Corporate Governance and Social Responsibility: a comparative analysis of the UK and the US*

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This paper argues that key differences between the UK and the US in the importance ascribed to a company's social responsibilities (CSR) reflect differences in the corporate governance arrangements in these two countries. Specifically, we analyse the role of a salient type of owner in the UK and the US, institutional investors, in emphasising firm-level CSR actions. We explore differences between institutional investors in the UK and the US concerning CSR, and draw on a model of instrumental, relational and moral motives to explore why institutional investors in the UK are becoming concerned with firms' social and environmental actions. We conclude with some suggestions for future research in this area.

Keywords: Corporate social responsibility, institutional investors, Anglo-American corporate governance system

Introduction

Scholars of corporate governance understand the world to be divided into two systems, the Anglo-American shareholder system and the Continental European/Japanese stakeholder system. They have used these contrasting models to explain differences in finance, ownership, labour relations and the role of the market for corporate control among the varieties of capitalism, as well as to explore the possibilities of convergence or continued divergence in corporate governance practices. In such highly stylised portraits, primary attention is given to the ways in which each system differs from the other, often using an under-socialised view of the institutional and socio-political context in which firms operate (Aguilera and Jackson, 2003). Less attention has been paid to differences in corporate governance within the "Anglo-American" system, though a number of recent studies have begun to explore those differences (Miller, 2000; Toms and Wright, 2005; Williams and Conley, 2005), or to country-by-country differences within the Continental European system, although work has recently begun there as well (Federowicz and Aguilera, 2003; Aguilera, 2005; Clark and Wojcik, 2005; Gospel and Pendleton, 2005).

As stated by Toms and Wright, "it is a pity" that US/UK comparative work has been neglected, since "although there are important similarities [between the US and the UK corporate governance systems], there are also differences that have not been fully investigated" (2005, 267). Our paper undertakes one such investigation. We examine some salient differences between the corporate governance arrangements in the US and the UK by evaluating differing institutional investor composition and modes of action in the two markets, and by exploring the implications of such differences for the varying importance of "corporate responsibility" issues within the two countries. In so doing, we rely upon our prior comparative corporate governance work (Aguilera and Jackson, 2003; Williams and Conley, 2005), as well as our multi-level theoretical model of why different actors press companies to consider social responsibility issues, here applied to institutional investors

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(Aguilera, Rupp, Williams, and Ganapathi, forthcoming).

The paper is organised as follows. In the next section we briefly describe the commonly-appreciated similarities between the UK and US corporate governance systems, and then discuss a number of differences in the two countries in greater detail, with particular attention being paid to differences in the actions of institutional investors between the two countries. We then discuss the place of corporate social responsibility (CSR) issues in the UK and US, and argue that CSR issues are generally treated more seriously in the UK, across a broader spectrum of market participants, than in the US. We summarise our multi-level theoretical model which explores different motives that actors might have to ask firms to engage in CSR initiatives, and we apply this model to the action of institutional investors to explain the greater emphasis on CSR issues in the UK versus the US. We conclude with some suggestions for future research in this area.

Corporate governance systems in the UK and the US

Stylised portraits of the Anglo-American corporate governance system emphasise the features shared by the US and the UK, including the primacy of shareholders as beneficiaries of fiduciary duties, the importance of equity financing, dispersed share ownership among uncommitted shareholders, active markets for corporate control as a mechanism of managerial accountability, and flexible labour markets (Jensen and Meckling, 1976; Hall and Soskice, 2001; Streeck and Yamamura, 2001). Some obvious qualifications are necessary to render this picture fully accurate. For instance, while neither the UK nor the US has concentrated individual block-holders, cross-shareholdings or dominant family-owned firms in appreciable numbers, as do the Continental and Japanese systems (Shleifer and Vishny, 1997), institutional investors' control of the equity market as a whole has grown rapidly in the last 20 years in both countries. Institutional investors controlled about 80 per cent of the UK equity market as of 31 December 2003 (Mallin *et al*., 2005, 535), and close to 60 per cent of the US equity market in 2003 (Binay, 2005, 127). As a result, institutional investors have the potential to exercise coordinated, collective power (Clark and Hebb, 2004; Clark and Wojcik, 2005). How institutional investors act on this potential is quite different in the two markets, as will be discussed below. The point here is simply that, because of the significance of institutional investors, the conventional model's sharp contrast between the shareholder dispersion in the Anglo-American world and block shareholding in Continental Europe is overstated (Mallin *et al*., 2005, 536).

Important differences between core aspects of the corporate governance systems in the UK and the US are summarised in Table 1. Recognising that firms are situated within a given society and political tradition, which will influence the decisions of individuals within the firm, one can conceptualise corporate governance as relationships within the firm and between the firm and its environment (i.e. society). Figure 1 illustrates this concept. While there are a number of relationships that define the corporate governance system within any given country (Aguilera and Jackson, 2003), two particularly important ones are that between the Chief Executive Officer (CEO) as a key actor within the top management team (TMT) and the board of directors, as an indicator of internal governance relationships; and that between the firm and its equity investors as an indicator of external governance relationships. Each of these relationships shows a divergence that is occurring between the UK and the US.

One area of divergence is the greater amount of constraint on the exercise of CEO power in the UK vs the US. Ninety per cent of the UK's largest companies follow a dual strategic leadership pattern (Higgs, 2003), splitting the roles of the CEO and the Chairman of the Board, as suggested by the Cadbury Committee in 1992 (Cadbury, 1992) and as now incorporated into the Combined Code on Corporate Governance (2003). Principle A.2 of the Combined Code of 2003 states that "[t]here should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision." The CEO's exercise of power in the UK may be further constrained by the recent Higgs Review's structural suggestion that firms should appoint a "senior independent director". Although it is too early to judge the consequences of Higgs, this change seems likely to spread the power at the top of the firm (Aguilera, 2005, 48) by enhancing the power of the board of directors to operate independent of management and effectively monitor executive action.

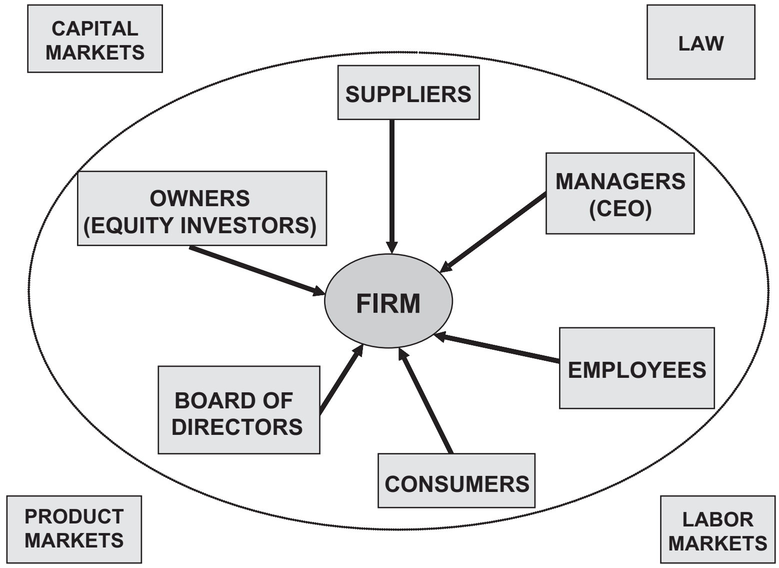
In contrast, in approximately 80 per cent of US companies, the CEO is also the Chairman of the Board (Higgs, 2003), a concentration of power likely to inhibit effective monitoring. Both the US Congress and the New York Stock Exchange have sought to enhance the effec-

Table 1: Key differences between the UK and the US corporate governance systems

	UK	US
Ownership	Engaged Less dispersed than US	Not as engaged Exit strategies Impatient capital More dispersed than UK
Ownership type	Institutional investors (insurance companies and pension funds)	Institutional investors (investment companies)
Dual leadership	Mostly	Rarely
Institutional investor engagement	Cadbury Report and Combined Code encourage engagement	Large public pension funds engage
Stakeholder relationships	"Hidden world of informal monitoring"	Scarce and few mechanisms in place
Stock market in 2004:		
Firms listed	2692 (LSE)	2308 (NYSE); 3294 (Nasdaq)
Market capitalization as percentage of GDP	150%	120%
Stock market velocity of shares	Similar	Similar
M&A activity	High	High
Hostile takeover regulation	Robust Little regulated	Inactive Highly regulated
Litigation	Low	High
NGO involvement	High	Moderate
CSR disclosure	Operating and Financial Review (OFR) suggested as best practice Pension Act (2000) requires pension funds to disclose how social, environmental and ethical issues are taken into account in investment strategies Association of British Insurers and National Association of Pension Funds encourage portfolio companies to disclose information about social issues	No legal requirements Some voluntary guidelines, such as the Global Reporting Initiative, being implemented by some companies

tiveness of the board in counter-balancing the power of the CEO recently: Congress in the Sarbanes-Oxley Act of 2002, by requiring the audit committee to be comprised entirely of independent directors, and the New York Stock Exchange, in its listing standards, by requiring listed companies to have a majority of independent directors. Empirical studies are mixed on the accountability effects of board independence (Romano, 2005), with some scholars suggesting that the CEO will have more power when a majority of board members are independent (non-executives), since the CEO will then have a monopoly over information and greater control in setting the board's agenda (Langevoort, 2001). In the US generally, there has been a "greater reluctance on the part of American executives to concede to demands for accountability from outside the corporate hierarchy" (Toms and Wright, 2005, 284). The difference in CEO pay between the US and the UK is consistent with the overall corporate governance structure and the greater power of the CEO in the US. For example, Murphy and Conyon (2000) demonstrate that CEO pay and stock-based incentives in the US are much higher than in the UK.

Another area of divergence is in the relationship between the firm and its equity investors. As noted above, institutional investors have become the key owners in both countries over the past two decades. The percentage of the US equity market owned by institutional investors rose from 35 per cent to 58 per cent from 1981 to 2002 (Binay, 2005, 128), and the comparable percentage in the UK increased from 42.4 per cent in 1963 to 84.7 per cent in 2004 (ONS, 2005). As shown in Tables 2 and 3, while institutional investor ownership is high in both markets, it is higher in the UK than in the US, and the composition of those investors also differs. Insurance companies and pension funds pre-



Source: Extended from Aguilera and Jackson (2003).

Figure 1: Socio-political view of corporate governance

Table 2: Types of ownership in the UK, 1963–2004 (in percentages)

	1963	2004
Foreign capital	7.0	32.6
Insurance companies	10	17.2
Pension funds	6.4	15.7
Individuals	54	14.1
Unit trusts	1.3	1.9
Investment trusts	11.3	3.3
Other financial institutions	–	10.7
Charities, churches, etc.	2.1	1.1
Private non-financial companies	5.1	0.6
Public sector	1.5	0.1
Banks	1.3	2.7

Source: ONS (2005).

dominate in the UK, while investment companies (mutual funds) and investment advisors (i.e. money management firms) are the largest institutional investors in the US. This picture is consistent with the country-level institutional investor types as a percentage of GDP as reported by the OECD (2003). It is important to differentiate among types of institutional investors as they have significantly different performance strategies and hence offer distinct pressures on the firm and its stakeholders.

Specifically, the pension funds and insurance companies that dominate the UK equity market have long-term payout obligations, and so might more readily adopt a long-term perspective on the risks and opportunities presented by portfolio companies; that is, they might act as patient capital. Longer-term thinking about risk is also being encouraged by the UK government, which is now requir-

Table 3: Types of institutional investors in the US (in percentages)

	1981	1990	1995	2002
Banks and trusts	41	29	22	20
Insurance companies	10	6	8	7
Investment companies	8	6	22	28
Independent investment advisors	26	45	37	37
Pension funds, endowments and philanthropic foundations	14	13	10	7
Others	1	1	1	1

Source: Binay (2005, 132).

ing one type of institutional investor, pension funds, to disclose the extent to which social, environmental and ethical considerations are taken into account in constructing investment portfolios (Williams and Conley, 2005).

Moreover, turnover in UK institutional investor portfolios is significantly lower than that in comparable US portfolios (Black and Coffee, 1994), if we exclude foreign capital (which in 2003 represented about 30 per cent of the market). This relative stability may encourage more UK institutional investors to engage in a substantive way with portfolio companies towards enhancing firm performance or reducing strategic risk, rather than simply selling shares of companies that are underperforming (Clark and Hebb, 2004).

Institutional investors in the UK do show such engagement, unlike their US counterparts. Since the Cadbury Committee report in 1992, and with further impetus from the Myners Review in 2001, UK institutional investors have been encouraged to play a more active role in the governance of portfolio companies (Mallin *et al*., 2005). Section 2 of the Combined Code (2003) establishes principles applicable to institutional investors, including that "[i]nstitutional shareholders should enter into a dialogue with companies based on the mutual understanding of objectives (Combined Code, E.1)", and that they should make "considered use of their votes (Combined Code, E.3)". Institutional investors in the UK engage in "quiet diplomacy" out of the public view on matters such as corporate strategy, board effectiveness, executive remuneration and CEO succession (Black and Coffee, 1994; Holland, 1998). They act as an "early warning system" on important strategic and governance issues, and, increasingly, are evaluating social and environmental risks facing the company (Williams and Conley, 2005). In addition, institutional investors in the UK meet regularly with top managers and directors to assess the professional dynamics of the relationship between management and directors, and to assess the quality of management (Holland, 1998). In a common theme, a number of the financial institutions in Holland's qualitative study indicated an aversion to investing in companies with a "one man band" management style (Holland, 1998, 253) that might be more typically associated with the American CEO.

This engagement with company management is a critical phenomenon because these investors, who are "outsiders" in the standard corporate governance typology, are promoting a more *relational* corporate governance system (Pendleton and Gospel, 2005; Mallin *et al*., 2005). An additional important trend in the UK (discussed more fully below) is the increasing collaboration among some pension funds, fund managers, insurance companies and investment consultants to develop corporate governance and corporate social responsibility standards. Such actions send coordinated market signals about investor expectations on these two vital issues.

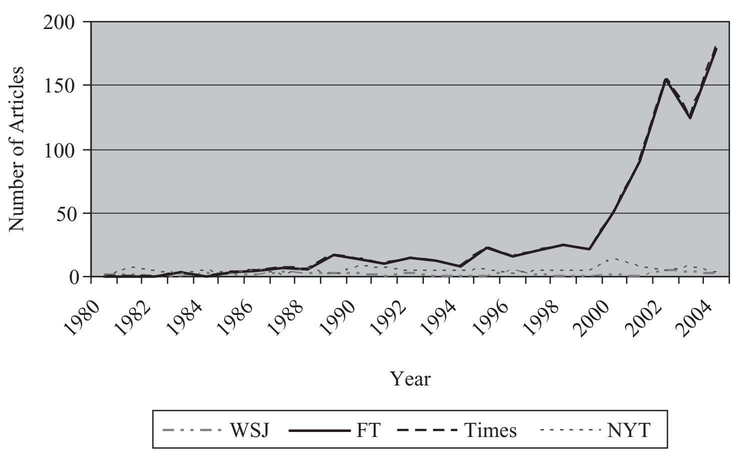
The tendency in the UK is thus for institutional investors to hold shares for a relatively longer period of time than their US counterparts, to subject portfolio companies to more rigorous scrutiny, and to have a closer and more consultative relationship with top management and the board. Higher stock turnover rates in the US (Black and Coffee, 1994) discourage the kind of longer-term engagement with portfolio management seen in London, and US Securities and Exchange Commission regulations such as Regulation Full Disclosure (Reg. F-D, 2005) discourage "quiet conversations" by requiring companies to make public, within a short period of time, any material information conveyed to outsiders in such conversations. Recent SEC proposals would permit large shareholders to have a more direct participation in company governance by allowing owners of 3 per cent or more of a company's equity to nominate directors in limited circumstances and to communicate about those nominees at the company's expense. These proposals have stalled, however, in the face of blistering resistance from companies. As a result, in the US the relationship between institutional investors and portfolio companies is characterised less by collaborative pursuit of the long-term health of the company and more by scripted communications between analysts and corporate investor relations departments as company managers stretch to meet securities analysts' quarterly financial projections (Jensen, 2005). Consequently, institutional investors in the US do not play the strategic consulting role that is becoming more common in the UK.

Corporate social responsibility in the UK vs the US

In addition to the corporate governance differences discussed, another striking difference between these two Anglo-Saxon markets is the greater attention being paid by both companies and institutional investors in the UK to issues of long-term social and environmental risk. There are several possible explanations for this increased attention in the UK to CSR issues. Solomon *et al*. (2004, 557) identify three specific ones: a general increase in concerns about ethics in British society; heightened awareness of risk and risk management; and the growth in media exposure concerning CSR. Figure 2 illustrates the greater discussion of "corporate social responsibility" in the UK relative to the US by comparing the number of articles in which that phrase has appeared in leading newspapers in each country: both the *Financial Times* and the *London Times* now write about CSR approximately every other day, whereas the *New York Times* and *Wall Street Journal* almost never do.

It is not possible without more data to determine if more-frequent discussion of CSR issues translates into serious changes in firms' actions. Scholars are hampered by the lack of consistently presented, comparable, internal data in evaluating the extent to which CSR issues have become matters of internal corporate governance concern. While specialised "socially responsible" indices are being developed to rate non-financial as well as financial aspects of firms, such as the Dow Jones Sustainability Indices in the US and the FTSE4Good Index in the UK (Solomon *et al.*, 2004), they rely upon voluntary disclosures from firms and the limited external assessments of such information that are available. Some companies are turning to auditing firms to provide independent verification of the accuracy of their social and environmental disclosure, so the quality and rigor of this information may improve over time (Toms, 2002). It remains to be seen whether the development of CSR disclosure metrics will correspond to improved firm performance on those metrics (Hebb and Wojcik, 2004).

We can observe the statements and actions of institutional investors, however, and conclude that more institutional investors, representing a larger proportion of investors in the equity markets, are acting to emphasise CSR issues in the UK than in the US. In 2002, and again in 2005, the Institutional Shareholders' Committee (ISC), which represents over 80 per cent of institutional investment in the UK, issued revised Statements of Principles for Institutional Shareholders and Agents (ISC, 2002, revising 1991 Principles; ISC, 2005). These Principles set out guidelines for institutions' engagement with and monitoring of portfolio companies, and each indicated, among other aspects, that concerns with a company's approach to CSR would be a basis for engaging in discussions with the company (ISC, 2002, revising 1991 Principles; ISC, 2005). A 2005 review by the ISC finds that its 2002 Statement of Principles has led to a significant increase in the level of "engagement" between institutional shareholders or their investment managers and portfolio companies (ISC, 2005), although the report does not specify what issues other than remuneration have been the basis for engagement. In 2001, the Association of British Insurers (ABI) issued its Disclosure Guidelines on Socially-Responsible Investment (ABI, 2001). These guidelines "focus on the need to identify and manage risks to the long and short-term value of the business from social, environmental and ethical matters". Institutional investors' coalitions in the UK have emphasised issues such as climate change, extractive industry revenue transparency, HIV/AIDS, environmental and social issues in project finance, and supply chain labour conditions (Williams and Conley, 2005). While a few public pension funds in the US have also joined with socially-responsible investors to discuss these same



Note: WSJ refers to *Wall Street Journal* (US-based); FT refers to *Financial Times* (UK-based); Times refers to the *London Times* (UK-based); and NYT refers to the *New York Times* (US-based).

Figure 2: Articles referring to "corporate social responsibility" in four major English and American newspapers

concerns with portfolio companies (Williams and Conley, 2005), in general the penetration of CSR issues as matters of serious institutional investor concern is less advanced in the US than in the UK. In the next section we analyse UK investors' engagement with CSR issues, drawing upon our multi-level model of why different actors press firms to engage in CSR initiatives.

Institutional investors' motives to care about corporate social responsibility

In seeking to explain institutional investors' motives to care about companies' CSR performance, we draw upon a theoretical model we have developed to explain why multiple actors (employees, top management teams, firm owners, consumers, governments and non-governmental organisations (NGOs)) acting at multiple levels (as individuals, within firms, within nations, and within transnational organisations and in transnational interactions) push firms to engage in CSR initiatives (Aguilera *et al*., forthcoming). This model is based on the multiple-needs model of organisational justice proposed by Cropanzano *et al*. (2001), which posits that there are multiple motives behind the concern for justice, and that these motives in turn correspond to three fundamental human needs.

Specifically, Cropanzano *et al*. (2001) propose that justice concerns are driven by instrumental, relational and morality-based motives, which map, respectively, onto the needs for control, belongingness and meaningful existence. Instrumental motives are driven by self-interest, relational motives are driven by a concern for status and standing within groups, and moral motives are driven by ethics of action and the welfare of larger groups, including the world at large. In its original form, this model was proposed as a psychological process in which employees' attitudes and behaviours are influenced by their perceptions of the fairness of actions taken by the firm that directly affect them. Over the last 40 years, the justice research has consistently shown that employees' perceptions of the fairness of their organisation's actions have a strong impact on their attitudes about and actions toward the firm (Cropanzano *et al*., 2001). Employees who perceive a great deal of fairness are more likely to be committed, trusting, loyal, hardworking and good citizens at work (Cropanzano *et al*., 2001). Likewise, when a great deal of injustice is perceived, employees are likely to feel detached from the firm and are more likely to retaliate in the form of workplace sabotage and revenge (Aquino *et al*., 2001).

We draw on the multiple-needs model to explain why actors will exert pressure on firms to engage in CSR, and have expanded upon the model in two ways (Aguilera *et al*., forthcoming). First, we have extended the theory to suggest that employees care not only about fairness to themselves, but also about the external actions of firms (CSR initiatives, for example), motivated by the same instrumental, relational and moral factors. Second, we have proposed that these same three motives can be used to explain the behaviour of both individuals and groups at multiple levels of analysis (as individuals, within organisations, within nations and within transnational organisations). Using these extensions of the model, we have sought to explain why employees, managers, consumers, nations and non-governmental organisations (NGOs) are increasingly pressuring firms to engage in CSR, and how conflicts among motives and actors may affect CSR progress.

Consider the case of a firm making strategic decisions about whether to invest in sustainable practices or treat their employees fairly. Cyert and March (1963) noted that a firm's decisions are made through a political process where the interests of the different actors within and outside the firm need to be negotiated and ultimately aligned. If, for example, the firm is owned by hedge funds with a short-term orientation rather than controlling family shareholders with a long-term orientation, if the firm is under short-term performance pressure from the capital, labour and product markets, and if the broader institutional environment (which may include NGOs, unions, consumers and regulators) does not exert countervailing pressures, the firm's decision makers might feel constrained to pursue short-term interests. In that instance, instrumental motives will predominate, and the decision makers will initiate CSR programmes only when they contribute directly to the firm's bottom line in the short term, such as by enhancing its brand. If the balance of these factors is different (as when, for example, the firm is privately held or controlled by family shareholders), a firm decision maker might have more latitude to pursue his/her individual moral motives. The result might be to give overseas employees a living wage even if it decreases profits in the short-term, because that decision-maker is convinced it's the right thing to do, and this conviction actuates that person's higher-order values and sense of stewardship.

In this paper, we apply our model to analyse the motives of those institutional investors in the UK that are considering companies' CSR profiles in their investment analysis, or acting in coalitions to encourage companies to take actions to address long-term environmental and social issues such as climate change or HIV/AIDS.

Instrumental motives

Some institutional investors believe that social, environmental and governance issues can be financially material, either positively or negatively. Such investors care about companies' CSR profiles because of the *competitive advantage* that may accrue to the companies from handling these issues well and the competitive disadvantage that may result from mismanaging them. So as investors they care about the competitive advantage that *they* may derive from investing in companies that outperform on these measures or from engaging with companies to improve performance in this area (Solomon *et al*., 2004; Armour *et al*., 2003). Instrumentally motivated investors seeking to protect the value of their investments tend to be particularly attentive to the relationship between companies' reputations and their share price (Clark and Hebb, 2005). For example, institutional investors in the UK became involved in the *Extractive Industry Transparency Initiative*, which encourages oil, gas and mining companies to publish what they pay to host countries for licenses to extract natural resources. They did so because they believed that reducing the potential for corruption among host countries would increase the political and social stability of such countries, which in turn would reduce the financial risks to portfolio companies of necessary long-term infrastructure investments (Williams, 2004). Institutional investors that have initiated collaborative action on climate change articulate concerns (1) about the long-term financial implications in a wide range of industries from the physical changes that climate change is bringing about, and (2) about the short-term costs of greenhouse gas emissions under the EU's Emissions Trading Scheme to some particularly vulnerable industries such as insurance, re-insurance and energy (Institutional Investors' Group on Climate Change, 2003). Many investors also consider the manner in which a company manages its social, environmental and ethical challenges to be a good indicator of the quality of management generally (Solomon *et al*., 2004). While we believe that institutional investors are primarily acting on instrumental motives in their CSR engagement, we recognise that this fails to explain why institutional investors in the UK would more readily perceive the financial significance of CSR issues than their American counterparts.

Relational motives

Even if institutional investors are motivated primarily by instrumental factors, relational motives to *conform with emerging industry norms* are also in evidence. For instance, 11 of 20 of the largest fund managers for the UK pension industry are members of the UK Social Investment Forum, as are seven of the top fund managers in the UK charity sector (Williams and Conley, 2005). Changing industry norms can be seen in the agreed statements of principles by the Institutional Shareholders Committee (2002, 2005) and the Association of British Insurers (2001), described above, both of which recognise the importance of corporate social responsibility issues. Interconnections between institutional investors in London are intensified by geographic and social proximity, which increases the cohesion of the industry (Bansal and Roth, 2000) and the consequent pressures to conform with emerging views about the importance of CSR.

Moral motives

The actions of pension fund trustees, fund managers and investment consultants are also shaped by legal requirements. Legal requirements are not always synonymous with moral imperatives. In this case, however, the legal requirements are the fiduciary duties of trust law. These duties coincide with the moral impulse to engage in other-regarding behaviour, that is, to *act in the beneficiaries' best interest*. One of the first pension funds to address such CSR issues as climate change and HIV/AIDS, the Universities Superannuation Scheme (USS), which is the fourth largest pension fund in the UK, did so as a result of pressure from some of its members (Clark and Hebb, 2005). Because of the simultaneous legal duty and moral motivation to pay attention to the beneficiaries, the USS responded to that pressure.

But moral motives present a dilemma: while law and morality compel pursuit of *the beneficiaries' best interest*, that may not be the same thing as *what the beneficiaries say they want*. Other funds and fund managers have followed the lead of the USS not just because their beneficiaries have asked them to, but because they have become convinced that it is in their beneficiaries' long-term interests for them to address the challenges to their investment portfolios that CSR issues present. They construe the pursuit of the beneficiaries' best interest to include both protecting their future financial well-being and ameliorating some of the harsh projections of what the world might look like for future retirees (Williams and Conley, 2005). Recent legal analyses of trustees' obligations to consider social, environmental and ethical factors in making investment decisions when such factors portend material financial effects may accelerate these trends (UN Environment Programme Finance Initiative, Report by Freshfields Bruckhaus Deringer, 2005).

But these same moral motives may also work to constrain institutional investors' engagement with CSR issues. All trustees presumably recognise that their primary responsibility is to ensure their beneficiaries' future financial security, but not all agree with USS about the persuasiveness of the economic case for CSR engagement, or the relevance of the future state of the world to their trust obligations. So an equally conscientious trustee might feel compelled to *ignore* CSR issues in order to comply with his or her legal and moral duty to pursue the beneficiaries' best interest.

Discussion and agenda for further research

We have argued that a significant distinction between the corporate governance arrangements in the UK and the US involves the attitude and behaviour of the institutional investor community. Since institutions control a majority of share value in both countries, their attitude toward CSR is both effect and cause – a measure of how seriously CSR is taken, and a powerful signal to other investors about the view that they should take. In the UK, pension funds and insurance companies, which are necessarily focused on the long term, are the dominant institutions. The American institutional sector, by contrast, is dominated by mutual funds, which may have a shorter-term outlook. Investors with a longer-term perspective are more likely to see a company's social and environmental behaviour as material to investment decisions. Building on this openness to unconventional, longer-term considerations, the British Government has sponsored a series of "best practices" codes for institutional investors, including the Myners Committee Report (Myners, 2001) that urged – but does yet require – investors to "intervene" in the companies whose stock they own, by voting or otherwise, when doing so might enhance the value of the investment. As we have discussed, several important institutional investor organisations have also adopted codes that call on companies to provide increased corporate disclosure on both financial and CSR issues, and commit the institutions to engage in discussions with companies whose approach to CSR is problematic.

Interviews conducted by Williams and Conley with investment professionals, pension fund employees, and SRI fund managers in London suggest that the veiled threat of potentially onerous legislation contained in the Myners Review of 2001, a review which faulted institutional investors for their failure to vote their shares and engage with company managers, has been an important motivation for some pension funds and institutional investors to become more actively engaged with portfolio companies (Williams and Conley, 2005). The threat of legislation, in conjunction with an emphasis on codes of best practices, provided activists within some of these institutions with additional leverage to promote greater sensitivity to social and environmental issues at portfolio companies, particularly where such issues pose long-term financial risks (Clark and Hebb, 2005).

A major question for corporate governance and CSR is whether the US market will eventually move beyond its narrow focus on financial returns, with a correspondingly narrow view of what creates sustainable financial returns, in the direction that the British market has moved. That is to say, will Britain exhibit its traditional role as corporate governance exporter (Cheffins, 2000) with respect to the role of institutional investors and CSR? We believe that it is highly unlikely that European stakeholder thinking will gain significant traction in the US. American voters are generally more conservative than their European counterparts, unions exert far less influence, and the low growth and high unemployment that plague the Continental economies are not prompting calls for emulation among American politicians.

The UK approach may be more attractive, however. As a matter of theory, the developing British notion of "enlightened shareholder value", with its focus on longer-term *economic* issues, is much closer to US mainstream investment thinking. Once the time horizon is extended, the case for the financial materiality of a company's social and economic performance becomes much easier to make. On a practical level, the relative robustness of the British economy is consistent with the validity of the theory.

US companies may well gravitate toward British CSR disclosure norms as a positive side effect of globalisation. Given the influence of the London Stock Exchange on global capital, and the power of British NGOs to move world public opinion, it may simply prove more efficient for multinational companies – including those based in the US – to live up to British standards. But even if such enhanced disclosure does become the rule, the question will remain whether it makes any difference. In other words, will companies that disclose more behave better? The answer will lie in the hands of the shareholders to whom corporate managers must answer. At a practical level, "shareholders" really means "institutional shareholders". Thus, even if US corporations adopt the UK's disclosure practices, the ultimate test will be whether institutional investors in the US follow their British peers in encouraging more disclosure of social and environmental matters and then factoring social and environmental behaviour into their investment decisions.

We have suggested that some institutional investors in the UK might have begun to engage in CSR because of their multiple motives in pursuing self-driven (instrumental), group-oriented and legitimising (relational), and ethically responsible and appropriate (moral) behaviour and practices. Whether US institutional investors will follow a similar trajectory may depend on the strength of their relational motives, and whether norms encouraging such developments change in the US. Clearly the geographic and social proximity that characterise the UK markets does not characterise the markets in the US, and so we expect the US institutional investors' norms towards CSR engagement to develop more slowly than they have in the UK.

As for future research, it would be very useful to have more data, both quantitative and qualitative, on institutional investors in the UK and US markets. On the quantitative side, it would be helpful, for example, to quantify the market presence of such groups as long-term and short-term hedge funds, and to learn more about those shareholders that are often grouped under the heading of "foreign investors". Important qualitative issues include a deeper comparative understanding of the investment goals and engagement practices of different types of institutions in the two countries. One element of this would be an analytic "matching" of institutional investor companies in one country with a comparable firm in the other, which is probably best achieved where both are subsidiaries of a common parent. The ultimate empirical question is whether differences in CSR disclosure and substantive norms between the UK and US, as amplified by institutional investors' actions, create significant differences in how companies manage their social and environmental responsibilities. The analysis presented here suggests that CSR is more likely to be incorporated into "core" corporate governance in the UK than in the US, due to pressures from institutional investors, but that suggestion needs to be tested empirically.

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"It's important that we don't make any distinction between the executives and the non-executives. Whenever any of them approach us for information, or when we dispatch information to the board, we should treat them equally." *Davy Lee, Group Corporate Secretary, Lippo Group, in HKICS Company Secretary October 2005*