

Committee of Inquiry

A New Vision For Business

A new vision for business

A Report for the Prime Minister

Revised 2004

Summary report

Part I The Challenge

- 1 The Prime Minister's statement of support**
- 2 Introductory statement**
- 3 The Inquiry's remit**
- 4 Principal conclusions**
- 5 The Millennium Challenge**

Part II Overview

- 1 Introduction**
- 2 Setting the scene**
- 3 Partnerships**
- 4 Governance and accountability**
- 5 Competitiveness and the stakeholder approach**
- 6 The learning agenda**
- 7 Government as an agent of change**
- 8 Government as role model**

I Statement from the Prime Minister

The Government strongly supports business. We want to see competitive, innovative, efficient and profitable businesses in Britain. They are vital to a productive and competitive economy, and a cohesive and fair society.

That's why I welcome both the determination of this Inquiry to look to the future of business, and the chance to consider its recommendations. While we won't necessarily agree with everything it's proposing, we value the effort made by some of our best companies to stand back from the day-to-day pressures of business life and to offer some strategic thinking on the rightful importance and the way ahead for wealth creation.

The Government's role is not to try to do business' work for it. It is the job of business to do business. But the Inquiry rightly identifies a task for government in helping set the best framework in which business can succeed in a trading world now dominated by the twin factors of strong global competitiveness and rapid technological change. That means steering a course of economic stability, with low inflation and an end to boom and bust. It means regulation only where necessary, and in a way which does not damage business competitiveness. And it means providing the infrastructure of support - from high quality education and research, to support for small businesses - that a productive economy needs.

To win through in the tough circumstances of the new global economy will require a different way of doing business - a way which is in line with the economic demands of the 21st century rather than the 19th. Best business practice is, I believe, now clear on what that way forward is to a high-skill, high-wage, high-value-added economy. In the future, success in business will be rooted in knowledge, in quality, in better value, in ensuring the customer is central, and in improved performance.

Just as joined-up thinking is now vital to the way we must do government, so it is with business. That means focusing on all aspects of business - on flexibility and family-friendly employment policies, on learning and qualifications, on products and markets, on partnership and working together, on environmental standards and customer satisfaction, on bottom-line finances and long-term thinking, on responsibility and prosperity.

Government can play its part in all of this. Our white paper, *Our Competitive Future: Building the Knowledge Driven Economy*, sets a strategic direction, and the government at all levels is working to achieve its aims. Policies to ensure the success of business, the success of employment and the success of individuals are at the heart of New Labour. I value the contribution business makes, both in what it does and in thinking ahead in this report, and other initiatives to promote debate, consultation, change and improvement. And I look forward to continuing in the new millennium to work closely with business for Britain.

A handwritten signature in black ink that reads "Tony Blair". The signature is written in a cursive style and is positioned above a solid horizontal line.

PRIME MINISTER

2 Introductory statement

Competitive pressures today are greater than ever. In this environment, the principal obligation of companies is to improve performance. Companies can only meet their responsibilities to shareholders by keeping their customers at the heart of their business strategies, seeking always to provide higher quality and better value goods and services than their competitors.

At the same time, companies are increasingly aware of their responsibilities as an integral part of society to employees, the communities in which they are located, business partners and the environment. Companies' reputations and their *licence to operate* around the world depends on meeting these wider responsibilities while competing effectively.

Our experience, and that of many other companies, convinces us that these demands need not conflict. Indeed, by balancing these tasks we believe we produce better businesses. The failure to meet our wider responsibilities to society and the environment is unsustainable in the long-term.

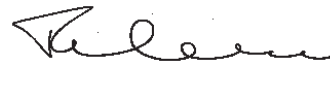
Economic strength and prosperity depends on business' competitive success today and in the future. Government has a special responsibility to create an environment in which businesses can remain competitive while purposefully addressing their wider responsibilities.

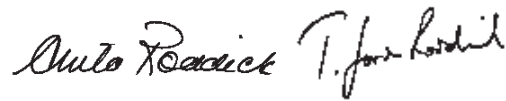
The views expressed in the papers commissioned by the Committee of Inquiry and summarised in Part II of this Summary Report are not necessarily the views of the individual companies or other organisations involved, but provide an important catalyst for future debate and action.

The eight sponsor companies are committed to the principles of social, environmental and ethical responsibility that permeate the Inquiry's output. We do not pretend to have all the answers to the many problems that we encounter as companies. We hope that others will be encouraged by our commitment to good environmental and social practice, and by the individual company case studies published alongside this report. We see this very much as a journey from which we are all learning as we go, from each other, from other companies, and from many others outside the business community itself.

The Committee of Inquiry has distilled a wide range of opinions down to a number of specific challenges that all UK businesses should now consider. It is a tangible expression of the importance of partnership between business and Government. A partnership drawing on the distinct competencies and capabilities of Government and business, plus a determination to work together to shape a more competitive and more responsible future.







3 The Inquiry's remit

The principal purpose of this Inquiry is to derive a set of public policy recommendations for Government and good practice recommendations for the business community itself. These recommendations have been arrived at through intensive debate and consultation, and are being forwarded to Ministers and other business leaders for their consideration and action. The Inquiry sought views from the widest possible audience. More than 150 research organisations, companies and independent experts have contributed to this Inquiry.

A diversity of views has been aired, from which a broad consensus has emerged. Both the Summary Report and the Full Report (with the detailed papers of the eight Research Co-ordinators) identify the cutting-edge of best business practice today in terms of sustainable development and corporate social responsibility. They also explore how best practice may develop in the next decade, and how it interfaces with competitiveness.

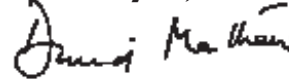
That means being actively involved in helping to raise awareness of the issues and to move the debate forward through dialogue, partnership and practical action – key elements in the search for world class business performance and international competitiveness. That readiness to act is reflected in the Millennium Challenge (see Part I, Section 5), to which it is hoped that Government and many UK companies will now be able to lend their active support.



Tom Cannon (Chair)



David Grayson, Business in the Community



David Mathew, New Academy of Business



Jonathon Porritt, Forum for the Future



Donna Rispoli (Co-ordinator & editor)

4 Principal conclusions

- 4.1 It is generally recognised that companies which inspire the engagement not just of their shareholders but of a wider circle of *stakeholders* (encompassing customers, employees, communities, suppliers, business partners and relevant non-governmental organisations) can be competitive in the short-term and more sustainable in the long-term than those which focus exclusively on the financial bottom line. Good business is, by its very nature, socially responsible business.
- 4.2 Since the publication of Royal Society for the Arts (RSA) *Tomorrow's Company* report,⁸ further research has confirmed that there is no fundamental clash between enhanced competitiveness on the one hand and meeting these diverse expectations on the other. This is already recognised by many leading companies (including the eight sponsoring companies behind this Inquiry), but by no means all. The 'win-win' outcome of many environmental improvements (reduced costs and a lower impact on the environment) is the most obvious of these convergences.
- 4.3 However, even in acknowledging that conclusion, companies will continue to point out that there are clear limits to this convergence between competitiveness and stakeholder strategies. The engagement of Government is crucial if the barriers to convergence are to be lifted, and corporate commitments to achieving the highest ethical, social and environmental standards are to be properly recognised and encouraged.
- 4.4 The Government has demonstrated its willingness and desire to develop different ways of working in partnership with the business community to help deliver a range of broader benefits to society. A central thrust of this Inquiry (and in all the reports from the Research Co-ordinators) is that there are now opportunities to reinforce that partnership approach in an even more engaged and creative way.
- 4.5 Government has a host of mechanisms available to it to deliver its side of that partnership strategy: economic instruments and incentives; brokering voluntary agreements; leading by example; advocacy, education and exhortation; leveraging supplier relationships; simpler regulation and so on.
- 4.6 The Government is promoting a range of new partnerships, including Regional Development Agencies, Employment Action Zones, Education Action Zones, the Single Regeneration Budget, Health Action Zones, Healthy Living Cities and The New Deal. Its advocacy of joined-up thinking in order to integrate these initiatives, both within the business community and the public sector, potentially adds a powerful new dimension to this strategy.
- 4.7 Given the Government's mandate not just to make the UK economy more productive and competitive, but simultaneously to reduce social exclusion and improve the quality of people's lives, the kind of stakeholder strategy advocated in this Report (through the Millennium Challenge) should be seen as an important element in delivering on that dual mandate.
- 4.8 For its part, the business community needs to embrace this agenda in a proactive way. Although the UK may justifiably point to an impressive track record in promoting best practice⁹ in this area (giving the UK a real advantage as both countries and communities start to ask more of firms seeking to trade profitably in their markets), there is too much reliance on an existing leadership cohort. Best practice needs to be spread much more widely throughout the business community, and Government has an important role to play in that process.
- 4.9 Engaging small and medium-sized firms in this agenda is especially important as their role as wealth creators increases. The upbeat conclusions of this Inquiry (that reconciling increased competitiveness with corporate responsibility is not only essential to the long-term prosperity of the UK, but highly desirable from a short-term business perspective) are unlikely to be borne out in practice without a more engaged ownership of this agenda by a higher proportion of SMEs. It is crucial to encourage the real risk-takers and innovators in the UK economy, and both Government and large companies have a role to play in this.
- 4.10 It is apparent from contributions to the Inquiry that people are coming at this agenda from a host of different places: the environment movement, corporate social responsibility in progressive companies, increased competitiveness and profitability, ethical business behaviour, service to the customer, social justice campaigns, corporate governance concerns, labour relationships, community development etc. For some, the headline may be sustainability; for others, increased competitiveness, social exclusion or corporate ethics. But they are all reflections of the same concept: the responsible company. This Report is primarily about what Government can do to promote responsible business behaviour in partnership with business.
- 4.11 Linking Government and business in such an approach does not absolve individuals (as consumers and as citizens) of their own personal responsibility for integrating an environmentally and socially responsible lifestyle with their pursuit of material well-being and success. It is all too easy for individuals to point the finger of blame at either Government or business, ignoring the importance of meeting their own obligations in this area. Partnerships are not just for everybody else.

1 Introduction

- 1.1 The principal inputs into this Inquiry consisted of eight research papers investigating the following stakeholder themes (see Table 1).
- 1.2 These papers make up the Full Report of the Inquiry. Each paper went through several drafts, was circulated amongst groups of relevant experts, and provided the focus for a series of consultative seminars in 1998.
- 1.3 The Policy Recommendations in Part I of this Summary Report were derived from these papers after further discussion with the eight sponsoring companies, who have agreed that they should go forward as the priority areas for action. Each research paper also contains a number of additional, more detailed recommendations (emerging from the consultation process), which appear in their own right but do not necessarily reflect the policy of the eight companies.
- 1.4 Each research co-ordinator was asked to take into account a number of cross-cutting themes (competitiveness, the role of Government etc.), and it is these themes that form the basis of this Overview. Again it must be stressed that the views expressed in this Overview are not therefore those of the eight sponsor companies as such, but clearly do reflect the overall spirit in which the Committee of Inquiry was established.
- 1.5 Each research body was also asked to bring together telling examples of *best practice* in terms of current company initiatives in each of these themes. Examples drawn from the eight sponsoring companies have been brought together in a collection of case studies accompanying this report.

Table 1 Structure of the full report for the Committee of Inquiry into a New Vision for Business

Papers	Research Co-ordinators	Lead companies
1 Policy options		Tom Cannon * Tesco
2 Consumers		John Winward & Jill Johnstone, National
Consumer Council	BT	
3 Employees		John Knell, The Industrial Society
Unipart		
4 Shareholders		Philip Stiles, Judge Institute, Cambridge
University	NatWest & BT	
5 Supply chain alliances	David Wheeler <i>et al</i> , Kingston University Business School	The Body Shop & Unipart
6 Communities		David Grayson, Business in the Community
Diageo		
7 Environmental sustainability		James Wilsdon & Jonathon Porritt, Forum for

5 The Millennium Challenge

Public policy recommendations

The principal purpose of this Inquiry was to develop a set of key recommendations for Government. The Inquiry now urges the relevant Government departments to adopt the following public policy recommendations:

Corporate policy recommendations

At the same time, the Inquiry has developed a set of recommendations for the business community, and now urges companies to adopt the following corporate policy recommendations:

1 The stakeholder vision

Public policy recommendation

The Government should promote stakeholder business initiatives as a critical element in its overall competitiveness strategy, and work with leading companies to encourage proactive engagement with relevant stakeholders, including consideration of new voluntary standards, performance indicators and disclosure requirements.

Corporate policy recommendation

Companies should promote the idea of the stakeholder company (enhancing shareholders' interests by simultaneously meeting wider ethical, social and environmental responsibilities) through partnership initiatives with customers, shareholders, employees, suppliers and public sector representatives.

2 The learning age

Public policy recommendation

The Government should explore ways of rationalising the structure for work-related educational qualifications to create a *common currency* for qualifications across the entire adult field, with the Government acting as the national verifier working through National Training Organisations, awarding bodies, and statutory agencies.

Corporate policy recommendation

Companies should provide continuous opportunities for employees both to improve their own skills and to reinforce competitiveness strategies. Companies should consider widening these opportunities to embrace stakeholders in business and the community.

3 Business ethics

Public policy recommendation

The DfEE and DTI should develop the proposed Management Code on Ethical and Environmental Responsibility and Lifelong Learning (extended to include social responsibility), and promote this actively through business intermediaries, Regional Development Agencies and key trade associations.

It should actively consider the possibility of setting up a Directory of Good Practice on corporate governance and business ethics.

Corporate policy recommendation

Companies should produce Statements of Business Principles/Conduct or Guidelines which align with current best practice; use those Statements actively with suppliers and other key stakeholders; and regularly monitor compliance with and update those Statements in the light of changing practice.

4 Environmental sustainability

Public policy recommendation

The Cabinet Office must ensure that all Government departments continuously improve and annually report on their own environmental performance so as to provide a role model for the business community.

It should promote environmentally and socially responsible behaviour through each Department's procurement and purchasing policies.

Corporate policy recommendation

Companies should commit to substantial, year-on-year eco-efficiency programmes between 2000 and 2010 taking full account of the product life-cycle and adopting clear indicators and targets, including a minimum reduction in CO₂ emissions of at least 10% by 2010, against a 1990 baseline.

5 Community investment

Public policy recommendation

The DTI should act as the champion within Government on corporate community issues, and link with corporate citizenship initiatives within the FCO, DfID and other departments.

Good practice in corporate community investment should be included on the DTI's Enterprise Zone on the Internet, and in the DTI/CBI's Fit for the Future Campaign and Inside UK Enterprise.

Corporate policy recommendation

Companies should seek to measure and report regularly on their major impacts on communities and wider society (particularly in terms of their community programmes), actively working with business intermediary organisations to promote business involvement in the community.

6 The working environment

Public policy recommendation

As a major employer in its own right, the Government should set out to become a leader in benchmarking family-friendly employment practices throughout the Civil Service, and should use its influence and financial leverage to encourage local authorities, statutory bodies and the Higher and Further Education sectors to introduce the same exemplary practices.

Corporate policy recommendation

Companies should endeavour to create career structures and opportunities for those who choose to work more flexibly and/or on reduced or part-time hours, in a manner that is consistent with the need to promote more *family-friendly* ways of working in a rapidly changing and more diverse job market, and should respond in practical ways to the concerns and needs of disabled and other disadvantaged employees.

7 Partnerships

Public policy recommendation

The Government should make an explicit commitment to encouraging business and voluntary organisations to work together in mutually beneficial *two-way street* partnerships, as recommended by the recent NCVO/BITC Task Force.

Corporate policy recommendation

Companies should seek to participate, where appropriate, in partnership initiatives (involving other companies, trade associations, Government departments, professional bodies and key non-profit organisations) to develop core sets of indicators to provide internally and externally consistent measures of environmentally and socially responsible behaviour.

8 Strengthening the supply chain

Public policy recommendation

The DTI should facilitate a high-profile campaign on the competitive advantages and potential efficiency gains of partnerships within the supply chain. The DETR should incorporate a similar approach in developing its Guidelines for Best Value for Local Authorities.

Corporate policy recommendation

Companies should work with their suppliers and customers to redefine the value chain, and where appropriate to develop innovative ways of sharing knowledge and best practice to improve competitiveness and customer service.

9 Consumers

Public policy recommendation

The Government should take a leadership role in negotiating and simplifying a framework for consumer redress at the level of the EU and beyond.

Corporate policy recommendation

Companies should continue to place the consumer at the heart of their business objectives. They must do this within the context of an overall philosophy of responsible corporate practice. Companies must recognise that customer loyalty will increasingly depend not just on the services and products that they provide but also the means by which they provide them. In the course of responding to consumer demands, companies should seek to innovate in the media through which they serve customers, particularly in the field of e-commerce.

10 Reporting and advocacy

Public policy recommendation

The Government should actively encourage all intermediary business organisations, Regional Development Agencies, and all public sector Government employers (particularly in local Government, the NHS and HE/FE) to support these Principles, and work with those organisations in promoting best practice and in reporting regularly on progress.

Corporate policy recommendation

All businesses should be encouraged to endorse these recommendations, and to pursue best practice both in their own organisations and through business intermediaries. They should report regularly on progress made in ways that fit with their own reporting processes and schedules.

2 Setting the scene

- 2.1 These are challenging times in which to be urging UK companies to think more systematically about their wider responsibilities. Rapid technological change, increased global competition, higher customer expectations and rising costs are forcing firms of every size to review core business practices. Many sectors of the UK economy (especially manufacturing and agriculture) are suffering. The international scene is still highly volatile, even if the global meltdown that some were predicting would thankfully seem to have been averted.
- 2.2 The outlook on other fronts is equally challenging. The United Nations Development Programme's 1998 Human Development Report ³ revealed that the gap between rich and poor in both developing and OECD countries is getting wider every year. The International Labour Office (ILO) calculates that there are already more than one billion people in the world today who are either unemployed or underemployed, and the world's population continues to grow by around 85 million people every year. Our physical environment is under growing pressure, with each one of the key life support systems on which we depend increasingly imperilled.
- 2.3 Across the developed world, consumers have on average continued to get richer, and spending patterns have changed so that we now spend less on basic necessities and material goods and more on advanced products, customised services and leisure activities. However, this economic growth has benefited some sectors of the population more than others, and a substantial minority of the population even in many developed countries have a much more limited range of opportunities available to them.
- 2.4 Three of the key drivers of change have been identified as:-
- Globalisation** – accelerating the integration of business systems through which similar products or services are made available in every corner of the globe. The rise of global products and brands puts considerable pressure on societies to retain their diversity and unique attributes, but provides considerable commercial opportunities.
- Technological Change** – as well as speeding the process of globalisation, this is leading to a process in which entire industrial sectors find their markets challenged by new industries, whilst opportunities for new business, new learning and new forms of social interaction are opening up all the time.
- Empowered Consumers** – demanding ever higher standards in terms of quality and value for money, whilst simultaneously becoming more aware and active on a wide range of environmental, social and ethical issues.
- 2.5 The most significant change seems likely to be the growth of the *information economy* and the convergence of telecommunications, broadcasting and computing. As well as raising direct consumer questions of great significance, the information economy promises to revolutionise many other aspects of our life as electronic commerce develops. Many of the implications of these converging technologies have been highlighted in the first report from the DTI's Future Unit. The Government's goal (laid out in a detailed document, *The Digital Economy*, accompanying the recent White Paper on Competitiveness), is that the UK should have the best environment in the world for electronic trading. This is an extremely ambitious goal, posing a huge challenge to businesses (especially small and medium-sized firms), education and the Government itself. Equally profound shifts are occurring in the biosciences, materials technology, chemicals and so on.
- 2.6 At a time when governments the world over are perceived to be reducing their role as direct service deliverers and providers of answers to every problem, attention has shifted to the growing influence and wealth of leading companies. Some have argued that it is only business that can now provide the human, technological and financial resources to meet some of the problems alluded to above. Even those who are unnerved at such a prospect (on the grounds of what it means for the health of our democracies and civic institutions) acknowledge that business now has a pivotal role in delivering real improvements in people's lives over and above the goods and services they provide and the profits they generate.
- 2.7 One of the key findings from MORI's Annual Corporate Social Responsibility survey is that expectations of company involvement continue to grow, with a substantial majority of decision-makers continuing to believe that '*industry and commerce do not pay enough attention to their social responsibilities*'. However, increasing expectations and pressure on companies should be viewed in the context of increased scepticism towards large companies in their commercial role. Twenty years ago, over half the British public believed that the profits of large companies would automatically make things better for everyone, but now the situation has completely reversed, with only 26% agreeing with this statement and 50% disagreeing.
- 2.8 Increased affluence and education has led to more sophisticated and demanding consumers requiring a greater diversity of goods and services. Consumers are increasingly recognising their power in the market place, and a growing number are taking into account wider issues in their purchasing decisions (especially when they are

directly affected), as the development of fair trading products, organic foods, and ethical investment funds demonstrates. Many consumers are no longer simply interested in the characteristics of the product they are buying; they are interested in production processes and corporate behaviour. Only companies that are good at understanding their customers' requirements and preferences will succeed.

- 2.9 In many countries, however, problems of social exclusion are emerging, with some groups of consumers having increasing difficulty accessing the goods and services needed for full participation in society. The poverty trap in these communities is especially sharp as their comparative impoverishment stands in sharp contrast to the wealth around them.
- 2.10 There is an increasing awareness that the pace of change has quickened, creating greater complexity and anxiety for both employers and employees. Employers face greater uncertainty in devising competitive strategies and in balancing contradictory messages (e.g. valuing your employees, yet downsizing when necessary). Individual employees face increased difficulties in identifying which portfolio skills and competencies are required to cope with this uncertainty and with the blurring of traditional job roles. And how can the increasing demands of work be balanced with their desires and needs outside of work, particularly in terms of making work patterns more conducive to reinforcing stable and supportive families?
- 2.11 The Government recognises that as the nature of work and the notion of the job changes, our current social policy framework is likely to prove fragile and increasingly inadequate. New and imaginative policy responses are needed to recast definitions of how people contribute to society, how unpaid work should be rewarded, and how people are to access opportunities.
- 2.12 The Confederation of British Industry's nationwide campaign, *Fit for the Future*, to encourage more companies to adopt best practice is an important new development. Combining the resources of both Government and the private sector, it will provide an umbrella for national, regional and sectoral best practice initiatives, dove-tailing with current benchmarking of energy and raw material use through the Energy Efficiency and the Environmental Technology best practice programmes:-

'The most powerful process any company can adopt which delivers immediate, measurable and sustained productivity improvements is the transfer of Best Practice. If manufacturers adopted this easily understood principle and secured only the average best practice levels achieved by our leading competitors, the UK could achieve an increase in GDP of around £60 billion. If the balance of the economy adopted the same guiding principle the increase in GDP could be around £300 billion.' *

new task force to consider companies' Impact on Society. This is closely linked to the Business Excellence Model promoted by the European Foundation for Quality Management and the British Quality Foundation. Together with The Financial Times and a number of leading companies, the DTI is also sponsoring Business in the Community's *Awards for Excellence*, a powerful expression of the degree to which this agenda is now actively supported by the UK business community.

- 2.14 These are just a few of the ways in which Government and business can work together to promote best practice. However, if one projects these challenges out over the next decade, current best practice is unlikely to measure up to meeting these challenges. The real winners of the future, large and small, need to be getting to grips with future best practice now, and many of the ideas and recommendations in this Report are geared to that kind of time-frame.

- 2.13 At the same time, Business in the Community (BITC) has set up a

3 Partnerships

- 3.1 One of the most powerful recurring themes in this Inquiry is that many leading companies have moved beyond the rhetoric of partnership into the practice of partnership. The benefits for companies with a partnership ethos bear directly on the competitiveness of those companies.
- 3.2 This is picked up in the recent White Paper on Competitiveness:-
- ‘To compete more effectively we have to collaborate more intelligently. Few companies have all the skills to make and market technologically complex products. Successful businesses depend upon strong team work — with suppliers, customers, joint-venture partners, universities and between managers and employees. The Government will act as a catalyst to promote creative collaboration between businesses and within regions.’⁵*
- 3.3 It may sound a paradox, but it’s clear that some companies today are reinforcing their competitiveness by behaving less competitively in their relationships with suppliers and business partners. Kingston Business School emphasises that real commonality of interest is what generates the benefits in any supply chain alliance. The Institute for Purchasing and Supply Development at Eindhoven University has identified a trend in companies moving from competitive bidding to co-operative buying. Firms are moving from the ‘*best of three tenders*’ mentality to a conscious strategy of adding value through the supply chain.
- 3.4 The basis of a good partnership is a clearly defined, mutually agreed framework setting out joint objectives and any legal requirements. Success comes from setting demanding targets, and working together to achieve them.
- 3.5 This would seem to indicate that we are moving into an era of increasing complexity, where the most competitive and efficient approach to business development is to open out the firm and establish new relationships (e.g. technological alliances, supply chain partnerships, and even joint distribution arrangements) between producers in order to maximise customer value. The bottom-line benefits of such an approach are mapped out in a study of eight multinationals referred to in *Strategic Supply Management*, by Tom Chadwick and Shan Rajagopal.
- 3.6 The same might well be said to apply to relationships in the workplace. The report from The Industrial Society underlines the strategic significance for employers to build robust partnerships within the workplace, and between key agencies attempting to affect change. Whilst there is no agreed definition of ‘*partnership at work*’, it implies a sense of mutuality, common action and purpose. Leading companies have pioneered the practicalities of partnership of this kind for many years, partnerships which depend on a high degree of trust and on the quality of the dialogue.
- 3.7 In this context, Employee Share Ownership Plans (ESOPs) emerge from the Inquiry’s research as one of the most effective mechanisms for shifting ‘*them and us*’ workplace relationships into more of a ‘*we’re all in this together*’ mentality. This has been powerfully reinforced by measures announced by the Chancellor in the 1999 Budget to help promote ESOPs. The Chancellor has said that he wants to double the number of people who invest in the companies they work for (from one million to two million people) on the basis of studies carried out in America and France which show that companies in which a high proportion of employees own shares are more successful.
- 3.8 This should be just the start of a more radical appraisal of how best to promote *new ownership solutions* to some of today’s economic and social problems. As Jeff Gates (author of *The Ownership Solution*) puts it, capitalism is very good at creating capital, but not so good at creating capitalists.
- 3.9 A key principle in all of this is reciprocity. Continuous professional development, for instance, is a genuine two-way street: both companies and individuals benefit from the acquisition of additional skills and qualifications. Companies who see themselves as *learning organisations* are investing in their own future competitiveness as well as in the development of individual employees’ *human capital*. Unipart, Ford, Motorola and others have institutionalised this wider learning commitment through corporate universities, designed to break down the barriers between the world of work and the world of learning.
- 3.10 The Government wants to see clearer guidance for companies of all sizes on assessing the strengths and weaknesses of their *intangible assets*, including the skills of all employees, leading to guidance on disclosure of these assets in the Operating and Financial Review. The DTI has asked the Accounting Standards Board to take another look at this issue, and will itself be commissioning research into improving methods for measuring intangible assets (see section 6

below, *The Learning Agenda*).

- 3.11 It is harder to discern the same kind of transition to equally engaged partnerships between companies and their shareholders here in the UK. What has been termed *relationship investing* (where large institutions commit to much more direct and longer-term relationships with the top managers and non-executive directors of companies) has been slow to develop. But the research done for this Inquiry by the Judge Institute indicates that things may now be starting to change in this area too.
- 3.12 The recent announcement by the Government that from April 2000 onwards it will require trustees of occupational pension schemes to disclose whether or not they have a policy on environmental, social and ethical concerns, underlines the importance of greater transparency and accountability within the investment community. It will now be easier for members of occupational pension schemes to indicate to trustees their own views on *socially responsible investment*, and pension advisers will clearly need to raise their sights when guiding Trustees on their investment policies.
- 3.13 Elsewhere, the Government has made it clear how high a priority it believes *partnering* to be. Speaking at the launch of a new initiative in November 1998, Lord Simon (Minister for Trade and Competitiveness in Europe) commented:-

'Partnering has real benefits for business. Highlights from recent market research show that over a seven year period (1990 to 1997) 76% of companies reported significant reductions in costs; 73% have reduced their inventory; 70% have increased quality, and overall 94% consider partnering practices to be successful. Collaborations between companies, universities and business support organisations can provide and spread the skills needed to be successful. It is important that business and Government share in this approach as the competitive climate sharpens. Knowledge, innovation and process capability of each individual business cannot always provide the required competitive edge. Partnership and teamwork can be the extra step you need.'

- 3.14 It is not difficult for business leaders to rationalise the benefits to shareholders of these respective partnerships. Innovative though they may be in terms of business culture, they clearly add value in quite conventional ways in terms of enhanced reputation, new business opportunities and so on. Partnerships with not-for-profit voluntary organisations and community groups are rather harder to rationalise in such terms. But the links between improved performance, enhanced reputation and shareholder value are becoming more robust all the time.
- 3.15 This Report has been keen to emphasise the importance of partnership between Government and the private sector. In all sorts of areas, there are opportunities to move things forward through collaboration on voluntary approaches rather than by Government automatically resorting to new regulation. On climate change, for

instance, the Department of the Environment, Transport and Regions (DETR) is now pressing all top companies to measure and report on their emissions of carbon dioxide and other greenhouse gases. To make this easier, the DETR and DTI are able to provide a range of support mechanisms, best practice databases, and so on.

- 3.16 With the Government now in negotiation with a number of trade associations in key sectors of the economy to come up with voluntary agreements on CO₂ and other key environmental indicators, this kind of partnership (first pioneered in the Netherlands) will become more and more common.
- 3.17 One thing is already clear: such partnerships have to be *an open book – no secrets, no surprises*. Openness is a critical factor in all the different patterns of partnership referred to in the research studies – with communities, environment and human rights NGOs, with employees, and of course with the customers and shareholders themselves.

4 Governance and accountability

4.1 Since the publication of the Cadbury Report, corporate governance issues have featured prominently in all large public liability companies. There is now widespread acceptance of the general proposition that the way in which a company accounts for its activities, and to whom, is a crucial component of its *licence to operate* in society. As the RSA's Tomorrow's Company Report made clear, companies operating in an increasingly transparent global economy must answer with the same candour to all their stakeholders. Statements on corporate governance are now the norm in the annual reports or reviews of plcs.

4.2 These expectations can only rise further, not least because of technological change. As Jane Nelson of the Prince of Wales Business Leaders Forum puts it:-

'Democratic and technological advancements have underpinned a blossoming of civil society organisations and citizen action. This ranges from millions of tiny community initiatives to mobilisation on a world-wide scale, supported by unprecedented communications capacity via the Internet and a sympathetic media. A strong focus of these activities has been to call for greater accountability on the part of both Government and business. In a 'network world' there are few hiding places for companies which operate unethically or irresponsibly, especially multi-national companies.'

4.3 Traditionally, accountability has usually been interpreted as accountability to shareholders. The research for the Inquiry by the Judge Institute demonstrates that there is still much to be done even in this area, both at the micro-level (to improve relationships between shareholders and managers) and at the macro-level to reinforce the reputation and credibility of individual companies and stock markets in the global economy. This requires much greater transparency in the way companies make information available to shareholders, and in the way institutional shareholders justify investment decisions (this is as important for publicly funded bodies - Government departments, universities, health trusts and so on - as it is for large plcs).

4.4 A recent briefing from Merrill Lynch highlighted some of the criticisms that have been levelled against an orthodox shareholder model:-

'A 'weak' line of criticism argues that an often narrow focus on short-term shareholder returns may not be the best way to boost long-term shareholder value; instead, companies need to pursue

complex intermediate objectives. A second 'strong' form of criticism argues that the ultimate goal of maximising shareholder value is itself too narrow, and that a company has a social duty to balance the interests of all the stakeholders within it - including shareholders, employees, suppliers, creditors, customers and even the local community.

Common to both the 'weak' and 'strong' criticisms is a perception that the shareholder model may have a tendency to undervalue the significance of human capital, trust and long-term relationships between corporate partners, to ignore the importance of costs or assets that are not easily financially quantifiable, and to have a focus that is too short-term.' ⁶

4.5 Such criticisms underpinned the conclusion of the *Tomorrow's Company Report*, where it was eloquently argued that accountability can no longer be limited to that which is owed to shareholders. A strategic commitment to the *partnership approach* advocated throughout this Report necessarily entails a readiness to report to stakeholders on how a company has performed against a range of social, ethical and environmental criteria. As the Centre for Tomorrow's Company reports, 40% of business leaders now believe that a company cannot succeed unless it has accountability that goes wider than shareholders.

4.6 This agenda is not about doing good in some old-fashioned philanthropic way. It is about doing well by doing right.

4.7 *Doing right* needs to be interpreted at two levels. The first is in those areas where there is a demonstrable *business case* for adopting certain courses of action, however disconnected from the bottom line they may at first sight appear. Investment in learning opportunities for employees; strategic engagement with host communities; internalisation of environmental costs to enhance long-term reputation: a powerful business rationale exists for adopting these and many other progressive policies, especially when reputational benefits are more rigorously assessed.

4.8 However, as the New Academy of Business points out, an exclusive dependence on this kind of *business case* can be dangerous. After all, if there is a business case for a course of action, then competent managers should find their way there anyway, regardless of moral promptings. This is not to say that good behaviour that comes from the business case argument is not important, but it does not in itself

- raise the sights of business to a broader consideration of its role in the world. The deeper educational task is to develop organisational cultures where moral and emotional frameworks can take their place alongside conventional measures of business success. In other words, to develop a business paradigm that reflects what it is to be human.
- 4.9 One of the most interesting explorations of what this may mean in terms of company law appears in the first consultation document from the Government-appointed Company Law Review Steering Group:-
- 'A case is recognised for ensuring that company managers have regard, where appropriate, to the need to ensure productive relationships with a range of interested parties and have regard to the longer-term. A distinction is drawn between the 'enlightened shareholder value' approach, which asserts that this can be achieved within present principles, but ensuring that directors pursue shareholders' interests in an enlightened and inclusive way, and the 'pluralist' approach, which asserts that co-operative and productive relationships will only be optimised where directors are permitted (or required) to balance shareholders' interests with those of others committed to the company.'*⁷
- 4.10 The consultation document also floats the idea of companies having a two-tier Board, as in Germany, with *supervisory directors* having wider responsibilities beyond financial performance, and further suggests that companies may be required to report on their social and environmental performance in their Annual Reports. Throughout the Report, more open and comprehensive disclosure is flagged as a crucial aspect of corporate accountability.
- 4.11 No formal recommendations will be forthcoming from the Steering Group until the end of 1999, but the overall thrust of its preliminary consultation document provides an important affirmation of the benefits of a stakeholder approach in terms of improving company performance and competitiveness. A powerful consortium of NGOs is now urging the Government to think much more proactively about making companies publish comprehensive information on their social and environmental performance.
- 4.12 It may well prove to be the case, in a few years time, that this is something of a non-debate, with reputation acting as the missing link between the two models. As the White Paper on Competitiveness puts it, *'commitment to the local community and its economic, social and environmental concerns, builds reputation.'* And reputation underpins shareholder value.
- 4.13 A consortium of six multinational companies recently completed an extended project to examine the link between shareholder value and sustainable business strategies (*Sustainable Strategies for Value Creation*).⁸ Their conclusions emphasise both the importance of transparency and the direct correlation between the implementation of sustainable business strategies, substantial reputation benefits from communicating the direct business value of these strategies, and the contribution that reputation makes to shareholder value.
- 4.14 However, as many business leaders have ruefully pointed out, reputation is hard-earned but easily lost. *Credibility gaps* can easily emerge when dealing with such a wide range of increasingly sophisticated stakeholders. For instance, successive studies have pointed to a large *participation gap* at work, in so far as the aspirations of workers to be more involved in their work and in their organisation are frequently not met. Whilst it has become an accepted truism that employees are a company's most valuable asset, developing policies which deliver employee commitment and enthusiasm requires the development of adaptive and innovative management strategies.
- 4.15 It is well understood, for instance, that family-friendly working arrangements can help organisations achieve real quality, by developing and using the skills and potential of all their employees in a cost effective way. Nonetheless, relatively few organisations display a genuine commitment to supporting individuals' life balance, and even in organisations which have in place a formal policy on flexible working, good practice can be patchy.
- 4.16 A 1998 report from the Institute of Business Ethics (Lejeune & Webley, *Company Use of Codes of Business Conduct*) revealed significant gaps between policy and practice. Many companies are failing to put their codes of ethical conduct into practice and these codes often remain unknown to staff, customers and other stakeholders. At the same time, many companies have either no procedures or inadequate procedures to protect *whistleblowers*, despite important new legislation to encourage employees to spill the beans about illegal practices.
- 4.17 Ethical deficits in organisational practice have a corrosive effect on the employment relationship, often generating mistrust in the workplace. Moreover, these findings underline that for many the reality of their employment experiences is divorced from best practice. This does not mean that the identification of innovative future policy is any the less important, but it does underline the fact that the widespread adoption of current exemplary practice (identified under each of the key policy areas covered by the Research Co-ordinators) would represent genuine innovation in itself.
- 4.18 This is particularly true as regards the quality of dialogue between companies and their customers. Evidence from surveys and consumer research show that levels of mistrust and cynicism (about claims on ethical and environmental behaviour, for instance) remain high — and not without good historical reason in some cases. But the problem is that the *good guys* get caught up in this all-pervading suspension of trust, paradoxically making it harder for proactive and progressive companies to move things on as fast as they might like in the face of consumers' indifference or disbelief.
- 4.19 As it happens, evidence as to negative publicity arising directly from voluntary disclosure of environmental problems, or less than perfect social and ethical performance, is extremely hard to come by. The *warts and-all* approach to reporting carries far fewer risks than is often claimed, just so long as the company is seen to be genuinely

engaged in improving its performance in those areas where it has acknowledged weaknesses. Notwithstanding that lack of evidence, many companies are still extremely nervous of providing *ammunition* to those in the media and NGOs who are perceived to have little interest in genuinely balanced reporting of companies' performance.

- 4.20 The idea that companies (especially those with a hard-earned reputation to enhance and global brands to protect) must answer to a range of external stakeholders is now well understood. But this is often portrayed in the media as companies simply reacting to other people's agendas. Little attention is paid to the internal corporate dynamic for embracing such an approach.
- 4.21 The external pressures on companies are on a slowly rising upward trend. The empirical data concerning the damage done by environmental and social externalities is increasingly robust. The pressure on business exerted by governments in OECD countries is steady but inexorable, even though the form that pressure takes may change (see section 5 below). Companies are constantly adapting their behaviour in such a way as to meet those external challenges, and a small but significant proportion of companies are developing proactive policies and practices rather than waiting for pressure to grow from outside the company.
- 4.22 This shift is occurring as much to build sound business relationships, to win commitment from staff, and to maximise opportunities in an increasingly dynamic business environment as in response to external pressure. For instance, social and ethical accounting, auditing and reporting has emerged during the 1990s as a new realm of expertise for simultaneously increasing social accountability and strengthening the ability of companies to manage and navigate through complex environments. Several UK companies have led in this field, and support from UK companies has also underpinned the development of the London-based Institute of Social and Ethical Accountability, the first international professional body in the field. The UK leads Europe in this aspect of the knowledge economy.
- 4.23 The level of interest in both environmental and social reporting continues to grow, not least because of moves by the DETR to encourage all companies above a certain size to make themselves more accountable to a wide range of stakeholders through such reporting. The latest report from the Association of Certified Chartered Accountants (ACCA) *Making Values Count* suggests that companies have discovered a *double dividend* in making this commitment:-

'Reporting on social and ethical performance is therefore not simply a matter of disclosure, but an integral element of the process of communication between the company and key stakeholders. In this sense, reporting is a way in which stakeholders can see if the company 'listened' to their concerns, and over time whether they have responded in practical terms. In conclusion, therefore, reporting is essentially an element of the communication, dialogue, learning

*and decision-making processes, rather than the endpoint in a retrospective analysis.'*⁹

- 4.24 Inevitably, an Inquiry of this kind gives a somewhat distorted picture of the relative responsibilities of large, medium and small companies. Around 70% of companies in the UK have fewer than 500 employees; 45% have fewer than 50. In many of our most deprived communities, it is small and medium-sized firms which make up the business community, and on whom much of the responsibility for engagement in the community and environmental improvement falls, as is made clear in the research paper from BITC.
- 4.25 Small firms are pioneers in opening up new markets created by economic, social and environmental change, and are keen to play their part in broader strategies that help build local and regional prosperity. The partnership between Government and business to deliver these goals will need to take special account of the distinct requirements of small and medium-sized firms. Tripartite initiatives (between Government, smaller companies and their larger customers or suppliers) have enormous potential for achieving significant improvements in performance.

5 Competitiveness and the stakeholder approach

- 5.1 It has been argued that the UK's long-standing economic weaknesses in the past led to the predominance of competitive strategies based on low value-added, low quality and effort-intensive production systems. It is now widely accepted that the UK economy needs to become a high skills, high wage, high value-added economy if we are to halt the century of decline highlighted by the Prime Minister in his introduction to the Competitiveness White Paper. In that context, remaining competitive is not an option. Uncompetitive companies (however virtuous, ethical and socially responsible they might be) will simply not survive. There is nothing so unsustainable as a company that goes bankrupt trying to put the world to rights as its core business disappears down the pan.
- 5.2 By the same token, companies that compete unfairly by destroying the environment, exploiting their employees or giving nothing back to their host communities, should find it equally difficult to survive. Their apparent competitiveness is in fact the result of unfair subsidies extorted from the natural world and disempowered people. If competitiveness is principally a measure of the success with which companies externalise their costs, specifically to avoid real competition in terms of the price that should be paid on a more level playing field, then the pursuit of competitiveness at all costs is a zero sum game that no sensible Government would wish to be a party to.
- 5.3 Reconciling these two imperatives is one of the biggest challenges confronting our wealth creators today. Instead of trading off environmental and social benefits against growth and new jobs, maximising the one only at the expense of the other, the goal must be to create the conditions where social and environmental benefits go hand-in-hand with competitive advantage. As the ACCA *Making Values Count* report puts it:-
- 'The language of ecology, learning, inclusivity and accountability lies at the heart of our vision of the business of the future. However, moving from rhetoric to reality in a competitive economy requires a peculiar blend of daring and caution – innovating for the future within severe short-term pressures and constraints.'* ¹⁰
- 5.4 It is precisely that balance of long-term vision and short-term incrementalism that underpins this Inquiry. The eight participating companies come from different sectors, often competing in very different countries. They have one goal in common: to be successful in business. Competition is not an option. But the prospect of enhancing their competitiveness partly through the kind of socially and environmentally responsible business practices outlined in this and many other reports is an attractive one.
- 5.5 The evidence that their own commercial sustainability will in fact be reinforced by such commitment is building all the time. There are now literally dozens of studies and reports making the link between business success and *corporate social responsibility*, defined in the broadest way. Stanford University's *Built to Last* is perhaps the best known of these, tracking both the relative success of a number of leading US companies against the next best in their sector, and their commitment on a wide range of progressive policies towards employees, communities, the environment and so on. The headline is a simple one: if you want to thrive tomorrow as well as today, look after your stakeholders as well as your bottom line.
- 5.6 Corporate community investment, cost-cutting through eco-efficiency measures, maintaining loyalty through the supply chain, stronger links with investors, re-inforcing employee motivation and other investments in this inclusive agenda can all be shown to provide tangible commercial returns. There are even a growing number of signals that the investment community is cottoning on to this business reality, principally from the point of view of better representing the interests of shareholders.
- 5.7 These and many other complementary research findings are summarised in the Centre for Tomorrow's Company's excellent report, *The Inclusive Approach and Business Success*. Summarising the value of that research, the Centre's Research Committee concludes that they constitute a weighty body of evidence:-
- 'At the very least, the research supports the view that the inclusive approach, while serving shareholders' interests, particularly in the long-term, does lead to business success as a result of improved customer satisfaction, greater commitment on the part of employees, a more effective supply chain, and an enhanced reputation in the community at large.'* ¹¹
- 5.8 The Centre is currently testing and validating a 'balanced scorecard' based on measuring the extent to which a company is meeting the expectations of its principal stakeholder groups.
- 5.9 And from the slightly narrower perspective of the link between eco-efficiency and financial performance, the US-based Alliance for Environmental Innovation reviewed all the available studies in this area and concluded:-
- 'That out of 70 studies, not a single one found a negative*

correlation between superior environmental performance and financial performance. These studies collectively suggest that environmentally superior companies command a market place premium of 150 to 250 basis points.’¹²

- 5.10 Neither the Centre for Tomorrow’s Company nor the Alliance for Environmental Innovation sets out to prove the truth of their basic hypothesis (*‘a successful business will better serve its shareholders by focusing on the needs of its customers, employees, suppliers and the wider community’*), but it stacks up the evidence to the point where any reasonable person must begin to ask what more might be required to demonstrate a binding cause and effect relationship between increased competitiveness and environmentally and socially responsible behaviour.
- 5.11 For example, clear evidence now points to the fact that generating trust and commitment among the workforce, articulated through clear channels of participation and representation, is vital in delivering performance improvements and building knowledge-rich organisations. The DfEE now categorically asserts that *‘employers who go beyond the needs of the business and invest in transferable skills, general competences and continuous learning for all their workers, are rewarded by increased competitiveness’*.
- 5.12 Terry Thomas, a former Managing Director of the Co-op Bank and now Chairman of the North West’s Regional Development Agency, puts it as follows:-
‘Why is the tide turning against the shareholder-first theorists and towards the visionaries of ethical business? Firstly, many business people believe that these theorists do not live in the real world of business, but in a utopian dream. The implication of their argument is that a business that accepts social responsibilities other than to make as much money as possible for shareholders will automatically suffer a drop in profits. This is based on the flawed assumption that an ethical business, which internalises social and ecological cost, is acting in an altruistic or paternalistic manner. However, in the late 1990s it is clear that many of Britain’s leading businesses are adopting ethical practices out of a hard-headed appreciation of their corporate self-interest.’
- 5.13 This is increasingly familiar territory for many business leaders. The majority of FTSE 100 companies now incorporate social and environmental commitments into their core mission statements. BP’s statement of business policies illustrates this dimension in its opening line: *‘A good business should be both competitively successful and a force for good.’*
- 5.14 The Committee of Inquiry understands that whilst competitiveness and the encouragement of social and environmental responsibility are positively related in most cases, not every move to exemplary practice improves the short-term financial performance of a company. In some areas there are inevitable trade-offs, and where such trade-offs exist, the case for change has to be made on the

basis of clearly articulated values and ethical arguments as well as long-term shareholder value. Nor is this by any means the only strategy that companies will adopt to become more competitive.

- 5.15 There are also many things that have to be done because they are deemed right in themselves even if they cannot be shown to be good for the bottom line. Since the start of the industrial revolution, governments have constantly intervened in markets to protect consumers, reinforce competitiveness, establish minimum standards acceptable to contemporary society, outlaw immoral or unethical practice, and require companies to internalise some of those costs which in the pursuit of competitive advantage they would otherwise be inclined to pass on to the environment or leave to future generations.
- 5.16 It is important that this balance should be reflected in the recently-announced Competitiveness Index. The Index will consist of *‘a set of indicators to track British performance and guide policy development’*. At the same time, a new Competitiveness Council will be set up, drawn from a cross-section of business leaders. Again, it is important that its work should be informed by the recommendations of this Inquiry, especially the wider definition of competition encompassed by the Inquiry, looking as much to 2010 as to 2000.

6 The learning agenda

- 6.1 The Government's Competitiveness White Paper is based on its analysis of what it sees as the UK's distinctive capabilities:-
- 'In the increasingly global economy of today, we cannot compete in the old way. Capital is mobile, technology can migrate quickly and goods can be made in low cost countries and shipped to developed markets. British business must compete by exploiting capabilities which its competitors cannot easily match or imitate. These distinctive capabilities are not raw materials, land or access to cheap labour. They must be knowledge, skills and creativity, which help create high productivity business processes and high value goods and services. That is why we will only compete successfully in future if we create an economy that is genuinely 'knowledge driven.'*" ¹³
- 6.2 The reports from all eight Research Co-ordinators contributing to the Inquiry do indeed emphasise the growing significance of the *learning agenda* for those companies seeking ways today to get an edge tomorrow. There is a real convergence of interests here between the drive to become more competitive and the responsibility a company has for developing the skills and interests of its employees over and above the legal minimum. As The Industrial Society puts it:-
- 'Learning has to be integrated into all areas of a business, and not seen as an 'add on', or another initiative. It must clearly link to the organisation's mission, vision, values and objectives... Organisations need to develop an integrated approach to training and development plans for all employees. In this sense, a key foundation of innovative practice is the recognition that training and development cannot be a narrow agenda led by managers. It must reinforce a shared vision that aligns the aspirations and identifies the needs of individuals with corporate goals.'* ¹⁴
- 6.3 The rationale behind such an approach is now very widely accepted. *Investors in People* (iP) has long argued that companies can only achieve the highest standards in terms of commercial performance if they are able to count on genuinely committed, loyal staff, and that this kind of commitment has to be earned by companies investing in those employees.
- 6.4 Growing interest in the whole area of *human asset valuation* highlights the shift in thinking about the value of the *knowledge resource* built in to a firm through its employees. Just how much of a company's share price can be attributed to its *intangibles* (the intellectual skills and creativity of its staff, the good will and loyalty felt towards the company's products and brands etc.) remains a controversial area. Skandia, the Swedish financial services company, has pioneered work in this area by devising new ways of measuring the contribution of its *intellectual capital* to the company's success. Corporate Director Leif Edvinsson argues that:-
- 'The new knowledge economy is being undervalued and often misunderstood. One of the reasons for this is that the present financially-based accounting system is not capturing the driving forces and the dynamics of the new investment flows which are based on human capital as well as on IT and structural capital. They are instead reported in a way that makes the traditional balance sheet look hollow.'* ¹⁵
- 6.5 If it is true that rhetoric invariably precedes practice, then we are about to see some very profound changes in corporate practice in this area. All leading companies now put their own unique spin on how their employees constitute their principal asset in becoming more productive and competitive, but policies that reflect this in practice remain the exception rather than the rule. Unipart's systematic engagement in promoting development and learning opportunities for all its staff still remains the benchmark against which other companies measure themselves.
- 6.6 As a result of their experience over the last decade, companies such as Unipart would argue that the kind of cultural and organisational transformation required to drive that agenda (for promoting learning and development for employees) cannot be driven by legislation. Reluctant employer compliance is unlikely to build the kind of trust and willingness to participate that is required on the part of employees. This raises an interesting dilemma for a Government that has put such welcome emphasis on the importance of developing new skills and learning capacities throughout the UK economy.
- 6.7 The Learning Age Green Paper provides the most significant opportunity to date of bringing about an integrated approach to learning within and beyond the formal workplace. The thrust of the Green Paper is towards innovation and experimentation, with a serious challenge to both the management and the shareholders of companies to help develop radical learning models. To reinforce the idea of Individual Learning Accounts, for example, it might be tempting for Government to seek to mandate fixed-time allocations for learning or professional development for all in full-time employment. But in the long-run, the aspirational outcomes of such an initiative can only be delivered by companies and Government working voluntarily in tandem rather than through the constraints of the regulator and the regulated.

6.8 In that context, the Government's principal role here is clearly that of enabler, reflected in the Inquiry's principal recommendation in this area that a *common currency* should be established for all recognised learning qualifications across the entire adult field, with the Government acting as the national verifier working through delegated awarding bodies.

6.9 This should not be taken to mean a skewed focus on already skilled individuals in full-time employment. An overall focus of public policy must be raising the skills of the whole population. Low skills for those with no skills would be an enrichment of society. The Government's stress on basic skills in the Learning Age Green Paper, and its commitment towards learning on an individual, community and business related basis, fits comfortably with this recommendation:-

*'In a knowledge-driven economy we cannot squander 30 per cent of the potential workforce through poor education and social exclusion. The Government is committed to fundamental reform of education at every level including through improved teacher training and performance.'*¹⁶

6.10 Partnerships of this kind can flesh out the theory of living in a *learning age*. It would be wrong to limit our ambitions to the workplace. As part of its commitment to the communities in which it is based, a *learning company* has unparalleled opportunities to reach out into those communities, acting as a key learning resource. Elsewhere, best practice databases of the kind pioneered by the DETR and the DTI (on energy efficiency and waste minimisation) offer an extraordinary but still under-utilised resource for SMEs. Business Links, Government Offices in the Region and, from April 1999, Regional Development Agencies, all have a significant part to play in helping to get the message across.

6.11 The role of information and communication technologies cannot be underestimated in this respect. The DTI Future Unit's recent report on *Converging Technologies (Consequences for the New Knowledge-Driven Economy)*¹⁷ highlights the way in which the convergence of computing, telecommunications and broadcasting will produce significant potential efficiency gains for individual consumers and corporate purchasers of goods and services. This development alone will have profound implications for the competitiveness of UK industry. If we elect to take a strategic approach and accelerate the uptake of such technologies by British business, we may also see the kind of 20% or 30% efficiency gains achieved by US firms like General Electric or IBM.

6.12 By the same token, the Foresight Programme of the DTI has demonstrated the value of a consultative approach to determining priorities for research and innovation in the UK. Embracing business, Government, academia and the voluntary sector, Foresight has developed a consensual approach to agenda-setting on wealth creation, competitive advantage and quality of life issues in the medium to long-term. The support of senior business leaders is of

particular importance in this regard.

6.13 A new round of the Foresight programme has just been launched, with the work of all ten sector panels to be underpinned by just two themes: education, skills and training; and sustainable development. This will be reinforced by the new '*reach-out fund*' identified in the Competitiveness White Paper:-

*'To help English universities work more effectively with business, DTI, DfEE and the Higher Education Funding Council for England will jointly create a new reach-out fund, rising to around £20 million per year. The fund will reward universities for strategies and activities which enhance interaction with business to promote technology and knowledge transfer, strengthen higher skills development and improve student employability.'*¹⁸

7 Government as an agent of change

- 7.1 Confronted with the complexity and potential risk involved in this agenda, many companies in the past would have been tempted to shuffle off the burden of responsibility on to the Government, making action on their part conditional on action first on its part. Though there may still be occasions where such an approach is appropriate, that is no longer the way in which most European governments today want to see things move forward.
- 7.2 Indeed, governments are under increasing pressure to retreat from regulation, and to rely more on competition to deliver consumer protection. This arises in part from their inability to regulate global commerce, and in part from concerns about the impact it is believed national regulation may have on company competitiveness in the global market place.
- 7.3 Active competition between suppliers is generally held to be the consumer's best guarantee of minimum prices, wide choice, and overall value for money. However, competition alone will not always be sufficient to protect consumers, particularly the disadvantaged. Organisations representing disabled people, for example, continue to argue just how important it is that disadvantaged customers have access to changing goods and services in an increasingly electronic economy.
- 7.4 There will continue to be a need for Government intervention both at the national level (to deal with market failures, promote greater transparency and establish standards), and at the international level (to develop international rules and standards to protect consumers in the global market place and secure the long-term stability of the global environment).
- 7.5 The development of international institutions which can command the confidence of all players, including consumers, will become increasingly important. There are particular concerns here as regards the pressure of globalisation referred to above. Though the recommendations in this Report have been proposed in the context of (and are compatible with) the prevailing framework of international trade established under the auspices of the World Trade Organisation, some have questioned how well adapted the WTO framework is for enhancing the links between competitive behaviour and social and environmental responsibility. It may become increasingly difficult for national policies to be implemented which discriminate between good and poor corporate social and environmental responsibility.
- 7.6 Public policy which seeks to align markets more intelligently with sound ethical business behaviour will have to address this macro-regulatory dimension. Not to do so would be to adopt an inconsistent policy position, with at best mutually exclusive and at worst regressive effects. As the proposed new round of negotiations on trade liberalisation approaches, the UK Government will need to initiate informed debate in this respect, underpinned by sound research and an open mind focused on the goal of achieving social and environmental public good through economic activities.
- 7.7 Closer to home, the Government operates in a number of different roles in bringing about higher standards and changed behaviour. It has an array of sticks and carrots at its disposal; it can exhort, cajole and *take to the pulpit*, and it can act as a role model through its own behaviour and activities.
- 7.8 Both the DTI and the Cabinet Office have made it clear how Government wants to proceed: '*competition where possible, and regulation only when necessary*'. Through the DTI's Better Regulation Task Force, a number of cardinal principles for better regulation have emerged: clarity, flexibility, transparency, coherence and enforcement. It has introduced stringent requirements before new regulations can be made. These include: full assessment of the risks, cost and benefits and environmental impact; consultation with all those who might be affected; and consideration of alternative approaches.
- 7.9 The Competitiveness White Paper stresses the Government's intention not to impose unnecessary costs on businesses:-
- 'The Government is determined to avoid introducing new regulations which will impose unwarranted costs on British business. And we are reviewing the need for those existing regulations which seem incompatible with a flexible, innovative and entrepreneurial economy.'* ¹⁹
- 7.10 As Tom Cannon's paper on *Policy Options* makes clear, the debate about the role of regulation remains robust. Whilst almost everyone accepts that regulation '*will remain an integral part of the body politic*,' alternatives to regulation now command much broader political support. Cannon highlights the importance of advocacy and education, partnerships, voluntary action or self-regulation and the use of market-based instruments. Governments can also achieve much more when they lead by example than when their words speak louder than their actions (see next section).

- 7.11 This Inquiry took place against the backdrop of some of the most important policy developments in this area for many years. The Government's opt-in to the European Social Chapter, the Fairness at Work White Paper, and the introduction in 1999 of a minimum wage establishes a legal framework encouraging basic standards of good practice in employment. These developments are timely, and the legislation is important in encouraging employers to adopt employee and human resource friendly policies.
- 7.12 The Committee of Inquiry's investigation revealed markedly different attitudes to the role of legislation as a vehicle for change. In general terms, most participants in the process, whilst recognising the need for minimum standards, see legislation as *reactive*. By contrast, effecting change by setting aspirational, voluntary targets would seem to offer a more proactive and reward-based route to progress. A key concern of the Committee has therefore been to explore how we can reinforce non-statutory methods of encouraging the adoption of *best practice* – recognising that legislation can be a blunt instrument and is not generally seen by employers as an obvious way of promoting competitiveness. Clearly a balance has to be struck between these two.
- 7.13 A clear finding across several of the themes is that a number of effective standards already exist, and need to be harnessed for new developments. Investors in People is one such voluntary standard, and is now building on existing success to encourage better business practice in the following areas: individual and career development; employer involvement in the community; developing employee trust and commitment; organisational learning; and managing diversity. Many of these areas connect directly with this Report, and the Government's new National Learning Target is that 10,000 small organisations should achieve the standard by 2002.
- 7.14 Such voluntary standards are crucial for building on the *legislative floor* put in by Government to determine the statutory minimum below which no company must fall, and in providing a clear pathway of action for those companies committed to raising social, environmental and ethical business practices, often way beyond that of the legislative floor.
- 7.15 That said, all the Research Co-ordinators highlight policy areas where new or improved regulation is still crucial, often to catalyse benign change processes that may currently be blocked. For instance, if greater flexibility in the labour market is a desideratum, then Government could legislate to ensure that financial institutions and employers work together to make pensions as effortlessly portable as possible. If greater transparency is seen to be a pre-condition of making community partnerships really work, the Government should consider mandating statements on both policy and practice regarding the environment and involvement in the community. Such statements are already required on the payment of suppliers, employment of disabled people, and systems to inform and consult employees.
- 7.16 The importance of regulation to protect and enhance competitiveness is often overlooked. As the National Consumer Council (NCC) points out, as markets become increasingly global, the potential for their dominance by a small group of companies will increase with the associated danger of anti-competitive behaviour. This means that, in addition to liberal trade policies, rules to deal with restrictive business practices in global markets will need to be developed. Otherwise, there is a risk that commercial barriers to competition will swallow up the gains from trade.
- 7.17 Finally, there is a self-evident risk of anti-competitive behaviour if alliances and partnerships become too dominant in a particular marketplace. The challenge for national Governments is to maintain tough standards against anti-competitive behaviour at the national level, whilst encouraging home industries not to lose out in international markets through failure to strike appropriate alliances.
- 7.18 The new Competition Bill will establish greater powers for the Office of Fair Trading (OFT) to punish anti-competitive behaviour. It aims to make life easier for businesses which wish to operate agreements which are either neutral in competition terms or which have benefits which outweigh their anti-competitive effects. Moreover, there are measures to ensure that small and medium-sized firms are not unnecessarily burdened by the elements of the new legislation, and there are opportunities within the Bill to make more explicit the fact that social and environmental benefits may be considered legitimate factors for granting exemption to what might otherwise be interpreted as potentially anti-competitive circumstances.
- 7.19 Beyond that, the conventional view is that new regulations automatically entail additional cost, and can act as a constraint on profitability and competitiveness. But there is strong evidence that good environmental regulation can in fact enhance competitiveness by reducing resource costs, minimising waste, and encouraging innovation. This argument has been well expressed by Michael Porter:-
- 'Stringent standards for product performance, product safety and environmental impact contribute to creating and upgrading competitive advantage. Particularly beneficial are stringent regulations that anticipate standards that will spread internationally. These give a nation's firms a head start in developing products and services that will be valued elsewhere.'* ²⁰
- 7.20 In fact, the environment provides the clearest case of the need for a combination of regulation, economic instruments and Government-brokered voluntary agreements, as is becoming clear in the Government's emerging strategy for addressing climate change. And there are enormous competitiveness benefits in prospect as the prize for getting this mix right. For example, a strong case can be made for allowing investments in innovative environmental technologies to qualify for accelerated depreciation. This would enable capital costs to be set against tax for one year. Such incentives would fit neatly

- into a framework of environmental taxes, and could be financed through a small proportion of the revenues from a carbon tax.
- 7.21 The Government needs to experiment more with incentive-based initiatives in other areas as well. It is suggested by several of the Research Co-ordinators that the Government develops tax-based rewards for companies that demonstrate excellence in employee development, community investment, or all-round corporate citizenship. Cautionary voices continue to point out that if the case outlined in this Report is as robust as the Inquiry's participating companies believe it to be, then all such measures should bring reward enough in their own right. It may be more appropriate to be thinking of transitional incentives rather than permanent tax-breaks, or at the very least to require companies to develop sustainable enterprise strategies in these areas before they can benefit from grants or from other forms of regional support.
- 7.22 There is obviously growing interest in the ways in which the Government's on-going programme of constitutional reform will affect the business community and its ability to address this agenda. Both the new Scottish Parliament and the Welsh Assembly (as well as the Northern Ireland Assembly) are seen as beneficial to promoting more engaged partnerships between Government and the business community, with corporate social responsibility likely to be given greater prominence by these new legislative bodies.
- 7.23 In England, the Regional Development Agencies (RDAs) provide real opportunities for simultaneously pursuing increased competitiveness and a stakeholder approach. Regions will need to develop their competitive advantage on an international as well as a national basis, with localities forming regional alliances both within and across traditional national boundaries. Strong localities will, therefore, be particularly keen to attract and retain companies which have the highest net positive impact on the community (e.g. in terms of high added-value, sustainable jobs, multiplier effects on the local economy and society).
- 7.24 Through the new RDAs, central Government may well move to target Regional Selective Assistance not so much on new factories or physical infrastructure as on innovation, training, R&D and other forms of *process optimisation* of greater long-term value-added to the UK economy. RDAs should be required to see environmental excellence and corporate community investment as crucial indicators of their region's competitiveness performance, and use their funds to encourage proactive strategies (especially amongst small and medium-sized companies) based less on foreign direct investment and more on competitive, sustainable enterprise at the local and regional level.
- 7.25 The other side of this particular coin is that companies will need to redirect competitiveness and innovation strategies to take greater account of the potential benefits of regional networking and partnership-building which will be available from 1999 onwards.
- 7.26 Local authorities will also be asked to play a much more active role in this kind of integrated strategy. The recent White Paper on Local Government (*Modern Local Government: in touch with the people*), indicated the Government's intention of laying on local authorities a general duty to promote economic, social and environmental well-being, and also to consult with local communities.
- 7.27 Finally, this Inquiry fully supports the need for national, regional and local partnerships between DTI, DfEE, DETR, Government Offices, RDAs and Chambers of Commerce. The role of the business support community could be expanded to ensure the pro-active and integrated engagement on a number of issues dealt with in this Report, and this will be something for the proposed Small Business Service to address.

8 Government as role model

- 8.1 The starting point for the Inquiry was that a much more active partnership between Government and the business community is now actively sought on both sides. The principal Public Policy Recommendations (see Part I, Section 5) emerged as the key priorities that the eight sponsoring companies would like to see Government deliver on as its commitment to that partnership. Several of those recommendations relate to the way in which the Government itself (as employer, business partner, contractor, purchaser, neighbour etc.) aspires to best practice of the kind that companies are now exhorted to achieve.
- 8.2 On employment practices, for instance, the Government needs to become a *responsible risk taker*, by identifying priorities and experimenting with inspirational policies. If the Government proves itself unable, or unwilling, to adopt visionary practices, why should employers or employees take similar risks? Thus a crucial function for Government is to act as a dynamic role model, which it can do directly in the employees' field through its policies as an employer. In this respect, the Learning Age Green Paper clearly has as many prompts for Government as it does for the private sector. There is no reason why the civil service should not itself become the test bed for precisely the kind of innovative and radical approach to life-long learning that is advocated in the Green Paper.
- 8.3 Consistency is all. If, for example, Give As You Earn (GAYE) schemes are supported by Government as an effective way of increasing charitable giving in the UK, then GAYE schemes should be established and supported in every Government department. If the idea of *volunteering time banks* is being advocated as a way of dealing with relationships between companies and local communities, should not the Government itself be running such schemes through all departments?
- 8.4 On the sustainability front, as Forum for the Future points out, leadership from Government is crucially important. The Government is still a long way from being able to claim that it conducts its affairs in the way it exhorts everybody else to conduct theirs. Binding efficiency targets; environmental impact statements on new policies; environmental reports from Government departments; stronger environmental guidelines for agencies and quangos: all these initiatives could and should be delivered on as soon as possible to show that this Government really does mean business.
- 8.5 The Government's Committee of Green Ministers published its first full Report on *Greening Government* this year (1999), which should help enormously in terms of providing a lead in this area. The Committee comprises Ministers in almost all Government departments, who are in effect responsible for establishing an effective programme to deliver sustainable development across Government as a whole. Until recently, its performance has been less than impressive. The House of Commons Environmental Audit Committee was fiercely critical of the Committee of Green Ministers in a report in June 1999, concluding that the Government's reporting of its environmental impacts had fallen a long way short of promises made, and criticising the lack of a '*full commitment by the Government to match its expectations of the private sector*'.
- 21
- 8.6 There is particular scope for Government to promote improved environmental performance through its procurement policies. As the Government's Panel on Sustainable Development has pointed out, the £40 billion annual procurement budget could have a major impact on the uptake of environmental management systems throughout the UK supply chain. The Government's announcement of a green procurement drive in July 1997 was a welcome sign, but must now be backed by firm targets.
- 8.7 As a minimum, suppliers over a certain size could be required to provide more information to external stakeholders through environmental and social accounting, auditing and reporting. There are many precedents for such a move. The DETR already requires an environmental policy statement from many of its suppliers, albeit without any proof regarding implementation. At least one Government department (DFID) is exploring the implications of requiring its major contractors working in the South to agree to comply with an ethical supplier code including key ILO conventions, particularly with regard to child labour. Government could go further by initiating immediate reviews of its own purchasing programmes, particularly where significant sums of public money are mobilised (e.g. in health, defence and education) to reflect the importance of value-stream mapping of the supply chain or partnership sourcing as ways of driving out inefficiency and waste.
- 8.8 Finally, Government intends to set the pace within the Civil Service as regards the promotion of the digital economy:-
- 'Government is a major player in the knowledge-driven economy. It depends on the intangible assets of people and skills. Government needs to learn and innovate as much as the private sector and it must create new mechanisms for sharing ideas and best practice. Just as the UK needs more entrepreneurs in business, it needs a new generation of innovators in the public sector. The traditional public sector virtues of honesty, probity and neutrality must be*

combined with a new stress on problem-solving, innovation and creativity. Civil servants and public sector managers must deliver more value from public assets. **22**

- 8.9 It is therefore encouraging that the Government has created a Performance and Innovation Unit in the Cabinet Office to focus on issues that cross departmental boundaries, and to seek out innovation to improve delivery of Government objectives.
- 8.10 The simple conclusion arising from all the research papers on this particular theme is that neither business nor Government can deliver transformation on its own. As reflected in the balance between the corporate policy recommendations signed up to by the eight sponsoring companies and the Public Policy Recommendations they are urging the Government to introduce, progress on one front depends on progress on the other. There is a mutuality of interest here that needs to be urgently pursued and transparently communicated to an electorate that is eagerly waiting to see what *joined-up thinking* in this area might really mean in practice.

Footnotes

- 1 Royal Society for the encouragement of the Arts, Manufacturing and Commerce (RSA) Inquiry (1995) *Tomorrow's Company*, London: Centre for Tomorrow's Company
- 2 Examples of initiatives taken by the eight sponsor companies are included as a collection of case studies published at the same time as this report.
- 3 United Nations Development Programme (1998) *Human Development Report*, Oxford University Press
- 4 CBI National Manufacturing Council (September 1997) *Fit for the Future. How competitive is UK manufacturing?* In: DTI (1998) *Our Competitive Future* p.38
- 5 DTI (December 1998) *Our Competitive Future: Building the Knowledge Driven Economy* p.7
- 6 Merrill Lynch (November 1998) *EMU and Corporate Governance: Shareholder versus Stakeholder Models in Post-EMU Europe*
- 7 *Modern Company Law for a Competitive Economy: The Strategic Framework*
- 8 The Performance Group (1999) *Sustainable Strategies for Value Creation: Reflections from a Learning Journey*, The Performance Group, Oslo
- 9 Gonella, C. , Pilling, A. and Zadek, S. (1998) *Making Values Count: Contemporary Experience in Social and Ethical Accounting, Auditing and Reporting*, London: New Economics Foundation and the Institute of Social and Ethical Accountability p.20
- 10 Ibid p.1
- 11 Centre for Tomorrow's Company (1998) *The Inclusive Approach and Business Success*, London: Centre for Tomorrow's Company
- 12 Quoted in *Tomorrow Magazine* (September/October 1998)
- 13 DTI (December 1998) p.10
- 14 Knell, J. (1998) *Committee of Inquiry into a New Vision for Business: Employees* , The Industrial Society, London
- 15 Edvinsson, L. and Malone, M. (1997) *Intellectual Capital*, Harper Collins, New York
- 16 DTI (December 1998) p.29
- 17 DTI Future Unit (September 1998) *Converging Technologies: consequences for the new knowledge-driven economy*, London
- 18 DTI (December 1998) p.25
- 19 Ibid p.12
- 20 Porter, M. (1990) *The Competitive Advantage of Nations*, Free Press, New York
- 21 House of Commons Environmental Audit Committee (June 1999) *Sixth Report: The Greening Government Initiative*, HMSO, London
- 22 DTI (December 1998) p.30

for further information contact: info@ideopolis.info

A NEW VISION FOR BUSINESS

