

PRESS RELEASE

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Boards need to set and maintain company values, says a new report from the Institute of Business Ethics

“Setting the right values and culture is integral to a company’s success and its ability to generate value over the longer term,” says Peter Montagnon

21st July 2014: A new paper, published today by the Institute of Business Ethics, sets out why company directors need to be actively involved in setting and maintaining a company’s ethical values.

One of the lessons of the 2008 banking crisis has been that ethics matters to business, both in terms of its reputation and its sustainability, writes Peter Montagnon in *Ethics, Risk & Governance: a board briefing paper*. The challenge for business is how to develop and embed real values in order to regain public trust. Companies need public trust if they are to secure their franchise for the long term.

Many boards acknowledge the importance of a healthy corporate culture, both because of the role this plays in mitigating risk and because of the value to their franchise of a sound reputation. *Ethics, Risk & Governance: a board briefing paper* aims to help directors define their contribution to the maintenance of sound values and culture.

If a sustainable business model is one based on values which engender trust, then it is important for boards to understand trust and the role it plays in their company. Values are thus a primary task for boards, and an integral part of their governance role.

Among the report’s suggestions for how boards might do this are:

- Setting the corporate values
- Understanding what drives employee behaviour and using that understanding to ensure the values are properly embedded.
- Assuring themselves that management processes are driving the right sort of behaviour
 - that incentives are based on non-financial as well as financial performance
 - that targets do not undermine the company’s ethical values
- The character of the chief executive is critical; Boards may well need to fire a chief executive whose values are not compatible with the culture they seek.

Peter Montagnon, IBE’s Associate Director and author of the report, said: “*Culture affects a company’s ability to generate value. A strong culture makes for sustainable value creation. A weak one can destroy the business overnight. This why is boards must be involved and not simply relegate culture to compliance teams. Directors have to understand how values influence the business model and what drives good behaviour by employees.*”

Philippa Foster Back CBE, IBE’s Director said: “*If a board’s core purpose is to ensure the sustainability of the company, then the positive benefits of doing business ethically make it imperative for boards to embrace ethical standards explicitly, both in the way the company and the board itself operates. Boards sometimes need a starting point to begin the explicit conversations on values. The IBE has prepared this paper to inform these discussions.*”

Sir Winfried Bischoff, Chairman of the Financial Reporting Council commented: “*The public has rarely been more cynical about big business; trust is at an all-time low. Strong and demonstrable ethical behaviour is critical to win back and retain trust among customers and investors. The UK Corporate Governance Code requires Boards to set out their companies’ values and standards and lead by example so that good, appropriate behaviours are embedded throughout the company. I therefore welcome this excellent report by the Institute of Business Ethics as a very helpful contribution to the debate on rebuilding trust in British enterprise.*”

ENDS/

Institute of Business Ethics

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To obtain an advanced press copy of the report, or to organise interviews, please contact k.bradshaw@ibe.org.uk

EDITOR'S NOTES

Ethics, Risk & Governance: a board briefing

By Peter Montagnon

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Launch date and information

The report will be launched at the Institute of Director on Monday 21st July at 4pm.

Sir Win Bischoff, Chairman, Financial Reporting Council (FRC) will make a keynote speech in response to the paper, written by Peter Montagnon, Associate Director at the IBE. Sir Richard Olver, formerly Chairman of BAE Systems will chair the discussion

Please email events@ibe.org.uk if you would like to attend.

The Institute of Business Ethics is a registered charity which promotes high standards of business practice based on ethical values.

We help organisations to strengthen their ethics culture through the dissemination of knowledge and good practice. www.ibe.org.uk

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Peter Montagnon joined the IBE as an Associate Director in September 2013. Prior to that he was Senior Investment Adviser at the Financial Reporting Council, which he joined after almost ten years as Director of Investment Affairs of the Association of British Insurers.

For two decades from 1980 Peter was a senior journalist on the Financial Times, including spells as Head of the Lex Column and in charge of coverage of the international capital markets. His last assignment, from 1994 to 2000, was as Asia Editor, responsible for the FT's coverage of a region stretching from Pakistan to New Zealand.

After graduating in Modern Languages from Cambridge University in 1972, he joined Reuters news agency as a financial journalist. At Reuters he completed assignments in Hong Kong, Zurich and Washington before joining the Financial Times.

Peter served on the European Commission's Corporate Governance Forum from 2005 - 2011. He is past Chairman of the Board of the International Corporate Governance Network and is also a visiting Professor in Corporate Governance at the Cass Business School of the City University, London, a member of the Corporate Governance Advisory Board of the Norges Bank Investment Management and of Board of the Hawkamah Institute for Corporate Governance, Dubai.