

**"R vs. R"**  
**The Rhetoric versus the Reality**  
**of**  
**Corporate Social Responsibility**

**Challenges for the corporate sector, investors, and the  
Government, based on a case study in the Foodservice sector**

**A report prepared by CSR Consulting Ltd.  
with the support of AGA Foodservice Group plc**

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**FOODSERVICE GROUP**

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## R vs. R:

### The Rhetoric versus the Reality of Corporate Social Responsibility

#### Challenges for the corporate sector, investors, and the Government, based on a case study in the Foodservice sector

##### Executive Summary

- There is a gap between CSR rhetoric and reality: the “R vs. R” gap, and the purpose of this report is to encourage debate on how to bridge it.
- The R vs. R gap is found in the private and public sectors, and in the investment community.
- Many companies make strong CSR commitments, but hesitate in translating these into action, even when the commitments relate to immediate and topical issues such as obesity, environmental sustainability and health and safety. This demonstrates a failure to integrate CSR into the organisation: CSR is frequently consigned to public relations.
- The investment community emphasises the importance of CSR as an investment criterion but this is often not followed through: there seems little co-ordination between the requirements of the institutions’ Corporate Governance departments and the priorities of buy and sell-side investment analysts.
- The Government is putting increasing pressure on companies to implement CSR but public sector purchasing procedures seldom include CSR as a purchasing criterion, and when they do, focus only on sustainability.
- We therefore pose a series of stakeholder questions to help act as a catalyst to close the R vs. R gap.

##### Overview

Successful organisations, both public and private, have implicitly recognised that corporate social responsibility (CSR) principles are intrinsic to good management and this has been a factor in their success. In the last three years there has also been increasing stakeholder pressure, particularly from institutional investors, to formalise and publicise CSR. The rise of CSR is charted in Annex 1. In order to prove their CSR credentials, organisations increasingly highlight their CSR commitments in their public statements of values and policies.

CSR Consulting Ltd. decided to compare the rhetoric with the reality of corporate social responsibility by focusing on a specific product, the “Infinity Fryer.” This was launched by Falcon Foodservice Equipment (part of AGA Foodservice) in Spring 2004 and made an appropriate case study as it is a commercial product sold in a “business to business” market place, developed with significant CSR credentials through improvements over traditional methods of commercial deep fat frying.

*CSR Benefits of the Infinity Fryer*

These characteristics directly impact the consumer and play to the CSR agenda of commercial purchasers in terms of:

- healthier eating by reducing the fat content of the fried food, and thus helping to address the obesity issue;
- greater energy efficiency;
- improved operator working conditions;
- enhanced environmental sustainability through the reduced use of cooking oil.

This last point is particularly important given that the UK implemented the EU Animal By-Product regulation on 31 October 2004. This prevents used cooking oil from being used in animal feed, a route previously used for disposing of over 90% of used cooking oils.

These factors give the Infinity Fryer a significant economic advantage in cooking oil and fuel usage. Further details of these CSR credentials are included in Annex 2.

*The R vs. R "Disconnect"*

We argued in a *Professional Investor* article (February 2004) that there is a "disconnect" in the institutional investment community between the CSR demands of Corporate Governance departments and the priorities of the fund managers and buy and sell-side analysts. We wanted to see whether there is a similar "disconnect" in the corporate and public sectors between headline statements of CSR commitment, and action in terms of the actual procurement specification procedures, and to reassess the investment "disconnect".

We tracked the responses and actions of major public and private sector buying organisations and of the investment community to the Infinity Fryer's marketing campaign, to see how CSR played a part in the response to it. We found that there is often an "R vs. R" gap between the rhetoric of corporate CSR commitments and the reality of what these organisations do in practice.

The reasons for this are complex. Although some are specific to the commercial foodservice market on which we focused, the project also highlights general organisational issues in all three targeted audiences which inhibit the application of CSR in practice.

We believe the issue of organisational structure is a subject of such importance that it merits further work to identify the reasons and recommend remedies. However we are publishing this report now to highlight these challenges, and initiate debate to stimulate change.

*Questions to help bridge the gap*

We therefore summarise our findings and suggest a series of questions addressed to companies, institutional investors and pension fund trustees and the Government, as well as individual investors and taxpayers concerned with environmental sustainability, health issues and other aspects of CSR.

We hope these questions will help kick-start a process of analysis within all these areas to assess the extent that rhetoric of CSR is really embedded, and hence will act as a catalyst for action to start to bridge the R vs. R gap.

## **General Issues**

### **The Corporate Sector**

#### ***The Rhetoric***

In the corporate sector, CSR reporting, either in the Annual Report or stand-alone, was treated by most companies as an "optional extra" as recently as three years ago. However, with increasing pressure from a number of sources, notably from institutional shareholders, both individually and collectively through the Association of British Insurers (ABI) and National Association of Pension Funds (NAPF), CSR has rapidly become part of mainstream corporate governance.

In 2001 the ABI issued guidelines for disclosure on social, environmental and ethical policies and practice. A measure of progress since then is that the ABI's 2004 review of the level of disclosure in annual reports shows that now 40% of FTSE 100 companies and 10% of FTSE mid-250 achieve "full disclosure" against these guidelines.

A further indication of the importance now attached to CSR is that almost every corporate home page has a heading for *Corporate Responsibility* or an equivalent such as *Corporate Citizenship*, with commitments and policies on the environment, employees, health and safety, community involvement, and supply chain management. In the foodservice sector this typically includes statements such as "We also recognise that we have an important contribution to make to the global challenges of diet, nutrition and obesity and sustainable development", and "Our restaurants around the world have innovative programmes for recycling, resource conservation and waste reduction."

#### ***The Reality***

The reality is that there is little link between what is said at corporate level and what is done in practice.

The Infinity Fryer case study focused on purchasing as one aspect of the practical application of CSR. The project involved a two-pronged approach, asking the corporate headquarters of UK quoted major foodservice purchasers if we could meet to discuss how they implement CSR in their purchasing procedures, while the Infinity Fryer team contacted those operationally responsible for the specification/purchase.

The corporate response was mixed: only in two cases were we able to discuss the purchasing procedure at the corporate level. Encouragingly, in these cases whole-life cost, environmental issues and health and safety were considered as a matter of course. The same may be true of the other organisations contacted, but this has not been verified.

The operational response at operational level has been more positive: fryers are now on trial at four major UK corporate purchasers, as well as two major foodservice chains. However, the decisions to carry out trials on the Infinity Fryer were based on its significant economics and took little account of the holistic CSR advantages which should have been a part of the decision if corporate statements on CSR implementation are to be believed.

This organisational “disconnect” confirms our experience in other work. Corporate CSR commitments are seldom translated into practical guidance or action.

We believe a major reason is that effective CSR implementation is closely linked to organisational structure and to the related issue of devolved responsibility.

We realise that the very growth of the CSR industry means that companies are often swamped with demands for information. Understandably, therefore, the proliferation of CSR questionnaires has resulted in increasing corporate reluctance to commit further resources to answering questions on CSR, and this was undoubtedly one reason that companies found it difficult to respond to our request for participation in this particular project.

However, we do not see this “R vs. R” gap primarily as a resource issue but as an organisational one. As such, it is a source of risk. If the organisation is not structured to ensure that CSR is embedded, it increases its level of risk, incurring:

- a reputational risk if a high profile incident makes it obvious that statements about the implementation of CSR throughout the company are misleading;
- a business risk through failure to manage environmental, social and ethical issues through the supply chain.

This raises two significant issues:

*Lack of Board Level Ownership of CSR...*

The ABI has recommended that the Board as a whole take general responsibility for CSR, and that for practical purposes one executive member should have specific responsibility for policies and their implementation. It also recommends that Board member remuneration be linked to CSR performance.

Nevertheless, we have found that even where there is a Board member with specific CSR responsibility, he/she is seldom named on a company’s website, and the role and accountability of CSR directors/managers/departments varies widely. At a number of companies CSR responsibility is part of the Company Secretariat, at others, part of Investor Relations or the PR Department, rather than general management. Contact names/responsibilities are not always given on websites, and even when they are, they prove not to be the person responsible for CSR implementation/liaison.

In some cases apparent turf wars between departments also hinder clear channels of CSR communication and action. Ironically, in such cases the issue may not be that rhetoric is not matched by reality, but the reality is much better than the rhetoric suggests, as a company’s CSR commitment and achievements are not made clear in the process of general Investor Relations communication.

*...therefore corporate CSR commitment is not embedded*

Even where there is central commitment, we believe implementation is often hampered by devolved responsibility. The lack of response from the companies contacted meant that we could not check the extent to which CSR considerations are implemented at the operational level in the specification/purchasing decision. Our experience with other organisations suggests, however, that the greater the decentralisation, the more difficult it is to ensure centrally articulated CSR policies are embedded.

This lack of understanding of corporate imperatives at local level can also make it difficult to get local management to engage in a matter which is perceived as unimportant, and/or a distraction from actions agreed as part of an incentive schemes.

#### *Making CSR a reality*

We believe that CSR is more likely to be effective in a company if:

- the Board closes the gap between the rhetoric attributed to it, and the operational reality; it should not only state that CSR is intrinsic to a company's culture, but also work to ensure it is;
- there is a nominated main Board Executive Director who actively takes ownership of CSR issues, and includes it in internal management reviews and risk assessment;
- CSR is seen as integral to general management, not just a part of PR;
- clear lines of authority for implementing policies are defined and communicated;
- incentives for the Board and management take account of CSR issues, possibly in the explicit but discretionary part of bonus entitlements;
- the CSR message is part of the internal and external communication process, particularly to the investment community as a factor which affects shareholder value;
- management both centrally and locally understands, anticipates and responds to key stakeholder concerns on CSR.

## **The Investment Community**

### ***The Rhetoric***

#### *CSR as a risk*

Recognition that CSR is a risk issue means that it is featured in every major investing institution's statement of corporate governance principles, either directly or by reference to the ABI Disclosure Guidelines. Assessment of adherence to CSR is therefore often covered by mainstream Corporate Governance teams rather than a separate "Socially Responsible Investment" (SRI) department.

#### *CSR in the Investment Strategy*

Since July 2000 it has been mandatory for trustees of occupational pension funds in the UK to disclose their investment policy in their Statement of Investment Principles, and to include a statement on the extent to which social, environmental and ethical issues are taken into account.

#### *Socially Responsible Investment (SRI)*

Socially responsible investment has been growing and now accounts for over £200 billion of the UK investment market, of which over £40 billion is invested by charities, churches and specialist SRI unit trusts. Such funds market themselves to private investors and charities who seek to ensure that their money is only invested in areas which align with their own social, environmental or ethical criteria.

Given the publicity of these dedicated funds, it would be reasonable to assume that CSR would be an important investment criterion for the fund managers who run them.

### ***The Reality***

However, our discussions with institutional investors representing over £700 billion funds invested, as well as feedback from a number of companies, confirm that there is still a wide "R vs. R" gap within investing institutions between the Corporate Governance teams, the SRI specialists, and the fund management teams. This in turn affects the attitude of the sell-side analysts and their interactions with the corporate management. We are not concerned here with the important issues of shareholder activism and voting, but with how this apparent commitment to CSR translates into action at the company interface.

### *Corporate Governance vs. Fund Management*

Corporate Governance teams have overriding responsibility for voting at an AGM; but a decision to vote against any proposal or even against the whole Annual Report does not necessarily affect a fund manager's investment decisions. Few fund management organisations normally include questions on CSR as part of the regular company management/fund manager meetings; fund managers rarely ask for or expect sell-side analysts to review a company's CSR record and potential risks and opportunities when reporting on a company; and hence sell-side analysts in turn do not question company management about CSR.

As one sell-side analyst said on a recent visit to AGA Foodservice: "all the fund managers want is for the share price to go up."

### *Sell-Side Response*

So far there are only two institutional brokers with well established dedicated SRI teams, although others are now following suit. However, a recent initiative by nine fund management firms should encourage more attention by the sell-side; the group is allocating a certain proportion of their commission to reward brokers who include CSR assessment in their analysis.

### *SRI Engagement?*

Even at specialist SRI funds, it seems that some fund managers do not consider CSR issues in depth; they rely on a screening process rather than actively engaging with the companies in which they invest. It also seems that they are often only concerned with one single "socially responsible" aspect of a company, such as an major involvement in an environmentally friendly product, rather than with investigating the company's CSR performance as a whole.

This general perception was confirmed by the response to the Infinity Fryer. The fund managers contacted were impressed by the product, but said that even when they had holdings in companies which might be potential purchasers, they were not concerned whether or not these companies were willing to put it on trial, let alone buy it, even if these same companies had actively promoted their CSR credentials. Obviously it is not the fund manager's role to "micro-manage"; but more searching questions could establish the extent to which companies who claim the CSR high ground are putting it into practice.

### *Dangers of myopia*

The investment danger of this myopia is clear. Analysts will fail to identify potential winners and losers: both the companies which build on the opportunities of CSR, and those at risk for ignoring it.

The failure to challenge companies on the CSR R vs. R gap thus becomes self-perpetuating as those companies that are not already convinced of CSR's intrinsic value assume that, as it seems peripheral to the fund managers and buy and sell-side analysts they meet, they need only pay lip service to it, consigning it to the realm of PR.

#### *Making CSR a reality*

Companies and potential SRI investors would be more convinced of the investment community's commitment to CSR if:

- fund managers recognise that CSR is both an opportunity and a potential risk and should therefore be an investment criterion, not left to be a voting issue as part of corporate governance;
- buy and sell-side analysts cover CSR risks, policies and practice in regular update meetings;
- the recent initiative to reward brokers for CSR coverage is adopted by more institutional investors
- all funds that attract money for their SRI credentials make their assessment criteria explicit and describe the extent to which they actively engage with the companies in which they invest.

## **The Public Sector**

### ***The Rhetoric***

As the public sector accounts for 40% of the UK's GDP, its total purchasing bill is enormous. In 2003-04 the UK public sector spent over £100 billion. Through its purchasing activities, Government is well placed to be a very powerful driver of CSR.

There is no doubt on central Government's headline commitment to the subject. The UK was the first country in Europe to have a minister for corporate social responsibility, appointed in June 2001. In March 2004 Stephen Timms, the CSR Minister at the time, launched a draft international framework for CSR with the headline, "the UK leads the way in Corporate Social Responsibility."

Since 2002 the DTI has published an annual Corporate Social Responsibility Report, describing progress on the way government policies and practices contribute towards sustainable development. *The Framework for Sustainable Development on the Government Estate* requires central departments and their executive agencies to identify their major environmental impacts, and plan and monitor improvements.

In 2004 the Government set up the CSR Academy to provide "masterclasses for CSR and HR specialists" and CSR will be high on the agenda during Britain's presidency of the EU in 2005; and as Chair of the G8, the Prime Minister has already ensured a high profile for environmental sustainability.

### ***The Reality***

The reality is that CSR in the public sector is affected by the same organisational and financial factors that inhibit CSR implementation in the corporate sector. The sheer size and complexity of Government, central and local, and the number of independent buying agencies, tend to prevent the consistent application of CSR purchasing criteria even if the will to try it exists.

But even without this complexity there would be an R vs. R problem. The Government's vision of its own role in CSR is confused. In its 2002 CSR Report the Government was included as part of the CSR process. By the 2004 Report, however, CSR was seen as the "behaviour of private sector organisations," and only two out of twenty eight pages dealt with Government direct action in using its influence as a major purchaser to promote CSR. (see Annex 1 for details of the Government's statements and relevant speeches.)

#### *CSR only as sustainable procurement?*

Yet CSR in Government procurement is concerned only with environmental sustainability. Thus the Office of Government Commerce (OGC), which set up *OGCbuying solutions* in 2001 to promote value for money purchasing initiatives, now promotes sustainability by publishing a list of environmental "quick wins," but does not include other CSR considerations such as employment issues, health and safety, or supply chain auditing. Similarly, in 2002 DEFRA published *Foundations for our Future: DEFRA's Sustainable Development Strategy* which "places sustainability at the heart of DEFRA's work," but again there seems no wider CSR agenda.

Yet even this commitment to sustainability seems tenuous in practice. The Audit Commission has no brief to take sustainability, let alone other CSR issues, into account when auditing local government procurement; and the Gershon Efficiency Review focused on value for money but does not require environmental or social costs to be considered.

As a speaker at a Government Sustainable Procurement Conference in October 2004 pointed out: "Government hasn't got a grip on sustainable procurement. It isn't yet showing that it is determined to set a good example.... So instead of strong, unequivocal and explicit incentives there are mixed messages, which cause confusion, especially about priorities." If this is the case for sustainable procurement it is even more so for CSR as a whole.

This impacts on the public sector response to the Infinity Fryer. It is estimated that the public sector has an installed base of around 20,000 fryers, in schools, hospitals, prisons and its own catering facilities. The Infinity Fryer marketing campaign has involved targeting heads of all relevant organisations responsible for buying such equipment. As in the Corporate campaign, no interest was shown by any of the departmental heads to whom details of the Fryer were sent.

But also as in the corporate sector, the economic advantages of the Infinity Fryer have meant that it has now been specified at operational level by the MOD, HM Prisons, is on the OGC approved product list, and is on trial with the Metropolitan Police.

#### *Making CSR a reality*

The Government's undoubted commitment to CSR in principle would be more effective if:

- it widened its practical understanding of CSR to more than environmental sustainability;
- it recognised in its own procurement that value for money includes a product's overall impact on the wider community;
- it issued overarching purchasing guidelines ensuring this recognition was explicit in the procurement function at national and at local government level;
- its CSR Report included a more detailed progress report on its own procurement actions.

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## **R vs R: Issues Specific to the Foodservice Industry**

In addition to these concerns of general relevance, the Infinity Fryer project also illustrates issues specific to the foodservice industry which hinder the translation of CSR rhetoric into action.

### **For the Corporate Sector:**

The foodservice industry in the UK has a highly complex distribution route. There are an estimated 110,000 commercial kitchens in the UK: Quick Service, pubs, hotels and restaurants. Each has an average of 3 fryers. Generally a fryer is replaced at the end of its life, normally around 7 years, so fryers tend to be replaced piecemeal unless they are installed in a start-up situation.

Sales are made direct by equipment manufacturers to the largest organisations, after their central purchasing function has put them on the approved specification list, or through distributors, although the individual buying organisations in some cases make their own technical assessments. Franchising adds another layer of complexity.

However, companies which serve the public sector, for instance supplying school meals, in turn are influenced by the variety of contracts possible: the school may already have equipment, sometimes the food is cooked off-site, sometimes a contract is run by a Private Finance Initiative, or by a Local Education Authority with its own specifications.

This complexity means that even where the catering supplier is fully committed to CSR in practice as well as principle, it may have limited influence over the equipment in use.

### **For the Investment Community:**

Investors encourage companies to target improvements in their CSR performance against a Key Performance Indicator (KPI) such as reduction in waste, an improvement in recycling rates or a reduction in greenhouse gas emissions, on the basis that you can only manage what you measure. However, the purchasing procedures cited above mean that a company will show little CSR progress in its company-wide KPI, e.g. on waste oil reduction, unless it is planning a major investment rather than an incremental replacement purchase of fryers.

This highlights an issue of general concern: institutional investor pressure might encourage companies to regard CSR as a "box ticking" requirement which encourages them to go for the "big wins," not for incremental improvements such as the Infinity Fryer offers.

### **For Government:**

The Infinity Fryer addresses two topics of immediate and urgent concern:

- healthy eating, and
- a reduction of waste cooking oil.

The Government is in the best position to increase public awareness of the problems and encourage implementation of solutions which the Infinity Fryer offers. Yet so far there seems little willingness to do so.

### *Healthy Eating and Obesity*

There have been a number of articles and studies, highlighting the effect of food quality on health, including the House of Commons Health Committee Report on Obesity published in May 2004, in addition to studies by the Consumers' Association and others. There is now an established link between highly saturated fatty foods and obesity. The Infinity Fryer reduces fat content by up to 25%, but the lack of Government initiatives to publicise the dangers of high fat food and failure to investigate and publicise a link between frying methods and fat content means that this advantage is not considered relevant to potential purchasers.

Two further issues specific to fried foods are:

- the deterioration in oil quality in repeatedly reheated unchanged cooking oil;
- the potential health hazard from the debris collected at the bottom of conventional fryers (the "cool zone").

The Infinity Fryer addresses both these in its design with its unique heating system with the patented Bi-Flow Heat Exchanger and the innovative integral oil management system.

Independent analysis carried out at the University of Reading confirms the data from Falcon: trans fats are reduced by up to 41% and free fatty acids are substantially reduced, typically by 50%.

The Food Standards Agency has not however responded to this research, or initiated its own, and it has not issued any guidance to advise catering operators on the health dangers from using continually reheated oil.

### *Publicising the Waste Oil Directive*

From 31 October 2004, the Government has now had to implement the EU Animal By-Product regulation Directive, after a requested a two year delay. This prevents used cooking oil from being used in the manufacture of animal feeds. As this route had been used to dispose of over 90% of waste cooking oil, alternative disposal methods are now required.

However, the quantities of oil involved have not been ascertained. Estimates vary from 50 to 90 million litres per annum. Neither DEFRA nor the Food Standards Authority have been able to provide data, as they claim it is the responsibility of each local authority to monitor disposal in their area.

### *Organisational "Disconnect"?*

This is another example of organisational "disconnect" and might explain why there has been little publicity on the Waste Oil directive, and why few equipment purchasers contacted by the Infinity Fryer marketing campaign were aware of the new regulations. Yet the Infinity Fryer could make a significant contribution to this issue as independent trials have proven that it reduces oil usage by over 60% as well as making it safer and ergonomically easier to change the oil.

## **Conclusions**

### *Dysfunctional organisations?*

The project has illustrated that even with the best of intentions, organisational structures and the perceived role of CSR management within them often inhibit the embedding of CSR in operations.

Companies, fund management organisations and Government departments operate according to local imperatives, with different functions and units often in parallel universes which may preclude a coherent approach to an overall issue such as CSR. What is functional at departmental level might be dysfunctional in achieving an organisation's overall stated objectives.

In this specific study, this lack of "joined-up thinking" has meant that in some cases, both public and corporate, purchasing organisations have not had the mechanisms to identify and hence evaluate the potential CSR advantages of the Infinity Fryer. This is the R vs. R gap.

### *Intensifying Pressure to Change*

There is however increasing urgency to recognise and bridge this "R vs. R" gap.

Companies are under pressure from customers, from shareholders, and from Government:

- from customers, particularly in the corporate sector, as they realise that to meet the CSR demands from their own customers and investors, they must seek similar CSR commitments along the supply chain;
- from institutional investors, a number of whom have stated that their AGM voting decisions in 2005 could be affected by the way companies manage CSR. If the Myners Review proposals are accepted, the Statement of Investment Practice is also likely to be strengthened so that pension fund trustees will be obliged to increase their transparency on all policies, including CSR;
- from Government as the regulations for the Operating and Financial Review (OFR) will come into force in 2006, requiring directors to consider and if appropriate report on environmental, employment and social and community policies.

Institutional investors are under pressure to exercise their power publicly and privately to ensure better corporate governance, including CSR. The companies which explicitly attract SRI investors are also under a special obligation to prove that they are engaging with the companies in which they invest.

The Government is under particular pressure during 2005 while the Prime Minister is Chair of the G8 and President of the European Union from July. Its huge buying power means it is in a stronger position than any corporate buyer to encourage the implementation of the CSR policies and practices it exhorts the corporate sector to adopt.

## **Bridging the “R vs. R” gap**

To avoid this R vs. R gap becoming too big to bridge, now is the time to face up to the challenges which CSR implementation really poses. We therefore suggest the following check-list of questions to kick-start the process.

### **The Corporate Sector**

*Questions to be posed by pension fund trustees, fund managers, and investment analysts*

- Who is the main board director responsible for CSR? What does he/she do to ensure CSR is embedded on the company?
- What is the line of authority from the CSR director/manager through to the Board?
- What incentives there for the Board, senior management and local level related to the CSR management?
- What risks and opportunities does CSR present, and how are they managed and mitigated as appropriate?
- What information do you provide to your customers on the CSR relevant features of your product/ service?

### **The Investment Sector**

*Questions to be posed by investors*

- How do specialist SRI fund managers actively engage the companies they invest in about their CSR credentials and performance?
- How do generalist fund managers liaise with their Corporate Governance and/or SRI departments to ensure CSR is part of the regular dialogue with companies?
- How are sell-side analysts who include CSR issues in their investment recommendations rewarded?

### **The Public Sector**

*Questions to be posed by concerned citizens*

- How has the Government’s public commitment to CSR been translated into action?
- Is the work of the DTI’s CSR unit properly publicised within Government?
- Is central Government as diligent in publicising the importance of CSR throughout the public sector as the DTI and DEFRA are in publicising it to the corporate sector?
- Is there coordination between purchasing departments on the important CSR issues as a whole, in addition to the attention now given to environmental issues at the OGC?

*Specifically on the food quality and the Infinity Fryer:*

- How does the Food Standards Agency advise the public sector catering equipment purchasers on the hazards of contaminated cooking oil?
- What alternative disposal methods of waste cooking oil are there and what can be done to minimise volumes?
- Who is monitoring the quality standards in the private sector, particularly fast food restaurants?
- How is operator safety being considered by the employer and is the HSE following up on slips, burns and other related injuries?

**Overall progress in recognising the importance of CSR has been good. But while the spirit is willing, the flesh is weak. We therefore hope these questions will provide a catalyst to bridge this R vs. R gap.**

## **Annex 1: Corporate Social Responsibility Background**

### **Definition of CSR**

Corporate Social Responsibility (hereinafter referred to as CSR) has become the recognised title for any issue associated with a company's responsibilities to its stakeholders, including shareholders, customers, employees, suppliers and the wider community, including regulatory authorities and NGOs. The Government sees CSR as "the business contribution to our sustainable development goals. Essentially it is about how business takes account of its economic, social and environmental impacts in the way it operates - maximising the benefits and minimising the downsides." (Definition on the Government's CSR website, [www.csr.gov.uk](http://www.csr.gov.uk)). CSR has often been called *SEE* (Social, environmental and ethical issues) and increasingly *Corporate Responsibility*. It is sometimes confused with *Socially Responsible Investment* (SRI), discussed below.

### **The Business Case for CSR**

The business case for CSR has been explored in a number of studies. In April 2003, the London Business School concluded that "often there may be a compelling business case for making a substantial commitment to CSR, but an individual firm must assess the extent to which the general business case for CSR applies to its specific circumstances."<sup>1</sup> Also in April 2003, The Institute of Business Ethics (IBE) assessed the importance of having a code of ethics or equivalent statement of core values. It concluded that:

"..there is strong evidence to indicate that larger UK companies with codes of ethics, e.g. those who are explicit about business ethics, out-perform in financial and other indicators those companies who say they do not have a code. Having a code of business ethics might, therefore, be said to be one hallmark of a well managed company."<sup>2</sup>

### **CSR as an Investment Criterion**

#### *Corporate Governance*

In 1999 the Turnbull report identified CSR as a risk issue which should be managed, and in 2001 the Association of British Insurers (ABI) issued its Disclosure Guidelines to encourage companies to report on CSR.<sup>3</sup> Our discussions with the Corporate Governance Departments of the major institutional investors, and study of their Corporate Governance Guidelines indicates that there is increasing behind-the-scenes pressure on CSR policies; and that it may become a voting issue on acceptance or rejection of the Annual Report in AGMs held in 2005.

#### *Statement of Investment Principles (SIP)*

Since July 2000 it has been mandatory for trustees of occupational pension funds in the UK to disclose their investment policy in their Statement of Investment Principles, and to include a statement on the extent to which social, environmental and ethical issues are taken into account. There will be increasing pressure on trustees to report on how these policies have been implemented, and details of any engagement with the investee companies, if the proposed strengthening of the Myners Principles for institutional investment decision-making is implemented.<sup>4</sup>

<sup>1</sup> *Corporate Social Responsibility: Not Whether, but How?* LBS, Centre for Marketing, April, 2003.

<sup>2</sup> *Does Business Ethics Pay?* Institute of Business Ethics, April, 2003.

<sup>3</sup> Available at [www.abi.org.uk](http://www.abi.org.uk).

<sup>4</sup> *Myers principles for institutional investment decision making: review of progress*, HM Treasury, December 2004.

### *Socially Responsible Investment (SRI)*

SRI is the objective of a growing number of institutional investors, and charitable funds, usually on the basis of a specific investment agenda involving screening (eg to exclude tobacco, armaments or nuclear power).<sup>5</sup> The UK is a recognised leader in SRI investment, and the increasing success of SRI funds, in terms of funds invested, has led to the development of a number of organisations which screen companies according to various criteria, then market the information to institutional investors. It has also led to an increasing number of indices such as FTSE Good to try to rank companies on their perceived performance, either environmentally or across a wider range of CSR issues. The resulting proliferation of questionnaires has led to an attempt to coordinate them in an initiative sponsored by the London Stock Exchange, with the support of the UK Social Investment Forum.<sup>6</sup>

### **Government Policy and Practice**

#### *CSR Commitments*

The introduction to the DTI's CSR Report of 2002 set out its "ambitious" vision" for CSR: "to see private, voluntary and public sector organisations in the UK take account of their economic, social and environmental impacts, and take complementary action to address key challenged based on their core competencies – locally, regionally, nationally and internationally." The Report explicitly recognised "the need for the public sector to get its own house in order." But subsequent reports have shifted the emphasis. CSR now "is about the behaviour of private sector organisations and their contribution to sustainable development goals," (*Corporate Social Responsibility*, May 2004, p.22) and the report emphasises the role of Government as a facilitator rather than an active participant in making CSR a reality.

#### *Sustainable Procurement*

The rhetoric of the commitment and the reality of the barriers preventing the implementation were both evident at a conference sponsored by the Government on October 6, 2004, "Implementing sustainable procurement," aimed at educating public sector buyers to factor sustainability into their purchasing decisions.

Whereas Elliot Morley, Minister for Environment and Agri-Environment emphasised that "If central Government and local authorities resolve to conduct their business in a sustainable manner then there can be no choice other than to conduct their procurement in a sustainable manner," Anna Coote, Director of Health Policy, King's Fund, put this into context by listing the barriers to accomplishing this, chief of which was that "there has not yet been strong enough leadership on this from government ministers and senior civil servants. .. Government hasn't got a grip on sustainable procurement. It isn't yet showing that it is determined to set a good example."<sup>7</sup>

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<sup>5</sup> For more details of the UK SRI sector see the UK Social Investment Forum (UKSIF) at [www.uksif.org](http://www.uksif.org).

<sup>6</sup> Details of the Corporate Responsibility Exchange from [www.londonstockexchange.com](http://www.londonstockexchange.com)

<sup>7</sup> see [www.govnet.co.uk/procurement](http://www.govnet.co.uk/procurement)

## **Annex 2: Infinity Fryer Benefits**

### **Summary**

Since 2001, the specialist commercial catering equipment business, Falcon Foodservice Equipment (part of Aga Foodservice plc), has been developing a new product range which anticipates new legislation, and meets customer demands as they evolve in the light of changing consumer requirements. The result was the the Infinity Fryer, launched in 2004 as a product which can help Falcon's customers fulfil their CSR commitments, whilst at the same time delivering real business benefits.

The Infinity Fryer's use of pre-mix burner technology and ergonomic design provides a step-change in performance compared to conventional commercial fryers in terms of energy efficiency, reduced oil use, improved operator conditions, and reduced fat per item of fried food. There are therefore substantial benefits to operating costs as well as to environmental sustainability, employee health and safety, and healthier eating for the consumer. Companies that invest in the Infinity Fryer can therefore improve their financial performance by up to 40%: i.e. around £1400 per annum for a product costing under £2,500.

### **Environmental Benefits**

#### *Reduced energy consumption*

The Infinity Fryer uses up to 38% less energy than its leading competitor. It uses only 16 litres of cooking oil which means less oil to heat up, which in turn means quicker heat up times (37% faster than a leading competitor) both of which contribute to reduced energy consumption. The revolutionary pre-mix burner technology, combined with the patented heat exchanger produces efficiency levels of over 80%. This compares to 50% efficiency from traditional fryers. At current energy prices (December 2004) that represents a saving of £180, or 38%, on an average annual energy bill per fryer.

#### *Reduced waste cooking oil*

Cooking oil that has become unfit for food preparation due to chemical degradation and/or an accumulation of contaminants has historically been used as an animal feed additive. Since 31<sup>st</sup> October 2004, the Animal By-Products Regulations 2003 has prevented waste cooking oil being used as animal feeds. New uses in bio-fuels or in waste-to-energy plants are only now being developed. As a result of this, the cost of disposing of waste oil is expected to increase. The Infinity Fryer uses up to 68% less oil than a leading competitor, typically saving over £1,000 per annum per fryer in oil savings alone. Savings on the costs of oil disposal are around £160 per annum per fryer.

### **Consumer Benefits**

#### *Reduced health risk*

The Infinity Fryer is the only fryer in the marketplace that is proven to reduce the level of fat contained within fried food. Its design allows for the reduction of the overall fat content, free fatty acids (FFA), polymers and oxidation products, and at the same time actually extends the quality and life of the oil. Chips prepared in better maintained oil, made possible by using the Infinity Fryer, are leaner and healthier as they absorb less fat, thereby helping to address concerns surrounding health issues within the food arena.

**Employee Benefits***Reduced risk of hot oil accidents*

Accidents with hot oil are a constant kitchen risk. The Infinity Fryer has a unique push button in-built filtration system which enables oil to be filtered without the user handling the oil and therefore improves the health and safety aspects of oil filtration. There are thus no added costs of filtration units, hoses, paper and chemicals; this could generate a saving of £220 per annum per fryer. Training new employees is also simpler.

*Improved working environment*

Employees benefit as less heat is expelled from the Infinity Fryer into the kitchen, reducing the temperatures in which staff are working. It also operates at ambient noise levels and with much reduced toxin emissions. All three factors improve the working environment.

**Total Cost Savings**

Benefits such as improved working conditions and healthier eating, although real, are obviously difficult to quantify.

For the direct cost savings, however, AGA Foodservice has developed a cost calculation, available on the dedicated website, [www.infinityfryers.com](http://www.infinityfryers.com).

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### **About CSR Consulting Ltd.**

**CSR Consulting Ltd** works in the corporate, public and investment sectors with Boards of Directors and senior management, providing a vital link to the investment community to help companies understand and meet the evolving demands of Corporate Governance and Corporate Responsibility.

Clients include companies in the FTSE100 and FTSE250 as well as privately held businesses seeking to move towards best practice in anticipation of coming to market.

Key members of the CSR Consulting team are **Janet Sidaway, MA, MBA** who has 15 years experience in investment analysis, of which 10 years were at Dresdner Kleinwort Wasserstein where she was twice voted a "star analyst" in Extel, and was voted top engineering analyst six times in the Finance Directors' survey; and **Steve Askins B.Sc (Hons), MBA** who was responsible for strategy as a member of the Executive Board at TI Group plc, the £3.3bn specialist engineering group, prior to TI's merger with Smiths Industries.

### **About Aga Foodservice Group plc**

**Aga Foodservice Group** has sales of over £400m in its two core business areas of consumer and foodservice products. The Group's strategy is to be an international consumer brand led operation with Aga at its heart and also to expand in foodservice markets.

The Group is a producer of premium range cookers and refrigerators for the domestic market and is a home interiors retailer. Consumer brands include Aga, Rayburn, La Cornue, Rangemaster, Fired Earth, Grange and Domain.

In commercial foodservice, the Group's market leading equipment manufacturing businesses provide global commercial catering, bakery and refrigeration service to the foodservice sector. This is complemented by the Group's experienced facilities management teams.

The Board of Aga has long recognised the importance of corporate social responsibility to all its stakeholders and published its first CSR Report in March 2004.

In addition to embedding CSR within its own operations, Aga sees a key part of its responsibility as the development of new products which offer improved CSR effectiveness, thus assisting commercial and domestic customers to advance their own CSR performance.

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