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Business & Local Government

**Partnership, Contracts and
Corporate Social Responsibility**

[Foreword & Introduction]

An NLGN collection: edited by Ian Parker

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foreword

It is remarkable how often discussions around local government so rarely touch on the role of business. Yet business has always been key to developments in a locality, a role that is ever more important today.

The partnership role taken by business in developing local areas and tackling community problems is one of the most exciting innovations in local governance. Local strategic partnerships (LSPs) that include private sector players are now key to local authority delivery and governance, creating new imperatives. Business now also contributes a great deal to the provision of local public services. And increasingly, private sector partners – like those in the voluntary sector – are expected to be socially responsible and local authorities are expected to ensure that they remain so.

This collection of essays, based in part on contributions to an NLGN conference, digs down into many of these areas to explore the way these relationships can operate to the advantage of all.

With essays from a range of practitioners in this area, the collection addresses a number of key questions relating to the ability of the private sector to make a positive impact on local communities while securing their bottom line. Running through many of the contributions is the view that the concept of Corporate Social Responsibility (CSR) is set to play an important role both in practice and as an organising concept. In particular this set of essays looks at:

- the complex relationships between business and local government;
- considerations of the degree to which such relations should be defined and driven by legal contract;
- analysis of partnerships in practice – including examples of business engaging within particular communities and experiences of procurement design; and
- suggestions as to how CSR can operate at different levels of business practice.

NLGN hopes this publication will contribute to a better relationship between business and local government by helping private sector, council officials and members, and other involved parties better understand the issues at stake and the possible win-win routes to overcome them.

It is one of NLGN's particular strengths that we work with both sides of the business/local government relationship. As such, we know that it is only when the relationship works well that citizens will get the communities and services that they want and deserve.

Ian Parker

New Local Government Network

introduction

1 evolving relationships between local government and business

Dan Corry

Local government and business interact in numerous ways. And although the first instinct of either side is often to focus on the points of tension between the two, the reality is that both sink or swim together.

Some of the interaction is about a common interest in the health of the local community. The private sector creates the wealth and the jobs so crucial to any area. The local council may provide some employment and its work, if done well, underpins the process of wealth creation. But the public sector is not the primary source of prosperity in modern society. That is why local government and business needs to work together on these agendas. Local Strategic Partnerships (LSPs) and Business Improvement Districts (BIDs) are some of the new ways that this interaction is being managed.

Other aspects of the interaction concern the increasing use of public-private and strategic service delivery partnerships for service delivery. Getting these partnerships between business and local government right is crucial to the success of both partners.

And very relevant to these contractual interactions and business/local government relations, more broadly, are the more general ways in which business plays its local role beyond maximising profit maximisation – a set of issues that have increasingly come under the term ‘Corporate Social Responsibility’.

Here, I look at a number of these different factors to give a framework to the chapters that follow. I start with the last one, not least as it is the most complex to understand but potentially the most significant in the longer run.

Why the growth in CSR?

Talk of “Corporate Social Responsibility” has a tendency to be a bit ‘motherhood and apple pie’: virtually everyone is in favour of it but we are not sure what it means. And we love to believe that the world would be a better place if companies cared just as much about the environment, social cohesion and the community as

they do about their own bottom line. Many companies say things of this nature, with their representatives more than willing to stand up on platforms and express their deep commitment to such goals. Meanwhile, company reports increasingly show off their achievements in these areas. And much of this is entirely genuine.

Contradictions and tensions exist however and it is this difficult area on which I wish to concentrate. In doing so, the real question becomes, for whom does local CSR add value? Is it for local authorities? Is it for private companies? Is it for voluntary sector service deliverers? Or is it, as it should be, for the community and for its citizens?

To begin with, we must consider why there has been such a growth in CSR as an issue. Where has it come from? You would not have heard people talking much about CSR a decade ago. So why has it shot up the agenda?

Like any movement of this nature there are a number of key driving forces. The first is the increasing number of businesses who are genuinely more socially responsible in their outlook and practices. Business is picking up on a change in public mood. Opinion polling tracking the public’s attitude over time shows there has been a growth in the general feeling that business must care more about wider issues – the public does not look too happily on companies that appear to have a very narrow focus.

The second driving force making a difference is the new generation of business leaders with a different attitude to their task resulting from the culture in which they have both grown up in and in which they have developed their approach to business. How strong this change is may be debated but there certainly seems to be something in it.

Thirdly, companies are starting to realise far more that the value added they offer is down to the kind of employees they have and the commitment that these individuals have to the company they work for. Many believe that you can get further on this motivation agenda if you are a socially responsible business. People want to come and work for you and once in post feel more committed to the company.

While the first three factors clearly link indirectly to business drivers, the fourth is much more directly related to profitability. That is that many consumers or citizens have taken a view that they prefer to buy from companies with a more ethical approach.

We have seen plenty of this of course in areas where consumers make direct purchases, interacting directly with the private sector. They can choose to buy toothpaste, detergent or coffee from a company that claims to have some CSR-like motivations or from one that does not. If there is a price difference, they can choose to pay a little bit more for the one that shows it cares about the environment or a little bit less for one that appears indifferent to such concerns. Many firms are making moves towards the higher price/more CSR mix.

An important question is whether the public have the same view about goods and services which they don't pay for directly. Public services are by and large free at the point of use – being paid for collectively through tax. It may be that the public do not actually care quite as much about CSR elements in services they do not buy directly because it is not their specific decision at the time. If so the CSR imperative on companies selling to the public sector may be weaker in this area, being much more an issue of the preferences of the local collective purchaser i.e. the local authority.

A fifth element driving the business community embrace of CSR has been the City's increased awareness of the risks that companies face. They know that environmental regulation is going to tighten up. They know that a consumer boycott, whether on an ethical or environmental issue, can send the share price of a company tumbling. The City is feeding through such information to companies more regularly and they are responding.

The final key driver relates to the need for brand awareness in increasingly competitive markets. Although it is very difficult to prove, we probably have more competitive markets now than ever before. Government policy since 1997 has tried to encourage this through tougher competition and consumer laws. In such a world companies are increasingly trying to differentiate their product, telling the public why it should use one toothpaste brand rather than any other; or telling a local authority why it should use one contractor over another. Part of the story is getting your brand recognition up and telling a different story. Consequently, at national level and beyond we see vast amounts of money being put into advertising, informing us for instance that BP is not really an oil company, as we all thought it was, but in fact a caring bunch of people who happen to sell oil as a sideline.

Does it matter what the motivation is and which of these drivers are pushing companies to embrace CSR? In a way, it doesn't. If the end result is that CSR is taken more seriously then we should not mind too much how it is motivated. But we do have to be aware to some degree of where it is coming from, as this will help determine whether it has penetrated deep into the culture and psyche of the way companies approach their activities or is just a bit of PR window dressing.

So what is it that we should expect of business in terms of CSR? The answer is a reasonable amount but certainly not the Earth! We must avoid becoming starry eyed and assuming that businesses are going to deliver everything we ever dreamed of. So we must be clear about the environment firms work in.

Most businesses are accountable to private PLCs – to their shareholders. Profit maximisation remains their aim, otherwise they go out of business or are taken over, and it is naïve to pretend that anything different is ultimately driving their management decisions.¹ The prime role of businesses in a capitalist society is as wealth creators. That is what we should expect them to do and we should expect them to do it well. What they do not do, to use the appropriate jargon, is deal with the externalities of the market. Many of the things that we mean when referring to CSR are to do with externalities where the market does not quite price things correctly, be it the environment, the sustainability of the community or the working conditions of staff. Caring about these issues is not what companies are primarily there to do in a market economy. If there are issues to be addressed, government can bring in laws, regulations and taxes which alter the environment in which firms maximise profits. Asking them to go too far purely voluntarily may simply be naïve.

Another thing to be clear about is that we must be careful of confusing a company giving lots of money to good causes with a company committed to CSR. While generous donations may well have very positive social and other impacts, it can sometimes reflect less a belief in CSR and more the fact that they have got 'monopoly' profits. Perhaps they are not being regulated tightly enough and to keep that position are going out of their way to appeal to people (such as the water company who once told me about the number of brass bands they sponsored in their regional area). We must therefore distinguish between writing easy contracts which give companies so much money

¹ Corry, D (1998) 'The private sector and social inclusion' in Oppenheim, C (ed) *An inclusive society: strategies for tackling poverty*, London: ippr

that they can afford to make nice public gestures, and genuine CSR.

Partnership and contracts

Nevertheless, business does have an interest in its local community thriving. No business is going to work well in a community that is failing and dysfunctional in part because that is where their customers usually come from.

Moreover where local public services are delivered by the private sector the people that are managing, or who are hired to work for the organisation at local level (even if it is a national company) are likely to live within the community. They will therefore have more localised and personalised incentives to get things working.

For these reasons as well as more 'pragmatic' ones, the delivery of public services and the contracting relationship between local government and the private sector is where much of the CSR debate is beginning to head.

The first thing to note on this is that as the Private Finance Initiative, Public Private Partnerships and Strategic Service Delivery Partnerships came into play and were debated vigorously, CSR was rarely – if ever – mentioned. Such partnerships were done very strictly and commercially, with lots of discussion about risk transfer, value for money and the like but with little, if any, reference to CSR. This is now changing and forces in both society and government will take it in that direction.

With private companies having an increasing hand in delivering public services, one of the major things that has emerged is the need to somehow retain a public service ethos within the service provider. Companies are now beginning to understand its importance, not least because it really is intrinsic to delivery in many services. While some might say that you cannot have a public service ethos unless you deliver directly from the public sector, those who believe the two are not synonymous are certainly pushing upon the private sector an understanding that public service ethos matters.²

All of this in turn raises issues about whether you can build such concepts into contract design, so that you are not just choosing a contractor on lowest price or even quality but are judging how

they will behave in delivering the contract. Particularly if you are signing a contract that is going to last for many years, you ideally want a company whose instincts are right. They will have to take into account issues of fairness and social inclusion and sign up to those kinds of concepts, at which point there will be a degree of responsibility for living up to these promises. Post-Enron and other financial scandals, many companies would agree that openness and transparency are probably good things in the long run – even if sometimes a pain in the short run! Companies involved in delivering local public services do come into a world where accountability is necessary. It will not be the same as the accountability faced by public sector bodies but there will be some common elements.

Companies looking to find successful long term partnerships with local government will also need to take into account workforce issues, in particular the terms and conditions of their staff. And while it matters in some service areas and partnerships more than others, companies must also take into account environmental sustainability.

There are however, limits to how much you can write CSR into a contract. At one level are legal problems and the necessity to navigate the European legislation that limits what you can put in a contract. But even beyond that, serious problems exist as to whether you can tell if a company is fulfilling any CSR commitment it signed up to. Suppose one wrote the perfect contract to which a company quite happily signed up – most probably as they would not have otherwise won the contract. How would you know whether the company was delivering on its promise and how would you enforce it if they were not?

Some conditions will be easy to write into contracts, for example stating that a company has to use X% renewable energy in delivering services. Others however, like treatment of staff, may be less precisely definable. And there is the related issue of whether a CSR-related *contractual* obligation will really change a company's behaviour if the will is not there and it is just seen as a hurdle to circumvent.

CSR will emerge in this sector however. In local government there are many people signing or terminating contracts every day. Reputation matters and if a company wants to start saying "We take CSR seriously, you can go to this council or that council and see that we do", then that will have an impact. It is a great

strength of UK local government that there are so many people engaged in such things at any one time.

It may well be the case that one is able to get further with a less tight and conflictual contractor relationship, of the type evident within some strategic service delivery partnerships. Although such partnerships have their own problems, they offer routes that look more likely to work better than more old fashioned outsourcing approaches.³

Either way, I am relatively optimistic that, while being aware of the problems, we can make some major strides in this area.

Are non equity providers a way to 'buy' CSR?

The Government has recently proposed that companies should have more obligations to report on the CSR-type implications of their activities – where relevant (see Stephen Timms' chapter later in this collection). But unless, out of the blue, the Government alters their primary duties, profit maximisation will remain a private company's foremost responsibility to its shareholders. There are therefore some who believe that if we really care about CSR, the answer ultimately lies in not using the private sector at all. They think that whatever noises a company makes, profit maximisation means they will never really deliver fully on the agenda and that we should instead use non-equity firms, not for profit companies or the voluntary sector. But would this solve the CSR problem?

While the profit motive for seeing CSR simply as a constraint to work round is taken away, it is too simplistic to say that these approaches offer the best solution. They have their strengths and they will be needed in many areas. Indeed, there has been much consideration within the think-tank world (and indeed in government) about how and when they should be used.⁴ But they are in no way a panacea.

Issues arise of course as to how democratic and accountable some of these bodies really are. And just because organisations are not driven by profit maximisation does not mean that they will be driven by CSR. The voluntary sector and not for profit bodies have their own internal motivations. One cannot assume therefore that by using them to deliver something you will avoid having to worry about contract design. This is especially true

given that as a voluntary sector organisation gets bigger and starts delivering major contracts, their very nature changes, and in some ways becomes a little more like a typical private provider.

So we should certainly not give up on the use of the private sector to help deliver a whole range of public services. CSR can take us a long way in enhancing the value of such partnerships to community goals. The public sector will gain value if the benefits of CSR, in terms of its contribution to sustainability and social cohesion, are not outweighed by inefficiency. Then we are not pulling firms too far away from the basic point of what we want them to do – to deliver a good quality service at a decent price.

If we can add value overall, then as long as the best contractor is getting the job and we are not giving it to the worst contractor simply because they have a decent CSR portfolio, then the public will benefit. Those firms who embrace CSR will do well if that is the way the world is going, and society will gain as a whole. That is why we need to ensure that CSR approaches – whether called this or not – become deeply embedded in the culture of local government and its partners.

Working for community betterment

An area of the public-private nexus that needs a kick start is the ability of local government and business to work together in non-contractual ways so that their combined forces help to improve the environment in which people live and work.

LSPs are one tool currently available for achieving this. Here, many different players – from local government, the private and voluntary sectors, and local arms of central government – all attempt to work together to deliver for the community. The whole aim of an LSP is about being socially responsible in a corporate way: how can everyone come together for the benefit of the community? Of course, each body is approaching it from a slightly different angle and with different motivations and pressures. And the lack of 'teeth' for the LSP, in the sense of an ability to combine budgets, hold all partners to account and so on, can be very frustrating – not least for the business sector.

To the extent however that CSR becomes a bit more embedded in private sector practice, such relationships may in time become easier. There is a lot of learning to be done.

³ Southwood, E (ed) (2004) *Procurement and Partnership: Doing it right. Making it work*, London: New Local Government Network

⁴ Blears, H (2003) *Communities in control: public services and local socialism*, London: Fabian Society

Other steps are being taken by central government that may help create a relationship between local businesses – of all sizes – and the local authority, many of which loosened when the business rate determination moved completely away from local government. BIDs – where the business community in a local area can agree to pay an extra levy to go on expenditure that they control – is one such new step. So too are the ‘growth incentives’ introduced by the Chancellor which essentially give a local authority an incentive to increase business activity in their area – since they keep a proportion of the extra business rates collected.

But however it is done, it is clear that in many of the ‘wicked’ areas like liveability, regeneration and social inclusion, getting business and local government working well together in a whole host of ways will be crucial.

Conclusion

Local government and business are doomed to have an ongoing relationship. At times it has looked more like a dogfight than a mature – if sometimes volatile – relationship. That is to the advantage of neither party.

There are good signs that this is changing. Local government wants to work more with business, and business increasingly realises it has a key role to play. Let us hope that the next decades see many more advances in such cooperation, and much less of the old conflict model.

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Corporate Social Responsibility is undoubtedly one of the most exciting areas of innovation, both for businesses and local government. Increasingly, businesses are embracing the opportunities presented by partnerships for community regeneration and development and relationships are being explored which benefit the private, public and voluntary sectors.

Business & Local Government: Partnerships, Contracts and Corporate Social Responsibility is an NLGN collection of essays illustrating different perspectives on the opportunities presented by this type of joined up approach. The authors – drawn from a cross-section of the public, private and voluntary sectors explore the challenges of the CSR agenda and consider practical examples of how different bodies and institutions are working together for the benefit of local communities.

The report is the sixth publication in NLGN's 'Delivering Change' series, which aims to help senior officers and elected members learn from practical evidence of change to respond positively to the local government modernisation agenda.



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