' in the catering industry and claims that 'the money given to an apprentice chef can be less than

an apprentice hairdresser receives.' The longest-serving member of staff came to the Seaview as a washer-upper 20 years ago, and is now the hotel's highest-paid employee. Hayward says that 'as the longest-standing staff member, he should be adequately rewarded.'

The Seaview employs 40 staff and its turnover rate is just 14 per cent. 'Our staff are our greatest resource – if they are trained and valued individually then they will professionally care for the guests', says Hayward. Thirty-four of the 40 hotel staff took training programmes last year. Employees are encouraged to stay at the hotel and eat at the restaurant for a minimal price, so they can try out the food and see how the service feels. Each member of staff is paid to eat in other restaurants on the island so they can benchmark the Seaview's performance for themselves.

They also take part in 'job swaps' each year. Hayward says staff perform better and find their jobs more fulfilling if they spend time working elsewhere in the hotel. Last year she moved to laundry duty for one week, while her husband was in housekeeping.

'Being certified as one of the first "Good Corporations" allowed us to bring together our wider social responsibilities and state them in a much clearer way,' says Hayward. 'While our values and beliefs have existed since we began in 1980, the charter helped us to structure the company.'

■ Further information: Nicky Hayward at Seaview on + 44 (0) 1983 617677 or GoodCorporation at www.goodcorporation.com

staff members are paid to eat in restaurants so they can benchmark the Seaview's performance for themselves

ibe comment SEAVIEW

Small and medium-sized businesses consistently state that the business ethics issues which most directly affect them can be summed up in a few words: late payment and the retention of reliable staff.

This case illustrates the way one small hotel business has set about the second of these two issues.

What is noticeable about the owners' approach is:

- A strong desire by the owners to behave ethically
 - Staff welfare has been made a top business priority
 - Lower turnover rates indicate the policy is working
 - The 'job swap' policy is imaginative
- Business Ethics is not just the prerogative of the largest organisations: it applies to all businesses whatever their size.

SIMON WEBLEY, INSTITUTE OF BUSINESS ETHICS



■ Seaview owners Nicky and Nick Hayward say they regard their 40 staff members as their 'greatest resource'

