Culture by Committee
the pros and cons

By Peter Montagnon
Institute of Business Ethics

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Doing business ethically ... .... makes for better business
Culture by Committee
the pros and cons

a survey of sustainability and ethics committees

By Peter Montagnon
This IBE Survey Report has been prepared in collaboration with ICSA and Mazars.

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Culture by Committee: the pros and cons

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Author

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 City University, London, and a member of the Corporate Governance Advisory Board of the Norges Bank Investment Management and of the Board of the Hawkamah Institute for Corporate Governance, Dubai.

Acknowledgements

Many people have helped with this survey, including a large number of company secretaries and directors who allowed themselves to be interviewed and/or came to workshops and events. They are too numerous to name but I am grateful to them all.

In preparing the survey I received practical support, encouragement and guidance from Simon Osborne and Peter Swabey at ICSA: The Governance Institute, David Herbinet and Anthony Carey at Mazars, as well as Philippa Foster Back CBE at the IBE. Other IBE colleagues who played an important role were Guendalina Dondé and Dan Johnson in research and Joanna Hicks who edited the text. Meanwhile, Neil Pafford laid it out and oversaw the printing. Thanks are due to all of them.

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IBE Foreword

The questions we sought to answer in preparing this report were ‘how do boards review culture in their organisations?’ and ‘are there board committees dedicated to this task or which have it as part of their remit?’

We were pleased to work in collaboration with ICSA: The Governance Institute and Mazars who both lent their expertise and time, and through ICSA we were able to reach out to the company secretaries of listed companies. Both organisations have a deep interest in corporate governance and have contributed much to the ongoing discourse on this topic. ICSA through its professional qualifications and CPD is helping to develop tomorrow’s leaders in this area.

This report provides an interesting insight into the current state of play with 55 of the FTSE 350 having a separate board-level committee dealing with corporate responsibility, ethics or sustainability and whose terms of reference are published. These are often loosely termed as non-financial risks, which is a misnomer because, of course, any corporate failure in these areas can cause catastrophic loss of value as reputations fail. There is a wealth of evidence of corporate failure here, for example with the banks (ethical failure), BP (health and safety failure), VW (ethical failure), Tesco (reporting failure) and so on.

All these instances reinforce the importance of boards having an understanding of the culture in their organisations. Through survey and desk-top research, this report informs us that, of the FTSE 100 companies with a separate committee, the majority (67%) of these committees are charged with advising the board on ethics and values. There are naturally arguments for and against having a separate board committee, the most powerful being the dilution of board responsibility.

Our intention is to inform and encourage debate around a different question, which is one for the board as a whole – ‘how best might we review behaviours and culture in this organisation?’ We would be pleased to hear the response, and to receive any thoughts you may have about this report.

As ever, many thanks are due to Peter and the team at the IBE. Special thanks also to ICSA and Mazars for their contributions.

Philippa Foster Back CBE
Director
Institute of Business Ethics
Executive Summary

This report considers the role of board committees of UK companies in delivering corporate responsibility and embedding values. The idea of having committees dedicated to this task is relatively new, but a significant number of companies – 30 in the FTSE 100 and 25 in the FTSE 250 – have formed such a committee. The research looks at their mandates to analyse what they contribute, and also considered how the issues are handled by companies that choose not to have a committee.

An important driver behind these committees is the growing burden of non-financial risk. Whereas previously many of these issues were picked up by audit committees, they now find themselves overloaded at a time when the way companies handle issues like health and safety, environmental protection and labour standards can be critical to their future. Companies also need to give these issues some specialist attention, for which the audit committee may not be best equipped. The committees surveyed in this report look at both reputation and conduct risk, picking up, for example, on the systems needed to respond to the UK Bribery Act.

This is not to say that all companies should have a board level committee to deal with corporate responsibility, ethics and sustainability. A large majority still do not, and those that do tend to be clustered in sectors where there is particular compliance and/or reputation risk like banking, mining and defence.

Arguments against forming a committee include the fear of diluting board responsibilities, overlap with the work of other committees and the risk that these committees may end up seeking to micromanage the executives.

Arguments in favour are that a committee allows directors to drill down more systematically into the detail, identifying patterns of behaviour that might elude a busy board and providing more complete assurance that the right systems are in place to address the growing range of non-financial risks.

A common theme in committee mandates is their advisory and oversight role. It is still up to the board to make key decisions and take responsibility in critical areas like health and safety. It is normally up to the management to devise and operate the controls and other systems that enable the risk to be managed and the KPIs to measure progress. Committees have to tread carefully. The boundaries must be clear and respected, but this does not belittle the seriousness of their work or the importance of what they do.

An encouraging finding is that over half the committees examined have a specific role in advising the board on ethics and values and the way they are embedded. This takes us way beyond the old vision of corporate responsibility as starting with the measurement of external impact, sometimes regardless of materiality. Today's committees are heavily focused on what drives behaviour within organisations, like how well codes of ethics are communicated and embedded. All boards need to be on top of this, whether or not they choose to have a dedicated committee for the purpose.

A wide variety of board-level committee terms of reference or mandates were analysed for this survey. We have included, as a useful reference, detailed summaries of the mandates of three specific companies in Chapter 2, and also individual sample terms from a range of FTSE companies are displayed in the margins throughout the report.
Key Findings

The research looked at board-level committees dealing with corporate responsibility, sustainability or ethics in FTSE 350 companies, and also how companies without such committees handle these issues. It was carried out by the Institute of Business Ethics, in collaboration with ICSA: The Governance Institute and Mazars, during late 2015/early 2016.

The results indicated a growing recognition among companies of the need to deal with non-financial risk. A significant number of companies were found to have dedicated board committees, but that did not mean the issue of ethics and values was not being taken up by the boards without such committees.

Board-level committees dealing with corporate responsibility, sustainability or ethics:

- Are found in 55 companies in the FTSE 350
- 69% have an independent NED as chair
- 67% have a specific mandate to advise on embedding values and ethics
- Tend to be clustered in high-risk sectors

Pros
- Improved focus on key details
- Able to identify patterns of behaviour that may elude a board
- More complete assurance on non-financial risks

Cons
- Dilution of board responsibility
- Overlap with other committees
- Risk of interference with executives
Introduction

Shifting perceptions of risk have increasingly encouraged UK companies to form special board committees to deal with the broad questions of corporate responsibility, sustainability and ethics. This report looks at the prevalence of these committees and at what they do. Its purpose is not necessarily to encourage more companies to form such committees, but more to benchmark what is happening and so help companies to decide what the right approach is for them in an increasingly complex world.

The report is based on research into companies in the FTSE 350 which have board-level corporate responsibility, sustainability and ethics committees and publish their terms of reference (ToR). We identified 55 such companies with a further two which had committees but did not publish the terms of reference. Considering that the UK Corporate Governance Code does not recommend such committees, this is a significant number, albeit that the prevalence of committees tends to be clustered in certain sectors.

One important reason why companies have formed corporate responsibility, sustainability and ethics committees has been simply that audit committees, which have traditionally had a role in monitoring compliance and relevant issues like the operation of speak up or whistleblowing arrangements, are becoming overloaded. While audit committees retain their core role of monitoring financial arrangements and reporting, as well as of overseeing internal controls, they are operating in a world where non-financial risks are growing, with potential consequences for reputation and for conduct risk. As these risks continue to grow, the pressure on audit and risk committees may also increase and companies require more specialised understanding, causing more to form an additional committee focused on non-financial risk.

Issues around management of ‘big data’, for example, feature only modestly in the terms of reference of today’s sustainability committees, but are becoming an important concern for boards. A little further ahead, the looming development of artificial intelligence (AI) is likely to pose a whole new set of ethical and conduct questions for companies. Similarly, while a number of committees are entrusted with the task of overseeing compliance with the Bribery Act, the Modern Slavery Act has added a new dimension which will oblige companies to examine and report on the behaviour of their major suppliers.

Long gone are the days when the principal concern of the board was financial risk. Gone, too, are the days when corporate responsibility was a public relations add-on. A study of the terms of reference of today’s board committees dealing with corporate responsibility, sustainability and ethics shows just how seriously boards take these issues. They are now seen as integral to strategy and risk management. Businesses know that the damage caused by getting these things wrong can be terminal. By contrast, getting them right secures and strengthens the franchise.

The UK Corporate Governance Code does, however, state [Preface, paragraph 4] that one of the key roles for the board includes establishing the culture, values and ethics of the company.
This still does not mean that having a corporate responsibility, sustainability or ethics committee is the right answer in every case. There are some important reasons for not choosing to have such a committee. These include the possible dilution of the board’s responsibilities, the possible overlap with other committees such as audit and risk and the sheer administrative complexity of having too many committees.

However, having a specialised committee ensures that important conduct, reputation and ethical issues are looked at systematically. Committees can drill down into the detail and, importantly, they can identify trends in a timely way which may elude a board that only looks at these issues periodically. A board which decides not to form a committee must ensure that it is sufficiently on top of the subjects which feature on the committee agendas.

The pros and cons are analysed in more detail in Chapter 3 of this report. Chapter 1 presents the findings of our research. This was based on desk-top research into the terms of reference (hereafter also referred to as mandates) as well as a survey of company secretaries conducted on our behalf by ICSA: The Governance Institute. The survey gave additional insight into the approach of those companies with no board-level committee, a number of whom nonetheless have a committee at sub-board level. In addition, with the support of ICSA and Mazars, we held a workshop for companies and a discussion with the ICSA Company Secretaries Forum. The Chairmen of three companies, Centrica, HSBC and Tullow Oil, also kindly agreed to be interviewed. Their contribution has lent weight to our conclusions.

Chapter 2 looks in more detail at three terms of reference or mandates which take a rounded view and incorporate a particular focus on ethics and values.

A point of natural interest to both the IBE and ICSA is the question of how far these committees are concerned with the embedding of corporate culture and values. While many are focused on their company’s external impact, a significant proportion are concerned with the internal drivers of behaviour, including speak up arrangements, and the revision and embedding of corporate codes of ethics. Out of the total 55 committees identified in the FTSE 350, 13 committees have the words ethics, values or integrity in their title, while 30 have a specific role in advising their boards on these issues.

Once again this appears to show a shift away from the traditional view of corporate responsibility as being related purely to external impact towards one which is more part of the DNA of the company and its workforce. In the end it is the way individuals within the company behave which makes the difference. As one interviewee put it, “once you have engineered all the mechanical risks out of health and safety, what you are left with is behaviour”. This is why ethics and culture matter, and why it is not surprising that it features increasingly on the agenda of the committees we have surveyed.
Surveying the Landscape

This chapter presents the findings of our research into companies in the FTSE 350 which have board-level corporate responsibility, sustainability and ethics committees.

The results are based on desk-top research carried out by the IBE into the companies’ terms of reference, and also a survey of company secretaries conducted online by ICSA: The Governance Institute. This was then supplemented by a series of workshops and face to face interviews. The research was undertaken between October 2015 and January 2016.

1. Governance

Our research identified 55 companies in the FTSE 350 with board-level committees covering corporate responsibility, sustainability and ethics whose terms of reference were published. In addition, two companies reported the existence of such committees but did not appear to publish the terms of reference (both companies were in the FTSE 100).

A relatively small number of companies in the FTSE 350 reported the existence of sub-board committees, with executive level membership dealing with this subject area. As the research is primarily about the role of boards, these committees were not analysed in the research, though some general comments are made below, based on survey results. Figure 1 presents a breakdown of FTSE 350 companies with and without board-level committees on corporate responsibility (CR), sustainability and ethics.

Figure 1 Number of companies with and without board-level CR, sustainability or ethics committees

![Chart showing number of companies with and without board-level committees](chart)

**FTSE 100**
- With board-level committee & terms of reference published: 30
- Without board-level committee/terms of reference not published: 70

**FTSE 250**
- With board-level committee & terms of reference published: 25
- Without board-level committee/terms of reference not published: 186

**FTSE 350**
- With board-level committee & terms of reference published: 55
- Without board-level committee/terms of reference not published: 256

Base: 100 companies in FTSE 100; 211 companies in FTSE 250 (excluding 39 investment trusts, except real estate investment trusts); 311 companies in FTSE 350.

Considering the UK Corporate Governance Code does not recommend them, there is a significant number of corporate responsibility, sustainability or ethics committees in the FTSE 350.

Throughout this report, FTSE 250 and FTSE 350 totals exclude investment trusts, except real estate investment trusts (39 companies). Also note that where percentages in some charts do not sum exactly to 100%, this is due to rounding.
Committee composition

The results of the research showed that a minority of committees in the FTSE 350 (31%) consist entirely of independent non-executive directors (NEDs), and a smaller minority specify that they should contain a majority of independent non-executive directors (22%). However, an independent NED chairs a substantial majority of board-level committees (69%). The figure would be larger if it were to include committees where the chairman of the company is also the designated chairman of the committee (company chairman are not formally designated as independent under the UK Governance Code). This practice is relatively common in the FTSE 250.

Several committees include the chief executive as a member as well as, sometimes, other senior executives, including those from below board level. In other cases such executives are generally expected to attend the committee but are not members and have no voting rights. The number of committees which consist entirely of NEDs is substantially lower in the FTSE 250 (8%) than in the FTSE 100 (50%)

Whereas some terms of reference do not require the committee to be chaired by a NED, this does not necessarily mean that such a director does not chair the committee in practice.

A number of terms of reference are silent on the specifics of committee composition. The committee composition figures presented in Figure 2 should be read with that proviso in mind.

**Figure 2 Prevalence of independent NEDs on committees**

<table>
<thead>
<tr>
<th>NED Chair</th>
<th>Majority NEDs</th>
<th>All NEDs</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 100</td>
<td>FTSE 100</td>
<td>FTSE 100</td>
</tr>
<tr>
<td>FTSE 250</td>
<td>FTSE 250</td>
<td>FTSE 250</td>
</tr>
<tr>
<td>FTSE 350</td>
<td>FTSE 350</td>
<td>FTSE 350</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>73%</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>64%</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>69%</td>
<td>22%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Base: 30 companies in FTSE 100; 25 companies in FTSE 250; 55 companies in FTSE 350.

An independent NED chairs a substantial majority of board-level committees.
Meeting frequency

Committees in the FTSE 100 tend to meet more frequently than those in the FTSE 250. In one FTSE 100 company the terms of reference require the committee to meet at least 6 times a year. In another case the requirement is five meetings a year. As Figure 3 shows, the most common minimum frequency is between two and four times a year.

**Figure 3** Frequency of committee meetings

The most common minimum frequency of committee meetings is between two and four times a year.
2. Committee purpose

The research found that committees serve a number of different purposes. Broadly these range from reputational issues around corporate responsibility to compliance with non-financial regulation such as health and safety and legislation to do with bribery. A number of companies, particularly those domiciled outside the UK but listed here, also mandate their committee to oversee compliance with the UK Governance Code, Listing Rules, Transparency, Prospectus and Disclosure Rules.

Most committees thus have more than one purpose, although the common theme is oversight over environmental, social and governance (ESG) issues. This emerges as the dominant purpose in 42 of the terms of reference out of 55, but it is clear that the term ESG means different things to different companies, and different aspects of the term will likely be an important particular priority within the overall ESG context.

It is therefore worth examining the other issues that receive explicit mention in the terms of reference as high priorities, sometimes surpassing ESG, sometimes being an important priority in their own right alongside ESG and sometimes being an integral part of the approach towards ESG. These committee priorities are listed in order of prominence in Figure 4.

Figure 4  Committee main priority issues, other than ESG

<table>
<thead>
<tr>
<th>Issue</th>
<th>No/% of ToR where issue is mentioned as high priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethics (NB usually includes health and safety)</td>
<td>24/44%</td>
</tr>
<tr>
<td>Conduct</td>
<td>15/27%</td>
</tr>
<tr>
<td>Compliance</td>
<td>7/13%</td>
</tr>
<tr>
<td>Reputation</td>
<td>6/11%</td>
</tr>
<tr>
<td>Risk (including regulatory risk)</td>
<td>5/9%</td>
</tr>
<tr>
<td>Sustainability</td>
<td>2/4%</td>
</tr>
</tbody>
</table>

Base: 55 companies in FTSE 350.
Note: Total numbers do not sum as committees may prioritise more than one issue.

Other priorities which received a mention included animal welfare, political risk and licence to operate, and also information security.

While these figures give some indication of priorities, they have to be interpreted with care. It is difficult to tell from the terms of reference, which may appear all-embracing, what priorities actually preoccupy the committee on a day-to-day basis. Also, there is a considerable overlap. ESG easily merges into sustainability. Conduct risk and compliance risk overlap. As noted above (in Figure 4), health and safety, besides being a regulatory issue, is also an important ethical issue.
Nonetheless the data gives a good overview. Most of the committees are driven by the board’s overarching responsibility to oversee risk and its mitigation. The agenda is mostly shaped by the board’s perception of where that risk lies. Thus conduct risk features strongly in banks, whereas reputation risk is more prominent in other sectors.

Whatever the motivation, a unifying feature is the need to ensure that the behaviour of employees at all levels is such as to minimise conduct and reputation risk. This perhaps explains the prominence of ethics in the list of priorities, even though this is not always apparent from the title of the committees. Ethics is about shaping behaviour in a positive way. This is acknowledged by a sizeable minority of companies which include the words ethics, values or integrity in the title they have given to their committees (see Figure 5).

**Figure 5** Committees with the words ethics, values or integrity in their title

<table>
<thead>
<tr>
<th>Percentage/number of committees</th>
<th>FTSE 100</th>
<th>FTSE 250</th>
<th>FTSE 350</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27%</td>
<td>20%</td>
<td>24%</td>
</tr>
<tr>
<td>With 'ethics' in their title</td>
<td>8</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Without 'ethics' in their title</td>
<td>22</td>
<td>20</td>
<td>42</td>
</tr>
<tr>
<td>Total</td>
<td>73%</td>
<td>80%</td>
<td>76%</td>
</tr>
</tbody>
</table>

Base: 30 companies in FTSE 100; 25 companies in FTSE 250; 55 companies in FTSE 350.

An overwhelming majority of the terms of reference documents commit the committees to regular evaluation of their performance. An important question in this process should be whether explicit focus on ethics and values leads the committee to greater oversight of what shapes behaviour in the business and therefore to a greater mitigation of risk. The question for those that do not have a specific reference to ethics and values in their title is what impact this has on both their perceived and actual priorities.

### 3. Committee activities

The precise nature of the mandate varies from committee to committee, but the general requirement is for them to advise the board on policies relating to corporate responsibility, sustainability and ethics and report on implementation.

For many companies health and safety plays an important role alongside the environment, community issues, human rights and the treatment of employees. In some cases the committee is asked to monitor the performance of the company in connection with established standards such as the UN Global Compact. More frequently the committee is concerned with compliance with legislation, notably the UK Bribery Act, but often also other legislation and regulation, including the FCA Listing Rules.
Essentially the task is a non-executive one. Very few of the mandates require the committee to engage directly with external stakeholders, for example, although they are frequently expected to remain alert to the developing expectations of stakeholders and regulators. It is rare for them actually to develop KPIs, although they do approve those set by the management and monitor achievements.

Virtually all the committees surveyed have explicit authority to seek information from any employee anywhere in the business and to seek outside advice at the company’s expense. However, there is no information as to how often committees avail themselves of these rights.

The level of integration with other committees also varies (see Table 1). Many committees are expected to liaise with the audit and/or risk committee as well as with internal audit where this function is concerned with non-financial risk. Sometimes the committee is expected to liaise with the remuneration committee on conditions to be attached to executive pay.

### Table 1 Liaison with other committees and internal audit

<table>
<thead>
<tr>
<th></th>
<th>Mandated</th>
<th>%</th>
<th>Of which audit/risk committee</th>
<th>Of which internal audit</th>
<th>Remuneration committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 100</td>
<td>11</td>
<td>37%</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>FTSE 250</td>
<td>12</td>
<td>48%</td>
<td>7</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>FTSE 350</td>
<td>23</td>
<td>42%</td>
<td>13</td>
<td>9</td>
<td>5</td>
</tr>
</tbody>
</table>

Base: 30 companies in FTSE 100; 25 companies in FTSE 250; 55 companies in FTSE 350.

Another task is investigations. A significant minority of committees (six in the FTSE 100 and nine in the FTSE 250) are specifically tasked with instigating or overseeing investigations on matters within their remit. It is also common for companies in mining and other sectors with a strong focus on health and safety to receive and review reports on fatalities or serious incidents. In such cases the committee will also normally track the management response and any change of practice introduced to limit future risk.

Also, an overwhelming majority of those questioned in discussion felt that, while the committee should oversee investigations, it should not be responsible for conducting them. A really serious issue should be dealt with by the full board or, more likely, made subject to an external enquiry.

### 4. The ethical dimension

The nature of the agenda means that ethics, culture and values form an important component of the work that the committees do, although this is not always explicit.
Quite a large number of the mandates do give the committee a role in advising the board on ethics and values, though this is not always expressed directly. Instead it arises out of the committee’s role in reporting and advising on policies with a strong ethical component.

Judgements on the extent to which the committees do focus their reporting to the board on ethics and values are therefore somewhat subjective, and the terms of reference do not reveal what actually happens in practice. However, an indication can be given from Figure 6, which charts the number of committees whose mandate states or clearly implies that they should challenge or advise the board on ethics and values.

Figure 6 Committees charged with advising the board on ethics and values

<table>
<thead>
<tr>
<th>Percentage/number of committees</th>
<th>FTSE 100</th>
<th>FTSE 250</th>
<th>FTSE 350</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>67%</td>
<td>40%</td>
<td>55%</td>
</tr>
<tr>
<td></td>
<td>20</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Base: 30 companies in FTSE 100; 25 companies in FTSE 250; 55 companies in FTSE 350.</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

The large number of mandates to advise the board on ethics and values indicates the importance of this area of the committees’ work.

A more rigorous test might come from the number of mandates that specifically mention responsibility for oversight of the company’s internal code of ethics or the embedding of and compliance with ethical policies. These are far fewer with nine companies meeting this challenge in the FTSE 100 and seven in the FTSE 250.

A similar number have a role in monitoring or addressing issues raised through the speak up or whistleblowing arrangements. However, there is not an exact overlap with the companies covered in the previous paragraph and in many cases the remit is restricted to issues directly concerned with the committee’s mandate, leaving the primary responsibility elsewhere.

Nine companies fell into this category in the FTSE 100 and six in the FTSE 250. In two of the latter cases the remit included the operation of the speak up arrangements with contractor firms.

One striking feature of the survey is that the mandates pay little explicit attention to the supply chain. While a relatively small number of committees are asked to monitor the treatment of suppliers, this appears mostly to do with fairness in the way they are treated, for example by ensuring prompt payments rather than monitoring suppliers to ensure that they espouse the desired values.
It is not clear why the supply chain receives such scant attention, especially since anecdotal evidence, born out also by Section 7 below, suggests that many companies do pay close attention to the behaviour of companies in their supply chain. There may be a need for a rethink on this point, since the UK Modern Slavery Act, which has recently entered into force and not so far been taken up in the mandates, requires companies to become involved in monitoring and reporting on performance in the supply chain.

Finally, a small minority of companies also mentions conflicts of interest. This is a key issue for ethical behaviour and one which might have been expected to figure more prominently.

5. Sectoral breakdown

The committees tend to be clustered in particular sectors with some in which the majority of companies have a committee and some where almost none have a committee.

Table 2 Companies with committees: breakdown by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>FTSE100</th>
<th>FTSE 250</th>
<th>FTSE 350</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>with %</td>
<td>with %</td>
<td>with %</td>
</tr>
<tr>
<td></td>
<td>committee/Total</td>
<td>committee/Total</td>
<td>committee/Total</td>
</tr>
<tr>
<td>Aerospace &amp; defence</td>
<td>3/3 100%</td>
<td>1/4 25%</td>
<td>4/7 57%</td>
</tr>
<tr>
<td>Banks</td>
<td>5/5 100%</td>
<td>0/4 0%</td>
<td>5/9 56%</td>
</tr>
<tr>
<td>Food &amp; drug retailers</td>
<td>3/3 100%</td>
<td>0/3 0%</td>
<td>3/6 50%</td>
</tr>
<tr>
<td>Food producers</td>
<td>0/1 0%</td>
<td>2/4 50%</td>
<td>2/5 40%</td>
</tr>
<tr>
<td>Gas, water &amp; multi-utilities</td>
<td>3/4 75%</td>
<td>1/1 100%</td>
<td>4/5 80%</td>
</tr>
<tr>
<td>Household goods &amp; home construction</td>
<td>0/5 0%</td>
<td>1/5 20%</td>
<td>1/10 10%</td>
</tr>
<tr>
<td>Media</td>
<td>2/5 40%</td>
<td>0/8 0%</td>
<td>2/13 15%</td>
</tr>
<tr>
<td>Mining</td>
<td>4/7 57%</td>
<td>3/6 50%</td>
<td>7/13 54%</td>
</tr>
<tr>
<td>Oil &amp; gas producers</td>
<td>3*/3 100%</td>
<td>2/5 40%</td>
<td>5*/8 63%</td>
</tr>
<tr>
<td>Personal goods</td>
<td>1/2 50%</td>
<td>1/4 25%</td>
<td>2/6 33%</td>
</tr>
<tr>
<td>Pharma &amp; biotech</td>
<td>2/4 50%</td>
<td>0/6 0%</td>
<td>2/10 20%</td>
</tr>
<tr>
<td>Travel &amp; leisure</td>
<td>1/8 13%</td>
<td>3/22 14%</td>
<td>4/30 13%</td>
</tr>
</tbody>
</table>

* Includes one committee with unpublished terms of reference.

Table 2 shows the main trends in selected sectors. It reveals a wide differentiation with committees often, but not always, tending to be concentrated in sectors where reputation and regulatory risk is most acute. Thus sectors where half or more of the companies have committees include: aerospace and defence, banks, food and drug retailers, utilities, mining, and oil and gas producers.
Sectors where a quarter of the companies listed or fewer have committees include household goods and home construction, media, pharma and biotech, and travel and leisure. This finding has to be qualified, however, with the note that two out of five media companies in the FTSE 100 do have committees whereas none of the eight companies in the FTSE 250 have one. Also, all three of the FTSE 250 companies in the travel and leisure sector which do have committees are connected with the betting industry, where reputational and regulatory risk is high.

The table does not include sectors where there are no or very few committees. For example, there is virtually no take-up in either the life or non-life insurance industry, despite the presence of regulatory and reputation risk. Similarly the financial services sector, which includes asset managers, reports only one committee out of 25 listed companies, although a number of these do have sub-board committees. Committees are also rare in the support services sector with only four companies out of 30, having formed them.

These figures should not be taken to mean that companies without committees, or sectors where they are not common, ignore corporate responsibility and ethical issues. In many cases anecdotal evidence suggests that the behaviour of companies without committees is quite the opposite.

The issue thrown up by this breakdown is rather that of whether having a committee helps in substance or is more simply a means of deflecting external pressure. That requires a closer look at the behaviour and attitude of companies without committees, as well as those with them.

6. External reporting

One key role of the committees is to oversee the content of the company’s sustainability or corporate responsibility reporting. It is very common for the chairman of the committee to be required to attend the annual general meeting to answer questions from shareholders.

Much sustainability reporting is, meanwhile, scattered through annual and other reports, either as a specific sustainability report, or as a formal report of the relevant committee, or as part of the general discussion of corporate governance, or through a separate corporate responsibility document. Having a specific committee gives companies a particular space to focus on how their boards are addressing these issues. It also provides a peg to prompt dialogue with shareholders.

As part of the research, we examined a selection of committee reports. These varied in the amount of the detail they gave on the committee’s activities during the year, but several revealed a significant work programme. Most carried a statement by the chairman of the committee setting out its objectives and approach, as well as a list of members and confirmation of the number of meetings held.

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This includes one committee with unpublished terms of reference.
These statements usually stress the role of the committee in advising the board. While this gives little away in terms of substance, it is reassuring to stakeholders to see that issues of sustainability, corporate responsibility and ethics are being handled in a systematic way.

The best reports bring the terms of reference to life by presenting highlights of the committee’s work. Some specific examples, which in each case are only one part of a larger agenda, include the following:

- One aerospace and defence company reported that it had reviewed the rollout and training programme connected to its code of conduct. It found that at the end of the period, 96% of all employees had provided certification, and it said that while this progress was satisfactory it was looking at the reasons behind gaps.

- One bank said its committee reviewed reports regarding customer complaints and complaint handling. The committee considered improvements to the quality of complaint handling and root cause analysis.

- One professional and support services company said its board had identified the conduct of third-party sales consultants as a significant risk. The committee was monitoring risk mitigation measures, including the requirement set by the company to conduct business in compliance with the standards set out in the company’s ethics policy.

- One food company said its committee had reviewed safety and satisfied itself that standards had improved following a fatality in the previous year.

- One mining company committee said its work had involved reviewing legacy issues, including environmental aspects, around mine closures, as well as considering updates into findings around specific safety incidents.

These examples illustrate the wide-ranging nature of the agendas. However, one striking point about the committee reports is that it is relatively rare for them to give hard information about sensitive items like customer complaints or the compliance of third-party sales agents with ethical standards. This may be because some detailed KPIs are set out elsewhere in sustainability reports or because the information is of its nature sensitive. The overall level of detail in terms of issue identification is probably, however, somewhat greater than that provided by most audit committees, although this has also been increasing in recent years.

Some committee reports refer to the committee’s evaluation of its own performance, which is frequently mandated in the terms of reference. One committee said it had decided to work more closely with presenters to it to improve feedback and the flow of information. Less frequent were statements about future work, though one company listed its priorities for the current year, including a review of the sanctions compliance programme.
7. Companies without committees

Deployment of a corporate responsibility, sustainability or ethics committee is only one way of addressing the issues of responsible behaviour. It has the advantage of focusing directors’ attention and effort where the nature of the company's business makes the task particularly important. On the other hand, the oversight of risk is normally seen as a responsibility for the whole board. The proliferation of committees may lead to an illusion that an important responsibility has been delegated and thus dilute the work of the board.

Also, even some companies with board-level committees report that they were concerned at the risk of overlap and confusion about where actual responsibilities lie. In some cases this led to a formal requirement for liaison with other committees, notably audit and risk, where the risk of overlap was greatest.

A number of companies with committees were at pains to point out that the management of corporate responsibility and ethical issues was the responsibility of the executive. The board had responsibility for oversight. In that arrangement the role of the committees was essentially to provide such oversight and advise the board.

This study therefore does not seek to suggest that companies without a responsibility, sustainability or ethics committee are willfully ignoring these aspects of corporate life or that a specialised committee is the only right approach. There is clear evidence that some, at least, of the issues are taken up elsewhere.

Audit committees, for example, may well include responsibility for oversight of speak up or whistleblowing in their terms of reference and may also have the power to investigate issues of concern or potential concern to the board. Sometimes the audit committee may have oversight of compliance, including compliance with the company's code of ethics. Thus one pharmaceutical company mandates its audit committee to:

- review the status of the compliance programme (policies, training, monitoring and audit) of the Company to ensure adherence to applicable legal and regulatory standards and to the Code of Ethics where there may be a material impact on the Company.

This section draws on the survey results to look first at companies without committees at sub-board level and second at companies which have a sub-board committee. Altogether over two thirds of companies in the FTSE 350 fall into one or other of these categories.

Companies without sub-board committees

The survey included responses from 24 companies with no corporate responsibility, sustainability or ethics committees, even at sub-board level. Comments revealed that allocations of responsibility are mixed, although in general respondents said the board itself took overall ownership.
Some respondents said that the responsibilities were spread through other committees including audit, risk, and remuneration. One said the chief executive was accountable to the board for corporate responsibility and reported periodically to the board on these issues.

Nearly two thirds of respondents (64%) said the board regularly monitored matters relating to ethics, culture and corporate responsibility.

**Figure 7** How frequently is ethics and culture a full board agenda item?

Even where it was not covered as a separate board agenda item, one respondent said that the issues were still discussed. The code of ethics which underpins the company’s anti-bribery and corruption standard as well as other key parts of their compliance/ethics agenda is a matter reserved for the board.

Nearly three fifths (59%) said the issues were covered by the audit and risk committees. Over one third (36%) also said the remuneration committee had a mandate to consider ethics/culture in setting policy, while almost two thirds (64%) said their board received training in ethics and culture. Meanwhile 43% said their board received external advice in matters relating to ethics, culture and relations with stakeholders.

Ethics and values clearly feature in board mandates where these exist. Almost three quarters (71%) said this was the case, and a slightly smaller number (67%) said this was also true for corporate responsibility. Interestingly, only 48% said their board made a clear distinction between ethics and culture on the one hand and corporate responsibility on the other, leaving a small majority who did not.

One survey respondent commented:

*Our second corporate value is ethical and we are supposed to carry out business that acknowledges that we are a listed entity. This means being a responsible corporate. I would say that we are probably more compliance focused at present, however – behaving ‘ethically’ requires an organisation to be more mature.*
The responses show that boards are also actively involved in assurance (see Table 3). It is worth noting that, while the committee mandates referred to above are generally silent on the embedding of appropriate ethics and values in the supply chain, the survey evidence suggests that this is nonetheless a matter of concern for a majority of boards.

### Table 3: Board assurance on ethics and culture

<table>
<thead>
<tr>
<th>Does the board monitor...</th>
<th>Response</th>
<th>Percent</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. The operation of the company’s code of ethics/conduct?</td>
<td>Yes</td>
<td>90%</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>10%</td>
<td>2</td>
</tr>
<tr>
<td>b. Breaches of the company’s code of ethics and remedial/disciplinary actions taken?</td>
<td>Yes</td>
<td>86%</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>14%</td>
<td>3</td>
</tr>
<tr>
<td>c. The operation of the speak up/whistleblowing arrangements?</td>
<td>Yes</td>
<td>90%</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>10%</td>
<td>2</td>
</tr>
<tr>
<td>d. Ethics/values/corporate responsibility issues in the supply chain?</td>
<td>Yes</td>
<td>67%</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>33%</td>
<td>7</td>
</tr>
</tbody>
</table>

Base: Of the 24 survey participants, 21 responded to this question.

* One company said it did not have a supply chain, while another said it was “early days” regarding the monitoring of the supply chain.

An overwhelming majority of respondents (81%) said the board ensured that there was sufficient training on ethics at all levels in the company, while a slightly larger number (90%) said the board ensured that the company’s code of ethics was effectively communicated throughout the company.

Fewer respondents (62%) said the board developed and monitored KPIs relating to behaviour and ethics. One said this was the role of executive management, not the board. Another said the KPIs were directly related to training.

Only 14% of respondents said the board’s terms of reference required it to undertake ethical due diligence prior to a merger or acquisition, but a number said this would effectively happen anyway. For example, one respondent said the company had established practice to undertake such due diligence when considering any counterparty (client/bank/supply chain). Another said it was part of standard mergers and acquisition procedure.

Finally, half of respondents said the board or the chairman made a formal statement on ethics and culture in the company’s annual report, though one said this is “in passing rather than some clunking interjection”. Another said there was no formal statement but the issues were “inherent in the narrative”.

Boards are actively involved in assurance on the embedding of ethics and values, including within the supply chain.
Companies with a sub-board committee

Survey responses showed nine companies which have a sub-board committee dealing with ethics, culture and corporate responsibility. It is difficult to access the terms of reference of many of these groups, but, for one FTSE 250 aerospace and defence company, the mandate is clear. It says the committee, which meets quarterly, reviews and approves the annual ethics training plan, oversees its ethics policies and also oversees investigations of concerns raised through the speak up system to ensure they are carried out consistently, efficiently and independently.

The group executive also receives and discusses monthly reports on ethics and compliance, it continues. This includes reports on speak up issues raised, training completion status and other ethics or compliance concerns and the board receives a similar update report on an annual basis, while the audit committee receives a specific report twice a year.

In contrast, another company in the same FTSE 250 sector chose to focus directly on health, safety and environment issues. Its committee, which includes the chief executive and divisional chiefs among its members, recommends strategy and policies to the board, formulates objectives, and makes recommendations on the appointment of health, safety and environment coordinators, while its chairman is expected to attend the AGM in order to answer questions. Although it has no direct responsibility for ethics and culture, its mandate is thus not markedly different from many of the board-level committees.

A quarter of the sub-board committees mentioned the words ethics or values in their title, a broadly similar proportion to the board-level committees. All respondents said one or more other board-level committee included ethics and/or culture in their formal remit. Nearly 60% said their board received training in ethics and culture, while three quarters said the board or chairman made a formal statement on ethics and culture in the company’s annual report, but only one company said this made reference to implementation of the company’s code of ethics.
Three Strong Mandates

Amid the wide variety of board-level committee terms of reference that were analysed, a number stood out either for their comprehensive and rounded approach or for their specific inclusion of ethical issues. We have selected three of these mandates and given detailed summaries of them below.

These three mandates are not the only ones that were considered to be strong, but they do give an indication of the potential and of the direction of more advanced thinking. Note that this category is not confined to the FTSE 100, although the Tullow Oil example cited below is more focused on ethics and compliance than on conventional corporate responsibility issues.

Amec Foster Wheeler

The Health, Safety, Security, Environmental and Ethics (HSSEE) Committee consists of non-executive directors. Only members and the Company Secretary have the right to attend Committee meetings, although the Executive Directors, the Chief Compliance Officer and the Global Head of Health, Safety, Security and Environmental will normally be invited to attend, while other employees and external advisers may be invited to attend all or part of the meetings as appropriate. The Committee is to meet at least twice a year.

Its principal duties include, amongst other things:

- reviewing and approving the Company’s Code of Business Conduct (CoBC) and Health, Safety, Security and Environmental policy statement at least annually to ensure it reflects the Company’s undertaking, culture, values and expectations, and considering the adequacy of management systems underpinning these, including training and adequacy of resources for their implementation
- examining the processes in place to be satisfied that all significant risks covered by its remit are identified and controlled
- considering the adequacy of Group Internal Audit’s programme for assurance of the CoBC and business ethics policies
- reviewing performance reports relating to the management of HSSEE risks to evaluate the effectiveness of systems and process to control risk, and reviewing and approving leading and lagging key performance indicators established to target continuous improvement in HSSEE performance
• considering the robustness and adequacy of processes and procedures for the assurance of HSSEE risk mitigation, and, where appropriate, seeking external validation that such processes are effective
• reviewing and monitoring business HSSE and ethics within the Company including, inter alia, compliance with relevant legislation, regulation and current best practice relating to health, safety and environmental management, security and emergency preparedness, anti-bribery and corruption, government contracting, competition laws, import/export restrictions and trade sanctions, and discrimination or inappropriate behaviour in the work place.

Additionally, the Committee receives reports from management on all fatalities and serious incidents within the Company, a register of all relevant recommendations arising from such reports, and periodic reports on the implementation and effectiveness of such recommendations. It also advises the Board on the impact of any identified breaches in the Group’s control environment that have resulted in an unacceptable risk, prosecution or the likelihood of prosecution, or a material impact on the Group’s reputation.

Ethics related additional responsibilities include a requirement to review and, where appropriate, investigate complaints or allegations relating to bribery or corruption, false or misleading statements to government authorities, conflicts of interest (including gifts, hospitality, outside interests and related party transactions), unfair or disrespectful behaviour in the workplace (including harassment and discrimination), unfair competition (including price-fixing and collusion), and inappropriate personal use of Company assets.

In the event of an actual or suspected significant ethical breach of the Company’s CoBC or relevant legislation having the potential for serious reputational damage for the Company, a member of the Committee will normally take responsibility for and manage any investigation with the support of the General Counsel and Company Secretary.

The Committee reports to the Board following each meeting and Board members also receive minutes of each meeting of the Committee. The Committee is authorised by the Board to obtain independent outside advice, to require information and cooperation as it requests from any employee of the Company and, specifically, to carry out site visits.
Centrica plc

The Safety, Health, Environment, Security and Ethics Committee contains at least four members all of whom must be independent non-executive directors appointed by the Board on recommendation of the Nominations Committee. It normally meets four times a year, and at least twice a year with only the Head of Internal Audit present. At least one additional meeting a year is held jointly with the Audit Committee, chaired by the Audit Committee chairman. The terms of reference can only be amended with the consent of the Board.

The Committee is required to keep under review the adequacy and effectiveness of the Company’s internal controls and risk management systems in respect of: people (engagement, culture and behaviours); sourcing and supplier management; health, safety, environment and security; information systems and security; and legal, regulatory and ethical standards compliance. In addition it reviews the quarterly Group Risk Management Reports.

1. **People: Engagement, culture and behaviours.** The Committee develops the Group’s values, purpose and culture, and associated behaviours, for approval by the Board. It embeds the Group’s purpose and values “to ensure the Group and its employees and contractors conducts its business affairs with honesty and integrity, in an ethical manner and in compliance with all applicable laws, rules and regulations”. It develops a communications plan to ensure compliance with the Group’s values, purpose and culture and keeps these under review, including a review of the annual employment engagement survey.

2. **Sourcing and supplier management.** The Committee develops Group policy for contracting with third parties to deliver fit for purpose products and services. Keeps under review Group policy for contracting with third parties, including an annual review of ethical procurement across the Group.

3. **Health, safety, environment and security.** It ensures that all employees and people who come into contact with the Group’s businesses are provided with a safe, secure and healthy environment. It monitors each business unit to ensure continuing compliance with relevant rules, laws and regulations, keeping itself informed of changes to regulations, encourages the sharing of best practice across the Company and keeps incident and crisis management plans under review.
4. **Information systems security.** The Committee ensures effective security arrangements across the Group in respect of information systems and misuse of data. It identifies the critical information assets which the Group wants to protect against hacking/cyber attack for approval by the Board. It agrees intelligence processes to understand the threat to the Group’s assets and agrees controls to prepare, protect, detect and respond to hacking, a cyber-attack or misuse of data for approval by the Board. It monitors the effectiveness of security controls and oversees a system of continuous improvement to match the changing cyber threat.

5. **Legal, regulatory and ethical standards compliance.** The Committee determines the Group’s Business Principles and Group Policies and keeps compliance under review. It reviews the Group’s arrangements for its employees to raise concerns in confidence about possible improprieties in matters other than financial reporting, satisfying itself that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action. The Committee receives a quarterly compliance report to assist it in discharging this duty. It keeps under review the Company’s procedures for detecting and responding to fraud, including bribery, as well as the arrangements in place for the management of statutory and regulatory compliance in areas such as financial crime, Ofgem, FCA and other regulations.

The mandate states that the execution of the strategy and responsibility for safety, ethical and reputational issues remains with the respective Centrica business units. The Committee has unrestricted access to Group employees, contractors, documents and information as well as, specifically, to the Head of Internal Audit. It may investigate or commission investigations into any activity within its remit and obtain outside legal or independent professional advice.

The Committee Chairman is required to attend the Annual General Meeting and be prepared to respond to questions through the Chairman of the Board. The Committee reports formally to the Board after each meeting, makes recommendations to the Board as appropriate and prepares a report on its activities for inclusion in the Company’s annual report. It conducts a review of its effectiveness once a year and members are to be provided with appropriate and timely training.
Tullow Oil plc

The Ethics & Compliance Committee comprises at least three directors, the majority of whom are independent. At least one member must have recent and relevant ethics and compliance experience.

The Committee meets at least four times a year. Only Committee Members have a right to attend, though the Board Chairman, Group Ethics & Compliance Manager, Vice President for Organisation Strategy and Effectiveness, Group Internal Audit Manager and General Counsel are invited to attend on a regular basis.

Outside the formal meeting programme, the Committee Chairperson maintains a dialogue with key individuals involved in the Company’s Ethics and Compliance programme. The Committee Chairperson also attends the annual meeting to answer shareholder questions on the Committee’s objectives. The Chairperson reports back to the Board after each meeting, while the Group Ethics & Compliance Manager is entitled to bring any concerns directly to the Chairperson.

The Committee’s core purpose is to uphold and oversee the implementation of the principles and rules relating to ethics and compliance set out in the Company’s Code of Ethical Conduct. It is charged with communicating the Company’s commitment to these principles and rules to all staff and stakeholders.

In particular, its duties include:

- advising the Board on the development of strategy and policies on ethical and compliance matters
- keeping key relevant risks under review and monitoring mitigation activities and controls
- evaluating the ethical and compliance aspects of the Company’s culture and making recommendations to rectify deficiencies
- oversight of the effectiveness of the code with specific reference to overall risk management systems, anti-bribery and corruption, anti-fraud, use of agents, political consultants and advisers, dealing with public officials, gifts and hospitality, per diem payments, conflicts of interest and political contributions and activities. 4

4 As per Tullow’s Code of Ethical Conduct, Tullow’s policy is not to make direct or indirect political contributions. The Ethics & Compliance Committee is mandated in its Terms of Reference to oversee that this principle is maintained.
Other duties include to oversee any investigation of activities within its terms of reference.

The Committee compiles a record of its activities for inclusion in the Company’s Annual Report and Corporate Responsibility report. It may seek any information it requires from any employee of the Company and obtain independent external advice at the Company’s expense. It should arrange for periodic reviews of its own performance and, at least annually, review its own terms of reference to ensure it is operating at maximum effectiveness.
Analysis

The survey data presented in this report shows that there is no single model for committees dealing with corporate responsibility, sustainability, ethics and values. Different committees have different priorities and all are created with a tailor-made purpose, although the committees are generally motivated by the need for boards to oversee reputation and conduct risk.

The published terms of reference, however, show governance has come a long way from the days when corporate responsibility was seen primarily as a public relations exercise. Almost without exception the terms of reference are businesslike and reveal a genuine seriousness of purpose.

Admittedly, there is still a broad spectrum between those whose committees are focused primarily on stakeholders and those which concentrate on the internal drivers of behaviour within the company. Similarly there is a spectrum between companies where issues of culture, compliance and the embedding of values are still seen as primarily a matter for the executive and those where the companies, sometimes because they are recovering from a crisis, feel the board needs a stronger grip.

Perhaps, more than with some other committees, committees dealing with sustainability, corporate responsibility and ethics need to navigate carefully between providing oversight without micro-managing the executive and the need to make sure they do not take over from the board responsibilities which properly belong to it.

Although our analysis simply provides a snapshot of the present situation, there is a sense of movement along these two spectra. Both boards and managements are becoming more pre-occupied with culture and behaviour.

More than ever, boards need to understand the drivers of behaviour within their organisations and assure themselves that they are appropriate. That leads them to require more detailed knowledge than before. A decade or so ago, many would not have worried about culture and behaviour unless there was a problem. Now, enlightened boards are concerned to instil a positive culture on the basis that this enhances long term performance.

It is important to note, however, that a large majority of the FTSE 350 still see no need for dedicated committees in this area. These companies commonly argue that they do not wish to fragment the work of the board. They acknowledge the importance of the issues but say that other committees (usually audit and/or risk) are already dealing with the subjects covered. They do not want to dilute the responsibility of the board, and they do not want to create a committee which might become a ‘kitchen-cabinet’, second-guessing both the executive and, possibly, the board itself.
Above all, many say that the company from the board down expects conformity with the group’s values to be at the centre of everything it does. Ethics, thus, becomes a subject for every agenda and should not be confined to a special committee.

These are all strong arguments, but there is also no getting away from the fact that the workload for boards is growing. Audit committees, risk committees where they exist and boards are stretched. Even well-intentioned boards cannot really get to grips with the issues if they are only periodically on the agenda of otherwise busy meetings. There is a risk that important issues may slip through the cracks or be dealt with only in a perfunctory way.

Committees can play a useful role by drilling down into the detail, identifying on behalf of the board, problems and patterns of behaviour which may indicate risk. Given the nature of the subject matter, also, they can bring the human resource function into the orbit of the board. Hitherto neglected because it does not make strategic decisions, HR is nevertheless important because of its role in setting and administering incentives and in embedding culture and its reach throughout the business.

A key issue for boards contemplating the creation of a committee is to ensure that there is a clear understanding of where the boundaries lie. Ultimately the board is responsible for values. It cannot delegate this responsibility to a committee, even though it can look to a committee for advice and oversight on implementation.

**Summary of directors’ legal obligations**

A director must:
- act within the powers set out in the company’s constitution
- promote the success of the company for the benefit of its members as a whole, and in doing so have regard to:
  - the likely long term consequences
  - the interests of employees
  - the company’s business relationships with suppliers, customers and others
  - the impact on the community and the environment
  - the need to maintain a reputation for high standards of business conduct; and
  - the need to act fairly between members of the company
- exercise independent judgement
- exercise reasonable care, skill and diligence
- avoid conflicts of interest
- not accept benefits from third parties; and declare interests in proposed transactions or arrangements with the company.

*Under the UK Companies Act 2006, sections 171-177.*
There are some other specific issues – most would agree that health and safety is one – which are too important to be delegated, even though, again, committees can help by ensuring that effective policies are in place and enforced.

Similarly, there are some areas where the executive should remain responsible, for example, the management of compliance and conduct risk at the operational level as well as the practical job of embedding culture and values throughout the organisation.

Broadly speaking, this has led to a situation where the committees play an advisory and oversight role, satisfying themselves on behalf of the board that risks are being managed, helping to identify risks that may be emerging, challenging the executive where the board’s expectations are not being met and escalating issues to the board when they become material. As far as can be understood from the limited evidence available, sub-board committees generally play a similar role, although the assurance may then be provided to the chief executive who then becomes accountable to the board.

If that seems simple in theory, it is not always so in practice. For example, one task of sustainability and ethics committees may be to scan the horizon and look for future risks. Does this mean they should actively engage with relevant stakeholders? There is a danger that this would cut across the work of the executive. Of course, committee members have to be familiar with the environment around them, but their primary role is to ensure that the executive is on top of the issues and react if it is not. If there are gaps in the company’s understanding, this can have important implications for strategy and this should perhaps be a matter for the board as a whole.

Similarly there appears to be limited appetite for entrusting the committees with investigations when things have gone wrong. Boards need to be kept systematically aware of significant incidents which cause actual injury or other damage or have the potential to do so. They need to ensure that top management investigates such incidents and puts in place measures to ensure there is no recurrence.

Board committees need to ensure that all this happens and that the investigation is thorough. Interviewees said they should not become a kind of court of appeal, partly because that, again, dilutes the responsibility of the full board which itself should take over the response to the most serious developments.

One of the most important roles of the committees should be to ensure that policies around conduct are effective and regularly evaluated to ensure that this is indeed the case. While many companies have codes of ethics, it is less clear that boards spend time assuring themselves that these are properly implemented. How are they communicated to employees? Is there training? How are they enforced? What do employee surveys reveal about morale and the degree to which the company’s chosen values pervade the organisation?
Boards need to be informed about these issues whether or not they have a committee. Our survey shows that many boards have grasped this point and started to include these tasks in their committee mandates but there is still some way to go. Similarly, many boards of companies without committees clearly do monitor these issues, principally through their audit and risk committees.

There is a risk, however, that they may end up with an approach that is insufficiently systematic, largely because other seemingly more urgent pressures intrude. All companies, whether they have a committee or not, will increasingly need to show shareholders, regulators and other stakeholders that they take this agenda seriously. Great weakness arises when companies lay out fine-sounding values and write fine codes of behaviour but then fall at the hurdle of embedding them in their organisation. That leaves them open to accusations of hypocrisy, derision and loss of trust.

Overall the picture is a positive one. A significant number of companies do ‘voluntarily’ have board committees covering sustainability, corporate responsibility, ethics and values, and, according to our survey, those that do not are paying increasing attention to these issues.

There has also been a shift away from the shallow view of corporate responsibility as being simply about meeting targets on external responsibility indicators like CO₂ emissions towards a view that what matters is the drivers of employee behaviour. Committee agendas are likely to change and there may be more committees. Some will complain that this is simply creating extra work, but if it is effective in reducing an increasingly wide range of non-financial risk and securing the future of the company, then the effort will be worth it.
Conclusions

This survey has looked at the role of board committees involved in corporate responsibility, sustainability and ethics and also at the way companies without such committees handle these issues. It has found that a significant number of companies maintain such committees and that they make a significant contribution to governance. There is no case yet for making such committees mandatory, but companies do need to be aware of the need to manage a wide and growing range of non-financial risks.

Ethics and values are an integral part of the work of such committees because they are about what drives behaviour in companies. It is quite easy to set rules requiring companies to comply with environmental or labour standards. Yet the quality of the compliance will be all the greater if employees deliver because they believe that is the right thing for the company to do to the point where they even go beyond the letter of the law.

For the companies that means less risk, a better reputation and a more secure franchise. Committees can play an important role in helping ensure that the board and other committees are not swamped with information they cannot digest. Yet they also face a delicate task of navigating between the Scylla of diluting the board’s responsibility on the one hand and the Charybdis of micro-managing the executive on the other. The right course needs to be properly set and clearly agreed.

The key issue is understanding and shaping the drivers of behaviour, and this is not just a matter of the traditional areas of responsibility like the environment and labour standards. Behaviour matters in all sorts of other ways too – to how employees treat customers, how they treat each other, whether and how they are motivated to succeed, how they react under pressure and what they do when confronted with a temptation to cheat.

The story of corporate responsibility, sustainability and ethics committees is a story of how the need to deal with these issues is taking hold, and perceptions of corporate responsibility are shifting. The task for boards is by no means easy, but the direction of travel certainly seems right.
Related IBE Publications

IBE publications provide thought leadership and practical guidance to those involved in developing and promoting business ethics, including senior business people, corporate governance professionals and ethics and compliance practitioners. Some recent publications related to this topic which you might be interested in include:

**Ethics, Risk and Governance**
Peter Montagnon

Setting the right values and culture is integral to a company’s success and its ability to generate value over the longer term. The challenge for business is how to develop and embed real values. This requires leadership and is a core task for boards. 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. This IBE Board Briefing sets out why directors need to be actively involved in setting and maintaining a company’s ethical values and suggests some ways to approach it. It aims to help directors define their contribution to the maintenance of sound values and culture.

**Checking Culture: a new role for internal audit**
Peter Montagnon

Boards are increasingly concerned to embed a sound corporate culture. However the corporate leadership team need to know whether the culture they want is the one they have actually got. Internal audit can help through its work on assurance. This IBE Board Briefing, the second in the series, draws on the experience of those involved at a senior level in a range of organisations. Audit committee chairs, heads of internal audit and heads of ethics and compliance, give practical advice and explain in their own words how to approach the challenge of checking culture.

**Fair or Unfair? getting to grips with executive pay**
Peter Montagnon

Executive remuneration is an important driver of behaviour and therefore of the way values are perceived throughout a company. However, current approaches to the way pay is set are very complicated and tough for boards to manage. There is a widespread view that the present system in the UK does not deliver the right incentives, and may even be fundamentally broken. This Board Briefing looks at the difficult and complex task of the remuneration committee. It explores seven ethical challenges facing these committees, with fairness and simplicity as the two themes running throughout. It aims to help in identifying and addressing the ethical issues, and also offers some pointers for reform.
Good Practice Guide series.

Communicating Ethical Values Internally is the eighth in the

• Internal Communications, Human Resources, Learning &

• Ethics and Compliance practitioners

This Guide will help all those charged with communicating messages about ethical values to employees so that they are

This Guide shares examples of some ways of communicating

This Good Practice Guide examines the role of internal

embedded in decision-making and behaviour?

How can you communicate the ethical standards of an organisation

How do you communicate 'integrity'?

policies and programmes effective.

The IBE Good Practice Guides offer practical

assistance and guidance for making ethics

Culture by Committee: the pros and cons

Report: Living Up To Our Values: developing ethical assurance

Nicole Dando & Walter Raven

How can boards be confident that their organisation is living up to its ethical values and commitments? This report provides a practical framework for approaching the assurance of ethical performance against an organisation’s own code of ethics. It is addressed to those at board level overseeing assurance that ethical values are embedded, that commitments are being met and management processes are effective. It will assist assurance professionals seeking to broaden their understanding of non-financial issues and is intended as an aid to the development of good practice.

Report: Setting the Tone: ethical business leadership

Philippa Foster Back CBE

Leadership is essential to business ethics, as ethical qualities are essential to good leadership. This report demonstrates that business leaders should consider ethical competence as a core part of their business acumen and provides guidance to those wishing to build a culture of trust and accountability and strengthen the ethical aspirations of their organisation. It includes interviews with business leaders offering practical insights into ethical leadership issues.

Good Practice Guide: Performance Management for an Ethical Culture

Edited by Ruth N Steinholtz with Nicole Dando

This Good Practice Guide outlines how organisations can use their performance management process to encourage an ethical culture. Drawing on interviews and surveys with IBE subscriber companies and other organisations, this Guide will help organisations assess, incentivise and reward employees based on how results are achieved, and offers examples of how values-driven behaviours have been integrated into performance management. It will be useful to anyone involved in changing the culture of their organisation; from professionals in the human resources and ethics and compliance functions to senior management.

Good Practice Guide: Communicating Ethical Values Internally

Katherine Bradshaw

An organisation which operates to high ethical standards is one where ethics is just ‘the way we do things around here’. But how do you communicate something as nebulous as ‘integrity’? How can you communicate the ethical standards of an organisation effectively, so that they are not only understood, but are embedded in decision-making and behaviour? This guide shares examples of some ways of communicating messages about ethical values to employees so that they are empowered to ‘do the right thing’. It examines the role of internal communications in establishing a corporate culture.
Other IBE Resources

Investing in Integrity Charter Mark

Is there a way to prove a company’s integrity? The IBE has developed a charter mark in association with Chartered Institute of Securities and Investment (CISI) to help businesses and organisations know if their ethics programme is embedded throughout their organisation.

The Investing in Integrity (IiI) charter mark gives an assurance of trustworthiness to clients, customers, investors and other stakeholders doing business with the organisation. The real strength of the IiI framework is that it tests an organisation's ethical conduct against its statements of values to ensure those values are properly embedded. It can help them identify whether or not the company is truly living up to its values, from the boardroom to the shop floor.

The testing uses a self assessment management questionnaire and third party audit by IiI partner, GoodCorporation, whose methodology has been adapted for the IiI chartermark.

To find out more visit www.investinginintegrity.org.uk

Say No Toolkit

The IBE Say No Toolkit is a decision making tool to help organisations encourage employees to make the right decision in difficult situations. The Say No Toolkit delivers immediate guidance to employees on a wide range of common business issues, especially those that could lead to accusations of bribery.

Employees tap through a series of questions about the situation they face and the tool will provide the right decision to take: Say No, Say Yes or Ask. The answer also makes it clear why it is important to make that decision so your employees can have the confidence and the knowledge to respond correctly.

Organisations can use both the IBE Say No Toolkit App and website for free. The App can be downloaded on to any smartphone/tablet.

You can start using it for free now. Simply go to www.saynotoolkit.net

The Say No Toolkit can be customised and branded to suit your organisations needs and detailed procedures. For more information email info@ibe.org.uk or call the IBE office on +44 20 7798 6040.

For details of all IBE publications and resources visit our website www.ibe.org.uk
Culture by Committee
the pros and cons

A survey of sustainability and ethics committees

Shifting perceptions of risk have increasingly encouraged companies to form special board committees to deal with broad questions of corporate responsibility, sustainability and ethics.

This IBE Survey Report looks at the nature and role of these board committees, and also at the way companies that choose not to have such committees handle this growing range of non-financial risks. It is based on research into companies in the FTSE 350, including the mandates of the board committees, and was prepared in collaboration with ICSA: The Governance Institute and Mazars.

The idea of having a committee dedicated to the task of overseeing culture and ethics is relatively new. This survey report is intended to benchmark what is happening in the UK, providing a valuable insight into how companies are approaching the task, and helping companies decide on the right approach for them in an increasingly complex world.