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Human resources, ethics and corporate social responsibility: what makes 'people' count within the organisation's corporate social responsibility platform?

Conference paper

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Summary

How do annual reports from PLCs address human resource management issues? We report on the first phase of research asking what public commitments on work and employment are made by large, UK corporations (often multinational corporations). To what extent and how do PLC boards of directors acknowledge the importance of people and HR strategy alongside other (predominantly financial and market) issues?

We find formal 'board' commitments to 'people' made by UK PLCs are varied and have significant limitations. Some boards appear to guard and promote their corporate reputation for people management, while others take a less managed and apparently more casual approach. This is important since deficiencies pose challenges for HR managers and for the CIPD as their professional body. The CIPD recently debated how the HR profession might be more explicitly committed to an ethical professional practice (CIPD 2016), and this would be difficult to reconcile with the *absence* of clear public commitments on corporate responsibility/governance and HR.

Background

This research is timely and relevant. During the course of 2016 a number of organisations, including Sports Direct, ASOS, Hermes, Uber and Monsoon, were identified in the media – and sometimes in parliamentary committees – for their poor treatment of employees/workers and for levels of corporate carelessness that was, sometimes, bordering illegality. Growing pay disparities and concerns about fair treatment have been accompanied by proposals for board-level representation for workers culminating in the UK Government's 2016 green paper on governance reform consulting on both executive pay and employee voice. Since January 2017, public interest entities (such as banks, employing more than 500) have been required to disclose both board and management diversity together with their policies for employees with respect to human rights and anti-corruption measures. In May 2016, eight companies in the construction industry were fined for 'blacklisting' workers who were trade union or social activists (Druker 2016). Previously organisations managing international supply chains, for example Nike and Gap, suffered reputational damage because of the behaviour of subcontractors and overseas suppliers (Berliner et al 2015). The UK incidents, cited

above, involve localised examples of HR practices where the organisations in question were operating at best carelessly and at worst illegally.

Such behaviours raise the question: what do the largest and most reputable of UK organisations commit to in their public statements on HR? What are they saying and what, importantly, is the salience of their stated position? How do such statements relate to broader corporate commitments? How do statements taken from annual reports and corporate responsibility (CR) statements inform the HR experience and hence the experience of the workforce?

Although there are studies exploring positive employee perceptions of corporate social responsibility (CSR) (see Jones 2010; Shen and Jihua Zhu 2011), there has been little work covering the effect on – and impact of – HR on the creation of CSR policies. Shen (2011) explores the links between socially responsible international human resource management (IHRM) and the interests and rights of stakeholders, be they internal or external, while Gond et al (2011), after interviewing both CSR and HR practitioners, distinguish between the types of CSR that are linked to ethical perceptions (such as those that promote diversity) and those that enable a positive HR experience for the workforce (such as improved training and development). All this raises a question (debated in recent CIPD research) about the extent to which professional standards or codes of conduct for HR specialists require a clear commitment to ethical practices along the lines of those for medical practitioners (CIPD 2016).

The approach taken to this study derives from Greenwood's ethical analysis framework (2013). She argues, as have other critics of unitarist HRM, that the subject of HR is inherently socio-political and that many conventional studies are seeking solely to deploy the HR function to provide a means of internal organisational control over labour. She differentiates her stance from that of critical theorists, taking an approach that is normative but radical in intent – challenging power relations and espousing workplace human rights and dignity.

Corporate responsibility and human resource management

Corporate governance is conventionally framed within annual reports in ways that prioritise financial and market-focused reporting. There are few obligations (outside of senior remuneration) to report HR issues. The value set of larger corporations and the political dynamic associated with market opportunities and attitudes to regulation may foster concern for corporate social responsibility, often dealt with in official reports simply under the heading 'corporate responsibility'. Legal compliance and aversion to risk are two of the main drivers behind CR, but beyond this business orientation some organisations lobby for and promote humanitarian practices. In line with Voegtlin and Greenwood (2016), we are concerned here with business initiatives and responses within the 'shifting political contest' (p182) between government, civil actors and business.

There are, arguably, reputational benefits in being seen to be doing 'good'; whereas reputational losses sometimes alienate key stakeholders (Fombrun et al 2000). Corporate citizenship concerns different stakeholders, including shareholders, suppliers, customers, employees and communities, but we focus solely on 'people'. We do not address wider issues of corporate governance. Nor do we consider the interests of stakeholders other than those who are employed or engaged through the organisation.

Vives (2013) promotes the importance of HR within the CSR framework and, similarly, Anderson (1993) says that the HR function holds great potential for business to take proactive steps if for no other reason than to ward off future government intervention/regulation (1993, p290). Fombrun et al (2000) argue that corporate social performance (CSP) may affect the reputational capital of the company, impacting positively on financial value. Greening and Turban (2000) argue that corporate social activity influences potential job applicants and that socially responsible firms will be preferred. Similarly, De Roeck et al (2014) link CR to perceptions of justice, suggesting that employees assess organisations and identify with them (or not) on that basis. Social identity theory, on the other hand, suggests that there is a relationship between CSR and corporate commitment (Peterson 2004; Turker 2009). CSR – and particularly the HR dimension of CSR – is therefore important for the organisation in creating strong relationships with employees. This idea is reinforced by Dunford et al (2015), who highlight *‘growing evidence that corporate social responsibility matters in winning the hearts and minds of employees’* (p2; see also Hansen et al 2011). Indeed, individual employees identify with and consequently exhibit higher levels of motivation if they trust an organisation (Lavelle et al 2007; Brammer et al 2007). Employees pay attention to reputation (Rodrigo and Arenas 2008) and, if it is good, it may lead to improved job satisfaction (De Roeck et al 2014, p91).

However, an alternative view suggests that reputation impact is less clear-cut and uniform than suggested by Fombrun et al (2000) or Vives (2013). The view that poor company behaviour will result in reputational penalties, while good behaviour builds positive reputations, is challenged. Since cases of irresponsibility are part of everyday life, Jackson and Brammer (2014) argue, negative actions may fail to provoke reputational sanctions – and good reputations may persist despite negative actions. In only two areas of irresponsibility – environmental and diversity – are there lasting impacts. Legal rules affect reputation (Karpoff and Partnoy 2014), but senior executives may calculate how much bad behaviour the corporation can get away with, especially where reputation requires investment. Senior decision-takers may become adept at bypassing regulations. This paper follows the argument developed by Deakin and Whitaker (2007, p2), who say, *‘There is a general understanding that the concept of CSR could serve as a bridge between issues of governance, on the one hand, and notions of equity and fairness in employment and in society, on the other.’*

We argue that, in the first instance, an analysis of public statements concerning corporate responsibility and attitudes to HR is required. We draw specifically on information from company annual reports, asking how some organisations guard and promote their corporate reputation in people management while others seemingly take a more casual approach. This issue is important since, as trade union membership has declined, company boards have greater influence and scope to impact on employment matters without challenge. The importance of employee voice at this level was acknowledged by Theresa May when she suggested that corporate governance was due for an overhaul and that boards could benefit from worker representation (Melby 2016).

We ask what public commitments on employment, ethics and CR are made by UK PLCs and report on the first phase of research into this topic, drawing on published data including government and company reports.

Research design and methods

Phase 1 of this research asks whether organisations have a formal public commitment on work and employment, for example within a corporate responsibility framework. If so, which areas does it cover? Does it include a commitment to ethical standards or to standards of employment? Does it include a commitment to standards of employment by subcontractors/agencies? Does it include a commitment to employment standards in overseas subsidiaries or in the supply chain?

The research began by reviewing the published evidence considering statements within UK company annual reports or equivalent publications. The majority of the companies we researched are multinationals (MNCs) and the statements therefore represent the position they adopt globally. We reviewed 25 annual reports of UK PLCs.

There are few statutory requirements for companies to disclose publicly information about work and employment, and UK company boards have no obligation to appoint worker representatives to the board. Annual reports primarily concern financial reporting, broadly indicating objectives, strategy and risk management. Yet, reports often include information about corporate responsibility or CSR, about employees and social or human right issues, as well as information about the gender diversity of directors, senior managers and employees in the group as a whole (Institute of Chartered Secretaries and Administrators 2015). We explored and compared statements made across 25 organisations and the following comments provide a first resumé of our findings.

Findings

Organisation size

Our companies ranged in size from Tesco (the largest in terms of employment), with 472,000 employees worldwide, to Premier Foods (the smallest), with 4,000 employees. Excluded from this calculation is Latchway plc, an outlier in terms of employment, whose employee numbers are in the hundreds. For the most part, the businesses we looked at are strong organisations with a long history.

Table 1: List of PLCs

Preliminary search of company reports	Number of employees
Phase 1	
1 Astra Zeneca	61,500
2 Babcock International	35,000
3 Balfour Beatty	17,000
4 Bupa	84,000
5 Easy Jet	10,104
6 Firstgroup plc	110,000
7 G4S	610,000
8 Go-Ahead (large transport company, bus and rail, which includes Southern Rail)	27,500
9 GSK	96,000
10 HSBC	255,000

11 Inchcape	14,000
12 Latchway	255
13 M&S	80,041
14 Nationwide	11,495
15 Pearson	35,000
16 Premier Foods	4,000
17 Prudential	23,507
18 Rolls-Royce	50,500
19 Smith and Nephew	15,644
20 Sports Direct	29,000
21 Tate and Lyle	4,326
22 Tesco	472,000
23 Trinity Mirror	3,914
24 Vodafone	101,443
25 Whitbread	50,000

How visible is 'concern' for human resources? We look particularly at the issues that emerge from the published data, considering in turn questions of employee engagement, reward, talent development and employee voice. We consider issues of ethics, including policies on diversity. Finally, we consider the implications of partnering, brand relations and relations with suppliers.

Employee engagement or attitude surveys, reward, talent and employee voice

Most companies we reviewed comment on employee engagement; the overwhelming majority report that employee attitude surveys are used. Responses on the particulars of HR strategy, with respect to reward and talent development, attracted piecemeal comments rather than overall commitments. HR is rarely represented on the board.

Employee voice

Employee representation receives little attention from the majority of organisations and, for the most part, comment is confined to what the company might require of employees – not what employees might expect of the company. Few of the reports comment on relations with trade unions. Where employee communications are touched upon, there is little evidence of ways in which collective consultation or communication might take place.

Ethics

Almost all of the organisations comment on their ethical stance. This is fundamental for business activities, not only for the finance sector, but also, for different reasons, for those in the health and pharmaceuticals sector, for agribusinesses, airlines and others. Image and reputation are key to enabling customer confidence and building public trust. From an organisational perspective, the principle concerns are with product safety and security, with the prohibition of bribery and money laundering and reinforcing data protection and security. This is not so much a matter of ethics in relation to an entitlement to dignity at work or respect for or treatment of employees. Rather, it is more a package of ethical requirements placed on employees, sometimes through the form of a code of conduct which explicitly requires training and compliance by employees. This is as much

about the assertion of managerial prerogative as it is about ethics, since employees are then bound by the prescribed approach.

Partnerships

Markets and brand partners have perhaps more impact on the approaches to HRM than do employees themselves. There are two points here. PLCs that rely on close relations with corporate partners cannot lightly dispense with the benefits of corporate reputation and are exposed to business losses if they encounter fundamental problems. The travails of Sports Direct, partnering with companies such as Nike and Reebok, may be of particular concern to their board because of the potential damage to business networks and market opportunities as a consequence of poor publicity.

Many of the problem cases cited at the beginning of this paper – notably Uber, Hermes and Sports Direct – involve agency labour and relate to questions around employment status and conditions for UK workers. In the light of these concerns – and acknowledging too the power and influence of the PLCs we looked at, most of them operating across world markets – comment on employment standards or labour engagement within the supply chain is remarkably limited.

Diversity

It is on the question of diversity that discussion is most extended, possibly reflecting the comments of Jackson and Brammer (2014) that this is one of the areas in which reputational damage may result from poor practice. Boards report on the composition of the board itself and senior decision-takers are aware of legislative requirements precluding discrimination and will necessarily seek to appear compliant. Skills constraints – for example in science, technology and engineering – also encourage an interest in recruitment from non-traditional sources.

While improvements may not meet aspirations, this is an issue that is regularly given sustained attention in corporate statements.

Discussion

This brief review of UK PLC company annual reports and related literature confirms that there is an absence of uniformity, coupled with significant limitations, in comments about strategic HR. Naturally, corporate objectives, values and market position, as well as the language used to articulate them, vary from organisation to organisation, and we would not necessarily expect a high degree of congruence in the approach taken. Yet it is reasonable to anticipate that the same HR issues would be addressed by each organisation if only to convince shareholders that they are under control. The onus throughout the UK reporting process is compliance with requirements on finance, accounting, risk management and corporate governance as it has evolved since the Cadbury Report (1992) nearly 25 years ago. In the UK, by contrast with (say) Germany, PLCs have only one corporate board, made up of executive and non-executive shareholders, and its preoccupation is with the relationships between investors and shareholders, with no provision for a second-tier board of the type found in Germany. The HR director does not have a board position, as of right, and by contrast with mainland European countries, few UK corporations provide for board-level representation of employees. Firstgroup is unusual in doing so. This absence of a voice at the table – both of HR and of

employees – could encourage corporate neglect of the HR and employee perspective. In many cases, the HR function and influence is unacknowledged and, for all intents and purposes, invisible.

Viewed from Greenwood’s ethical perspective (2013), it is clear that the majority of the PLCs whose reports we have reviewed are preoccupied with compliance. Paradoxically, the absence of HR information must be a limitation for shareholders. On the basis of the mantra that ‘people are our most important asset’, they are given few clues as to what is really going on. In general, reports suggest little real opportunity for employee engagement beyond the completion of an annual employee attitude survey. They reinforce the view, suggested by Jackson and Brammer (2014), that evasion, rather than information, might be the norm. The references to employee communication, engagement and ethics are particularly telling, limited and ‘top-down’ in approach, reflecting a power base from which employees are subject to managerial control rather than themselves having the opportunity to influence corporate life or the communities that are served. It is notable that few organisations refer to the role of trade unions – reflecting union weakness and providing a clear indication of corporate priorities in terms of collective engagement.

In conclusion

There are three fundamental recommendations for the CIPD that arise from this resumé of company annual reports. The first is that our professional body should be seeking explicit standards of corporate reporting on HR in PLC annual reports to include an ethical commitment by the board. Without such a development, it is difficult to see how HR can adopt a clear and ethical stance for professional practice. In particular, reports should provide:

- explicit reference to numbers and types of employees
- an overview of HR strategy and standards, both within but also beyond the company, including explicit reference to the standards set for labour engagement within agencies, subcontractors and tier 1 suppliers
- more attention is needed around the routes through which employees can voice opinions within the company at every level; in particular, the feasibility and potential benefits of board-level employee representation requires further examination.

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