



Stakeholder engagement values, business culture & society

By Peter Montagnon

**A contribution to the
Financial Reporting Council's
Culture Coalition Project**

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This report has been prepared for the Financial Reporting Council
Culture Coalition project

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. We promote high standards of corporate governance through the UK Corporate Governance Code. We set standards for corporate reporting, audit and actuarial practice and monitor and enforce accounting and auditing standards. We also oversee the regulatory activities of the actuarial profession and the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.

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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, 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.

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Foreword

Culture is the outward expression of behaviours in an organisation. Those behaviours, based on values, will tend to lead to a positive outcome overall, bearing in mind there will be many slightly or very different expressions of culture in an organisation – for instance by team, business unit or division and geography.

It is these ‘cultures’ that a company’s stakeholders will see and experience, for good or bad. Boards do not always stand back and review how others might see them and the company or organisation they represent. This report attempts to do this through case studies.



Business, in fulfilling its role in society, does need to be aware of how it is seen by others. This will help allay concerns and misconceptions that the business is all about being greedy and looking after itself.

This report derives from Workstream Two of the Financial Reporting Council (FRC) Culture Coalition Project which was led by the IBE.

We set up a Working Group, kindly chaired by Robert Swannell, Chairman of M&S. I would like to thank all those who gave of their time and expertise in contributing to this work and subsequent publication.

In keeping with the FRC’s main Report of Observations, IBE’s contribution is also a conversation piece to add to those on business’ role in society. It explores how companies should reflect further on their image with shareholders and other stakeholders as they have a legitimate interest in how a company does its business – its behaviour and culture.

Philippa Foster Back CBE
Director
Institute of Business Ethics



Executive Summary

This report is a contribution to the Financial Reporting Council's Culture Coalition project. It focuses on how companies relate to external stakeholders but should be read in the context of the overall project. The relationship between companies and the society from which they derive their licence to operate is critical to their long term future. Yet, as with everything else the company does, it will reflect the values and culture it has chosen to adopt from the outset.

External relationships cannot therefore be considered on their own. A company which seeks to build a positive relationship with a wide range of external stakeholders must be clear what its values are, and its own behaviour must be consistent with the message it gives to stakeholders. A company which claims values which it does not adhere to will be found out and exposed quickly by social media. Openness is critical, especially in a crisis.

This report makes a clear distinction between engagement between companies and their shareholders and relations with non-financial stakeholders. The former are a board matter because boards are directly accountable to shareholders. Relations with other stakeholders are also critically important, but the board's role is more generally an oversight one.

Dialogue between companies and shareholders on culture and long-term strategy has been improving, but there is a long way to go to open up discussion. Shareholders are heavily focused on performance, often but not exclusively on the short term. Moreover they do not believe that they can change a 'bad' culture from the outside. Yet they are becoming more aware of the risks of a flawed culture. Both sides need to work on ways of improving the dialogue. Among other things, sell-side analysts need to be less focused on short term financial results; the tendency should be resisted for the governance discussion to be swamped by remuneration; and there is a need to calibrate reporting to give more prominence to indicators, such as staff turnover, which have a bearing on corporate culture.

As to non-financial stakeholders, a key relationship is with customers. A healthy corporate culture will invariably involve giving their needs and expectations a real priority. A business model focused on delivering real value to customers is likely to be sustainable. One that seeks to extract value will not. The way in which companies engage and motivate their staff to deliver value is critical. This can have an important impact on results.

Other important stakeholders singled out are suppliers and regulators. In both cases long term relationships based on openness and trust pay off. Companies must treat their suppliers fairly, for example by paying them promptly, but they must also demand and promote standards of behaviour they would impose on themselves. A narrowly self-interested approach to regulation leads to confrontation and prescription. A more socially aware company can deal with regulators and other stakeholders by identifying shared objectives of benefit to all.



Introduction

Companies do not exist in isolation. They depend on society for their franchise. So they need to maintain relationships with a range of stakeholders, including not just shareholders who provide their capital, but also customers, suppliers, employees, regulators, non-governmental organisations, the media and policy-makers.

The UK Companies Act 2006 acknowledges this. It makes clear that, while boards have an overarching duty to “*promote the success of the company for the benefit of its members as a whole*,” directors should take account of a range of stakeholders in making decisions ¹ as well as considering the long-term implications of their actions and the need to maintain a reputation for high standards of business conduct.

This report, which forms part of the Financial Reporting Council’s Culture Coalition project, considers the implications for boards and top managements in their approach to stakeholders. Four major elements of ethical behaviour are relevant to this: reliability, honesty, openness and respect.

Boards set the tone with regard to these values and have an important oversight responsibility. However, this report does not suggest that directors themselves should routinely take over the role of external engagement – apart from engagement with shareholders to whom they have a direct accountability. In the broader arena of stakeholder engagement, their responsibility is more to ensure that appropriate engagement takes place, that they and others are properly informed and that the company learns from the results.

For this reason engagement with shareholders and with other stakeholders is dealt with separately in this report.

Our task and how we approached it



This report is a contribution to the FRC’s Culture Coalition project. The Institute of Business Ethics (IBE) was asked to lead a workstream covering engagement with external stakeholders, including shareholders. The report therefore complements other workstream outputs covering people, embedding and assurance and the role of the board.

At the IBE, we were helped in our task by an expert advisory group drawn from our subscribers among the corporate community. This was chaired by Robert Swannell, Chairman of Marks & Spencer, and its members were Deborah Allen (Managing Director Corporate Responsibility at BAE Systems), Ian Barlow (Independent Non-Executive Director and Chairman of the Audit Committee at Smith and Nephew), Claire Chapman (General Counsel and Company Secretary at DMGT), Pierre Goad (Group Managing Director, Group Head of Human Resources at HSBC) and Gareth Tipton (Group Director Ethics & Compliance and COO at BT). We are very grateful to the advisory group for their advice and guidance. We were able to draw first hand on their experience of building and communicating culture. They helped us with case studies, and commented on the text of this report at draft stage.

With the guidance of the advisory group and the additional assistance of the FRC we conducted a series of interviews both generally and in connection with the case studies set out below. This report is the product of that effort. We are grateful to all who contributed, but the IBE remains solely responsible for its content.

¹ UK Companies Act 2006, Section 172. Stakeholders specifically mentioned are: employees, suppliers, customers and the community.



General principles

Three principles are important from the outset.

1 A clear vision is key. The advisory group felt strongly that, while external engagement is important, companies cannot communicate their culture and values effectively unless they are clear what these are. The starting point for external engagement is a set of clearly formulated values which aim to drive behaviour both within the company and in its dealings with the outside world. Culture should not be seen in isolation. Companies need to explain how what they are doing reflects their core values and beliefs. Also, the external communication and the internal messaging to staff should be consistent. It will become apparent very quickly through social media if this is not the case and the company will not be trusted.

2 Companies need to think carefully about their **strategic approach**. Lord Browne, the former Chief Executive of BP, identifies three possible approaches in his book *Connect*: ² **contest**, which means seeking to put right misapprehensions; **concede and lead**, which means acknowledging your interlocutor has a point and then seeking to lead the debate; and **collaborate**, which means seeking ways of identifying common interests with stakeholders and seeking to work together.

Each of these three approaches may be appropriate, depending on the situation, though Lord Browne cites several examples where a collaborative approach is fruitful, including BP's own initiative with the indigenous people of Alaska which gave them a financial stake in the company's oil development there. This led to the Alaska Native Claims Settlement Act of 1971 and opened the way to exploitation of its reserves.

More generally Lord Browne cites Paul Polman, Unilever Chief Executive, as saying in an interview for the book that:

"We are finding out quite rapidly that to be successful long term we have to ask: 'what do we actually give to society to make it better?'"

Asking the question will help companies decide both what engagement strategy to use and how to prioritise their engagement. A key prerequisite is to have a clear understanding of which external stakeholders matter to the company and why. Lord Browne calls this "mapping the landscape".

3 An **open culture** is important. A corporate culture, which encourages people at all levels to be open with each other in voicing and dealing with concerns as they arise, is widely seen as one of the key ingredients of a strong corporate culture. Boards and managements which operate on a command and control basis and do not engage openly with their own staff are unlikely to be successful at engaging with external stakeholders.

² *Connect: How companies succeed by engaging radically with society*, by John Browne with Robin Nuttall and Tommy Stadlen, published by W H Allen, 2015.

Case study 1

BAE Systems: building a relationship of trust with organised labour

BAE Systems is a leading international defence, security and aerospace company headquartered in London with significant operations in the US, Australia and the Kingdom of Saudi Arabia. Total group sales were £17.9bn in 2015. The UK workforce numbers 33,800 out of a total group workforce of 82,500. Over many years it has built a relationship of trust with its UK trade unions based on a structured forum and open discussion. BAE Systems has not faced industrial action in the UK in the last 15 years.

The company recognises a number of trade unions and has high levels of union membership. The unions operate together under the banner of the Confederation of Shipbuilding and Engineering Unions (CSEU), which brings together Unite, the GMB and Prospect. The unions have full-time conveners (paid for by BAE Systems) in each business and site. Separately the company has a bargaining and consultation framework at group level.

The current relationship has evolved over many years and was at least in part a response to the acquisition by BAE Systems of defence and shipbuilding businesses where there was a tradition of poor and often confrontational industrial relations. A particular influence was British Aerospace's merger with the defence manufacturing division of Marconi in 1999 when BAE Systems was created. This required the company to bring together two organisations with different union structures, terms and conditions.

Both sides now describe their current relationship as one of trust. This is based on a culture of openness, a structure which allows potentially serious issues to be escalated and addressed before they become critical, and a recognition that, in many areas of public policy, the unions and management have common interests.

The framework in which this takes place is important because it allows the company to engage with unions at every level throughout the group, while still giving individual sites and businesses the freedom to conduct their own bargaining on wages and other specific local issues such as new work practices.

The basic element is the Corporate Consultative Committee that allows BAE Systems to engage with its own union officials at convener level. This has about 30 members and meets quarterly. It discusses issues of mutual interest to the unions and the group. Agenda items might include:

- Ethical issues such as the operation of the Ethics Helpline, the embedding of the Code of Conduct, diversity and inclusion training and similar items which help the company embed its values and understand how they are viewed by the workforce.
- Financial performance. This keeps the unions informed of developments at group level and helps set the context for management actions such as restructuring as and when they become necessary.



Case study 1 *continued*

- Political issues. This might include issues where both parties have a common interest and can work collectively to engage politicians on all sides of the spectrum.

Above this group sits a smaller group: the Corporate Consultative Committee Steering Group to which the 30 members of the Committee elect eight members and which is chaired by Andrew Smith, HR Director of Employee Relations. This meets monthly and the company membership varies depending on the subjects.

It is able to deal in more detail with sensitive issues from the full committee agenda and with specific issues, including those where the company needs to develop consistent UK-wide policies. Examples would be the arrangements for holiday pay following legislation requiring employers to include overtime and other extra payments in the calculation, and the reorganisation of pensions resulting from the abolition of contracting out.

One objective is therefore to ensure consistency of key policies at national level while leaving pay bargaining to individual businesses. The Committee and its steering group do not touch pay bargaining by mutual agreement, though, Mr Smith says, the information flows through the system to set the context for pay bargaining at individual business level. The committee structure also does not deal with disputes.

A separate group consists of national officers of the three unions involved together with the head of the CSEU, Hugh Scullion. These are the final level in any dispute escalation process and would become involved if the company were unable to reach agreement with its own union representatives or regional union officials. This group also meets regularly at both an informal and formal level with the company at very senior level, which may include BAE Systems chief executive Ian King and UK Group Managing Director Nigel Whitehead. The agenda for this group is more removed from the day-to-day-issues and more focused on strategic issues.

Union officials involved in the process say that some of the discussions are tough, including those on the holiday pay arrangements, but they readily acknowledge the benefit of what Mr Scullion calls their *“very informed, very open relationship.”*

“We are involved at a very high level, and consulted on all the main issues,” adds Azza Samms, who leads the unions’ conveners group.

The company’s approach is to be as open as possible with its union interlocutors and this is in turn valued by them. Also, the regular involvement of BAE Systems’ senior leadership matters. This has fostered a high level of personal trust. The senior union representatives know that, on critical issues, they can approach the leadership directly, though most potential problems are defused at an earlier stage.



Case study 1 *continued*

Confidentiality is essential, and so far the record has been good. Both sides recognise the mutual advantage of the arrangements and neither want them to stop. Breaches of confidence are extremely rare and dealt with firmly if they occur. Though the company tries to be open with its interlocutors, it does not normally expect them to sign confidentiality agreements.

A key background factor that has helped build the relationship is the shared interest in the political debate over defence. The two sides do not normally lobby together, but they keep each other closely informed. Sometimes, as was the case with the Scottish independence referendum, the unions would have preferred the company to be more outspoken than it was in the early stages. However, both sides agree that the political background to the industry creates a foundation for good relations which might not always be easy to replicate elsewhere.



External engagement in a crisis

A company faced with a crisis has a particular communication challenge. Companies which cannot respond with confidence will face difficulty dealing with their problems. It is better to be prepared. As the example of Mattel below shows, a strong relationship of trust with key shareholders developed in advance will help companies deal with crises as they arise.

This section draws on '*The Recovery of Trust: case studies of organisational failures and trust repair*' by Graham Dietz and Nicole Gillespie and published by the Institute of Business Ethics in 2012.

Their work examines how six organisations responded to crisis: accusations of systematic bribery against Siemens in 2006; product recalls by Mattel in 2007, and by Toyota in 2009-10; the phone-in and misleading impressions of viewer participation scandals at the BBC in 2007-08; allegations of bribery against BAE Systems culminating in the Woolf enquiry in 2007; and misreporting of performance data by Severn Trent which led to it being prosecuted in 2008.

Companies facing this sort of problem have a number of tasks. They will need a rigorous investigation to find out exactly what happened, which may take time. They must address the root causes of the problem and this may involve radical organisational and cultural change. External engagement is only part of the task, but it is also vital. It will have an important bearing on the company's ability to repair the damage to its franchise.

Three principles are worth noting. First, organisations facing crisis need to acknowledge upfront the seriousness of what has happened and make clear their determination to get to the bottom of it. Second, public and internal language can reinforce or undermine each other. Severn Trent made a point of using the same language and phrases both externally and internally to ensure consistency. Third, an upfront and early public apology is helpful to defuse public criticism, even if it alarms lawyers and investors. It has to be carefully worded because it may come at a time when the organisation has not yet been able to establish the extent of the problem or a precise allocation of responsibility. The BBC took a risk when apologising on-air within a week of the deceit at Blue Peter being exposed.

Siemens' initial reaction to the bribery scandal, which ultimately forced both its chairman and chief executive to resign, was to play down the affair only to discover quickly that the amounts involved were actually very large. Key executives repeatedly denied awareness or involvement in the malpractice. The report concludes that "*premature dismissals of developing scandals can appear self-serving or incompetent and a further violation of trust, compounding the original problem*". The trustworthy course, according to the authors, is to acknowledge the problem and initiate a full, urgent and independent inquiry.

By contrast, Mattel took a different approach when confronted by evidence that Fisher-Price toys produced in China contained illegal levels of lead paint. On the organisational front the company immediately ceased production in the named facility and, as soon as the recalls were public, embarked on a campaign with both staff and customers. Bob Eckert, the CEO, sent an e-mail to staff explaining how they were going to react with honour. The company launched a 'huge' information campaign to urge parents to stop their children playing with the affected toys.

Waving aside the risk of lawsuits, Eckert apologised upfront for the failure. Later, he told a Senate Committee that the Chinese contractors had not been monitored closely enough. The company then took the unusual step of lobbying the Federal Government for mandatory testing of all toys sold in the US.

This positive response limited the damage. Although the company recalled 20m toys from 43 international markets, sales for 2007 were up 6% and a poll of US consumers found 75% approved of Mattel's response to the failure. This is in stark contrast to Toyota, whose *"belated recalls, belated communications and disclosure"* compounded the problem caused by jammed accelerators. According to a Consumer Reports Survey, Toyota's pre-eminent reputation for quality plunged from 30% to 19%, costing it sales and market share.

In their analysis of Mattel the authors found the company had benefited from its decision to alert consumers promptly and clearly and engage openly and candidly with the press. It was also fortunate to enjoy a strong reputation for ethics in the first place. *"This buys time and helps the organisation to have greater control over the process. By contrast, firms with antagonistic relations with regulators and the media seem to face greater and more sceptical scrutiny."* Also, communications to staff, reasserting the company's commitment to integrity, maintained internal optimism, morale, pride and engagement, which in turn help deal with the crisis.

Mattel did, however, have to deal with a negative reaction in China where critics, including the government, felt the local manufacturing sector was being unfairly blamed.

Case study 2

TalkTalk: putting customers first in a crisis

TalkTalk is Britain's challenger telecoms company, selling broadband, landline, TV and mobile services to consumers and businesses. Based in London, it has a focus on innovation and value for money. It has a market share of some 20% and posted total sales of £1.8bn in the year to March 2015. TalkTalk employs over 2,000 people.

On October 21 2015, TalkTalk began investigating a suspected cyber attack against the business. The attack was accompanied by a ransom demand. Whilst initial investigations indicated that customer data may have been accessed, the company could not immediately confirm the scale of the breach. Out of the blue, it found itself facing a crisis.

The first and most important decision it took was to be honest with customers, warning them as quickly as possible in order to protect them, even if that risked alerting customers that subsequently proved to be unaffected. This decision was by no means automatic. According to a survey by the Institute of Directors conducted in December 2015, only 28% of data breaches are reported. Many companies, it seems, prefer to keep quiet and pay up. There was no legal requirement to make a public statement. Moreover the strong advice of the police was not to make an immediate statement as this might complicate the criminal investigation.



Case study 2 *continued*

In the end, according to Baroness Dido Harding, TalkTalk CEO, the clinching factor was the overwhelming desire to look after customers. She argues that by warning them, TalkTalk could take steps to protect them. For instance the firm alerted banks to monitor customer accounts; providing free credit monitoring; advised customers on changing passwords; and warned customers how to identify scam calls.

Nonetheless it was a risky course, even though the police eventually accepted the rationale for the decision and praised the company for its response. At that early stage the company could not confirm to customers whether they were affected. With investigations still on-going, the company could not give journalists the definitive answers they wanted. The media started to question TalkTalk's cyber defences, accusing it of failing to encrypt data.

Harding rebuts the criticism. Encryption, for example, is not necessarily appropriate for credit card details, since there is a risk that hackers can steal the key used for decoding them. TalkTalk uses a different technique called obfuscation which means that it does not store complete credit card numbers anywhere on its website. It's a more secure system, but Harding acknowledges that the company could have explained this better.

Getting the message out was quite a battle. Reporting in large tracts of the tabloid press tended to inflame the situation. Broadcast and digital media were better because they enabled her to talk directly to the public. The message was simple and repeated. Beside emphasising how seriously the company was taking the situation and the efforts it was making to repair the damage, there was relentless focus on protecting customers and sharing what the company knew.

By October 27, less than a week after the attack, the company was able to confirm that the stolen data was insufficient on its own for the perpetrators to take money from customers' bank accounts. Police began making a series of arrests and customers began to relax. Only 4% of TalkTalk customers were affected by the attack, but the company sought to rebuild customer trust and engagement by offering every customer a free unconditional upgrade.

Even though customers had been shaken by the incident, when polled, they thought the company had done a good job in handling the situation. Customer polling showed trust in the brand actually rose. By January, Harding says the business was trading normally, although the company has estimated that the financial impact on the business to be around £60m.

Another imperative was communication with staff and the maintenance of morale. At the height of the crisis Harding wrote a blog twice a day to staff, instead of the normal once a week. If anything, the aftermath of the crisis was more difficult internally than the actual event when people were pulling together. Employees took a different length of time to adjust back to normality. Whilst many staff had worked around the clock during the crisis, other parts of the company, including the Business division, were completely unaffected. The former still needed to come down from their adrenalin highs. Helping bring that about was an important leadership task.



Case study 2 *continued*

Beyond that Harding says the crisis exposed a need for cultural change. The average age of TalkTalk's staff is 33. They are operating in a fast moving market defined by constant change and innovation. Harding acknowledges that the business needs to evolve and mature as it grows, with fewer silos and more integrated teams.

As to the board, it is starting to ask questions about risk in a different way. The temptation for many boards is to ask technical teams 'are we safe?' In reality, no company can be 100% safe. Instead, TalkTalk directors are asking 'what risks are we taking and how can they be minimised?' That allows directors to make informed judgements about the level of risk the company embraces.

Harding herself has no regrets about the decision to be open. She argues that putting customers first was the right thing to do in the short-term and the best way to protect the business long-term. The alternative of giving in to blackmail is not one to be contemplated, she says. The digital world simply must not become an ungoverned space. What happened to TalkTalk is not unique, but their decision to be open was. The experience has confirmed her view that disclosure of such attacks should become mandatory. Harding argues that in the moment of crisis, being forced to be transparent with customers is the best guarantee that companies put them first.



Engagement with investors

Shareholders are among the most important interlocutors of companies because of their control rights. However, both sides report a degree of frustration in establishing a dialogue about culture.

Companies, in particular, say that it is difficult to get shareholders interested in the issue of corporate culture. While they regard it as an important contribution to the management of risk and securing the long-term franchise, they say that most shareholders appear only interested in the short-term outlook and are unwilling to spend time with companies discussing how the embedding of a strong corporate culture contributes to the company's long-term success.

For their part, asset managers say their clients rarely put them under strong pressure to put resources into engaging on corporate culture. Such engagement is difficult when they are managing a large portfolio because it requires a sizeable resource. Their main focus is on performance. Active investors do however routinely assess the quality of investee company management based on their personal contacts with them. This includes an assessment of corporate culture, even though it is not systematic or even necessarily conscious.

Some investors pointed out that companies with what would normally be perceived as a bad culture could perform well, at least in the short term, and vice-versa. Their interest in culture was aroused primarily when it was affecting performance, particularly if there was a well-publicised regulatory breach which had affected the share price. Sectors with a history of culture problems, such as banks, would naturally come under closer scrutiny.

Even then, shareholders were not convinced that they had the power or the ability to change a bad culture. Boards were better placed to do that than shareholders as outsiders. Investors generally said a weak culture made them more aware of risk and more likely to sell.

That said, many investors said the succession of corporate problems culminating last year in the emissions scandal at Volkswagen, had made them more aware of the risks to value of a poor corporate culture. The representative of one large asset manager said they had started to ask how frequently companies reviewed their internal Codes of Ethical Behaviour. Some large passive funds have also become more concerned to engage on culture because, being unable to sell their holdings, they see this as an important way of preserving value on behalf of clients.

Together with the recent creation of the Investor Forum, which undertakes collective engagement with companies and seeks to act proactively, this suggests a desire for an improved level of dialogue between companies and their investors. This section therefore turns in greater detail to the obstacles that came up during the discussions:

- 1** Some investors said there is still a need for the incentive to come from the asset owner community. Part of the problem was a continuing lack of interest among consultants, part a lack of trustee expertise. In particular, one representative of asset owners said the independent boards recently formed by insurance companies to oversee defined contribution funds were too heavily focused on pensions skills and too little on governance. More generally, the introduction of auto-enrolment meant that pension fund investment in equities would grow again. It was important that trustees and others who oversaw such funds were aware of governance.

2 Some asset managers felt the corporate dialogue agenda was too dominated by the sell-side, which was conflicted because it depended on dealing commissions. In his book, *Other People's Money* ³ John Kay describes how brokers' research analysts ceased offering dispassionate advice once they became part of large investment banks. They become conflicted because, as part of large investment banks, much of their work is aimed at promoting products originating in other parts of their organisation. One corporate director said he had examined leading brokers' reports on eight large companies and found that they contained virtually no reference to culture. The focus was more on the financials.

Also, one senior asset manager felt that sell-side analysts were unwilling to make qualitative judgements about corporate culture because they were afraid of offending companies from which they might be seeking business and even possibly concerned about the risk of being sued. It was suggested that there could be some form of safe harbour for sell-side analysts making such judgements in good faith.

Others, however, said sell-side analysts were starting to factor longer-term issues, including corporate culture, into their work, a trend they felt should be encouraged.

3 Some investors said they were uncertain how to define and measure culture, though there was a general view that it was related to the way the company and its employees behaved. More understanding of the metrics relating to culture would be a useful starting point for improved dialogue. In 2015, the Pensions and Lifetime Savings Association, ⁴ reported the need for more data on employee issues such as staff turnover. This year the International Corporate Governance Network and others have published a report ⁵ on indicators of culture which includes a list of measurable indicators.

4 Understanding how culture is embedded requires specific skills and knowledge which investors have not normally seen as part of their training. It is difficult for them to evaluate a programme to recover the culture of a company that has been through a crisis. Engagement on culture is not necessarily the same as engagement on the external indicators of corporate responsibility, and involves an effort to understand what is driving behaviour in the company and the extent to which the leadership is both shaping appropriate behaviour and assuring itself that the culture it desires is the one it actually has. This almost certainly means broadening the discussion agenda, though many investors say they can obtain a good indication of culture by talking to chief executives. One investor said he always asked chief executives about their approach to their staff. The answers were consistently revealing.

5 Some investors felt the dialogue with companies was still too fragmented. While many large asset managers now routinely expect corporate governance specialists to join portfolio managers in corporate meetings, there was still a tendency for the former to gravitate towards the non-executives and the latter to the leading executives with whom the discussion would focus on the short-term results of the company. Given the important

³ See, page 199, *Other People's Money: masters of the universe or servants of the people?* John Kay, Profile Books, 2015. "As these brokers were absorbed into investment banks, the conflict between agency and sales was here also. The 'research' analysts produced became an advertisement for the products of other divisions of the bank."

⁴ Pensions and Lifetime Savings Association: *Where is the workforce in corporate reporting?* June 2015. See www.plsa.co.uk.

⁵ ICGN, ICSA: The Governance Institute and IBE: *Report of a senior practitioners' workshop on identifying indicators of corporate culture*, March 2016.

role of the chief executive in setting culture, this could mean that the opportunity for a discussion about culture was being missed, especially since the discussion with non-executives was often heavily focused on remuneration, largely because the law requires a general meeting vote. In this context, some investors also noted the leading role played by proxy advisors whose focus was on voting issues rather than on corporate culture.

Since the launch of the Stewardship Code in 2010, the quality of the dialogue between shareholders and investors is generally thought to have improved, although the numbers of shareholders engaging actively has not increased much. The Code calls on shareholders to discuss a range of issues with companies: “*strategy, performance, governance, remuneration and approach to risks, including those that may arise from social and environmental matters.*” In its latest report the Financial Reporting Council ⁶ noted that some institutional investors who had signed up to the Code were not apparently delivering conscientiously on their commitment and said it would follow through on this. This may help improve the dialogue, but it could help further if a conscientious effort was made to help address the inhibitors listed above.

In the meantime the Investment Association has launched an important initiative, aimed at using long-term investment to promote productivity. ⁷ This calls for a series of actions including pressure on companies to cease quarterly reporting, manage capital in ways that allow for investment, and work with investment consultants and others to promote a long term approach.

Reporting framework

Solid engagement also depends on a solid information base. Black Sun, an organisation that helps promote corporate engagement with stakeholders and specialises in corporate reporting, has produced a summary of what might be expected. ⁸ It examines the record of FTSE100 companies in delivering what it calls indicators of commitment, implementation, measurement and evaluation. Although only 14% of FTSE100 companies discuss their corporate culture in their annual reports, 58% make a commitment to generating value for their shareholders and 47% explain value creation in their business model.

Indicators of commitment include disclosure of clear definition of values and purpose, disclosure of reference to ethics, integrity and morals and clear public commitment from the top leadership. Indicators of implementation include disclosure of processes to ensure values are embedded, including HR policies and performance appraisals, and succession and diversity planning. Indicators of measurement include disclosure of the number of calls to the whistleblowing or speak up lines and the number of stakeholder engagements. Indicators of evaluation include disclosure of processes to assess stakeholders and their impact on the business.

Separately Black Sun and Hermes Investment Management, alongside the International Integrated Reporting Council, reported on a discussion with companies, investors and analysts. ⁹ This found that the annual report is seen as the most valuable source of information by shareholders and stakeholders, and has to be written with a variety of different audiences in mind.

⁶ *Developments in Corporate Governance and Stewardship 2014*, FRC, January 2015.

⁷ *Supporting UK Productivity with Long term Investment*, The Investment Association, March 2016.

⁸ *Corporate Culture: a thought piece on reporting*, Black Sun (www.blacksunplc.com) March 2016.

⁹ *Moving forward: the road to better integrated reporting*, www.hermes-investment.com February 2016.

The report continued that the language of ESG (Environment, Social and Governance) reporting has become too full of jargon and acronyms with the result that some key corporate risks have become marginalised. Senior business leaders need to promote more relevant performance metrics, but it also said that some members of the financial community have become lazy, by just demanding more and more [ESG] metrics without trying to understand the individual circumstances of each company.

A critical starting point is the description of the business model. Black Sun identifies a clear link between values, purpose and strategy as well as a clear statement on risk appetite as important indicators of implementation and intention respectively.

Engagement with non-financial stakeholders

The relationship between boards and shareholders is special because it is shareholders who elect the board and to whom directors are formally accountable. That means boards are usually directly involved in relations with shareholders. Relations with other stakeholders are usually handled by the executive. Indeed a survey by the IBE of board committees dealing with corporate responsibility, sustainability, ethics and values found that, while the committees were expected to oversee the development of relations with stakeholders, a requirement for them to engage directly was extremely rare. ¹⁰

This is not to say that boards are – or should be – uninterested. Companies derive their franchise from society and indifference towards stakeholders or a tendency to ignore them or treat them with contempt can put the franchise in jeopardy. While engagement with external stakeholders is an executive role, it is thus an important priority for very senior executives, and would normally be a significant part of the CEO's duties. For their part, boards have an important role in promoting open relationships with stakeholders, as well as in ensuring that engagement happens, that information from the engagement flows to the right places and that it prompts appropriate action. This is basically an oversight role, however. Were boards to become too involved on a regular basis, they could easily end up micromanaging and undermining the executive.

Interview

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Frances O'Grady, General Secretary of the TUC

Few people have a greater insight into corporate culture than Frances O'Grady, General Secretary of the Trades Union Congress. The TUC, whose previously falling membership has stabilised over the past five years and is now growing slowly, represents 6 million workers in both the public and private sectors. *“Thousands of companies recognise the unions, so we do have a good understanding of corporate culture from the inside,”* she says.

A key ingredient of a good culture that comes across repeatedly in conversation with her is the need for employers to listen to their staff and recognise that their commitment is often longer term than those running the company. Employees therefore normally want their organisation to succeed, and often have good ideas about how to make this happen. It makes sense to empower them. Unsurprisingly, she believes unions provide a good framework for this.

There are plenty of cases where companies have good corporate governance and a sense of purpose, she says, but there are also general structural reasons why trust in companies has broken down. Many workers and the public in general remain angry about the level of top pay and the lack of accountability. This is aggravated because workers feel their own pay has failed to grow. There is clear evidence that inequality in pay leads to poor decision-making, she adds. Management is incentivised to produce short term results.

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¹⁰ *Culture by Committee: the pros and cons*, by Peter Montagnon, IBE Survey in collaboration with ICSC: The Governance Institute and Mazars, March 2016.

Interview

continued



Perhaps as important is a dwindling sense of ownership. The majority of UK shares are owned by overseas investors. Many of these come from countries which practice good industrial relations, but there is a disconnect if the corporate governance system is solely based on shareholder primacy, with shares turning over in a matter of months while workers are investing their whole lives in a business. They can easily feel completely shut out of the strategic picture and this limits the contribution they can make.

Royal Mail provides an interesting answer, she says. The deal on privatisation included a Futures Forum where unions sit around the table with the management. Critically this is not just about receiving information. It also allows them to come up with their own ideas backed by proper business plans. This combines good ideas from the workforce with wider social purpose.

For the TUC, union recognition is the starting point. It marks a measure of the company's willingness to share power, treat workers fairly and be ready to be challenged. Where unions are recognised, she sees benefits such as greater pay solidarity (less difference between top and bottom), greater employee engagement, more investment in research and development, and better performance all round.

Unions are not perfect, she acknowledges, but they are far from automatically resistant to change. Indeed, she argues, union recognition radically improves management chances of delivering positive change. Before the financial crisis, unions in banking and finance were worried that they were being incentivised to sell products wrongly, she recalls. They identified a problem even though they may not have foreseen the extent of what was going to happen. They were the canary in the mine. The problem was that nobody was listening.

Take another example, speak-up or whistle-blowing. Hotlines are good, she says, *"but there is a world of difference between asking an individual to shop somebody and having a union rep who will take up the case. It's all part of an open culture."* Many employers would sign up to a good working relationship, but that does depend on a recognition that the unions' job is to represent workers.

"We have different jobs but we can carry them out with mutual respect," she continues. Particularly at the strategic level, unions and employers have common interests in sustainable businesses, long term investment and better jobs where people get a chance to upgrade their skills. Tensions arise where the greater proportion of profits go in top pay and dividends to shareholders, not to investment and research and development.

What about the public sector which also has some cultural issues? Are things different there? Management in the public sector is more complicated, she replies. In the private sector it is usually about the bottom line. Measures of success in the public sector are more complicated. The over-reliance by the public sector on agency workers also makes things more difficult.



Interview

continued

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Yet the principle of empowerment is the same. For many years unions have sought a partnership in the NHS, where whole teams, not just the doctors, are involved in decision-making. *“The very first people who come up with ideas are the workers themselves because they really care about what they are doing.”*

Since the 1980s business schools were too focused on shareholder primacy and ignored the bigger picture, she argues. Now it comes down to leadership and the business community is at a crossroads. A big issue, however, is middle management which often holds things back, because people are too stressed, not given time for training and because staffing levels are cut.

Meanwhile, membership of the TUC is up and collective bargaining is growing. Social media is making a big change because of the transparency and opportunities to connect. Unions can work with their Indian counterparts on outsourcing. They can see UK pay rates and conditions.

The TUC had to build alliances, forming a coalition with others, including community groups to get the living wage. That has captured the imagination, she says. Employees can signal their commitment to a new culture. But there must be practical outcomes. Just talking about culture is *“like nailing jelly to the wall.”* The unions are looking for employers to negotiate fairly, to expect dialogue, and to listen to ideas.

The heart of this is about wealth and power. When people feel that these issues are being handled fairly, they will accept it. *“If you genuinely want a culture change, you’ve got to be prepared to share more power with the workforce. The unions are the democratic expression of that,”* she says.

A 2013 global survey of executives by McKinsey & Company showed that a majority believed that issues relating to external affairs would affect their company’s income.¹¹ Those that reported greater capability in external relations were more likely to take key actions on a regular basis and are in turn more likely to see successful results. *“The results and our experience suggest that not engaging isn’t an option; neither is neglecting the organisational capacities and resources that support meaningful action,”* McKinsey said.

Respondents to the survey agreed that customers, followed by governments and regulators, would have the greatest impact on company value, and asserted that there was a growing threat to operating income as government and regulatory involvement in their businesses increased. The bad news was that just 21% of respondents said they had frequently succeeded in influencing government policy through their external relations activities. The good news was that nearly half (45%) felt they had succeeded in boosting their organisation’s reputation among civil society groups.

¹¹ *External Affairs at a crossroads*, McKinsey & Company, 2013

Three ingredients come together to make for a potentially successful approach.

First, the company must have a clear purpose built around a set of values that will inform the message. There is a difference between seeking outcomes in the narrow interest of the company itself and building a relationship with external stakeholders based on an understanding of the benefits the company delivers to society. Operating in the narrow corporate interest risks being counterproductive. The investment banking industry was roundly criticised for its self-serving lobbying of the European authorities in the wake of the banking crisis. This did little for their reputation and failed to stop negative legislation including that on bankers' bonuses and the Alternative Investment Fund Managers Directive aimed at hedge funds and private equity.

Second, the approach needs to be strategic, and based on a clear understanding of which relationships with which groups matter and why. A scattergun approach lacks efficiency and it is hard to measure results. McKinsey identifies four areas of activity: educating policy-makers and regulators on industry issues; engaging these stakeholders on committees or industry associations; modelling the impact of potential policy actions; and hiring lobbyists to shape policy or regulatory actions. According to its survey, nearly one third of executives say their companies often engage in the first three, while only 9% report hiring lobbyists.

Third, companies need to decide on the nature of the approach. McKinsey talks of a spectrum ranging from defensive, which is broadly aimed at improving existing regulation, to offensive which involves proactively proposing and shaping new regulation. Approaches between the two include the proactive one which it describes as consistent and collaborative engagement that yields both wins and losses for the company's business. This is reminiscent of the collaborative approach favoured by Lord Browne and described above.

Social media

It is generally agreed that social media have become an important factor in the way that companies relate to society. As long ago as 2008, a study by two US academics, Donald Wright and Michelle Hinson of the Universities of Boston and Florida respectively, found that the emergence of blogs and social media have changed the way organisations communicate, especially to external audiences.¹² Their findings suggested that social media both complements and influences traditional media.

Among the points made by the paper were:

- Press releases, which were previously seen by only a handful of reporters and editors, are nowadays seen by a wide variety of people, greatly increasing the direct contacts with stakeholders.
- Social media has created a facility for two-way communications between a company and its stakeholders, but it is difficult or even impossible to control content which makes this both a risk and an opportunity.
- Employee blogs can similarly be helpful or unhelpful. Some companies encourage employee blogs. Others do not. In any case other commentators suggest it is important for companies to have a policy on how their employees should use social media, though again it is more difficult to enforce restrictions on how they use their personal accounts to pass on information about the company.

¹² How Blogs and Social Media are Changing Public Relations and the Way it is Practiced, Donald K. Wright and Michelle D. Hinson, *Public Relations Journal* Vol 2, No 2, Spring 2008.

- The traditional media still has a higher reputation for accuracy and reliability than the social media or blogosphere.
- Social media has dramatically reduced the turnaround time with which information is disseminated, requiring consequently quick reactions by companies.

Madhur Chaturvedi, Director of Insight and Customer Strategy at Oracle, advocates a considered approach.¹³ This would involve setting a clear strategy, including the identification of most useful social media outlets at the international, regional and local level. Then he suggests developing a two-way communication model which would encourage stakeholders such as customers and employees, as well as prospective customers and job seekers, to share their experiences of the company.

Companies must, however, ensure they remain in control of content posted by the company. They should also set targets and measure performance. Done properly, he argues, such an approach should be beneficial for sales, customer service and efficiency.

Ultimately what stands out from the analysis, however, is the opportunity for companies to build a positive two-way communication with stakeholders. This is counterbalanced by the risk of loss of control of content. There is always a problem that misinformation may take hold in the public. Yet this will be easier to deal with if companies monitor social media carefully, have considered strategies and rules around employee use of social media, and an approach which is founded on strong, well-articulated sets of values which will make the public likely to believe what the company says.

www.glassdoor.co.uk



Glassdoor is a website that attracts comments from individuals on employers and is increasingly consulted by jobseekers as well as investors looking for indicators of a company's reputation.

Listed below are some comments by subscribers to its website. Though the comments relate to US companies, they are indicative of the way in which stakeholders seek and exchange information with each other.

The site thus provides potentially useful signals about reputation both for executive management and for boards, for whom it could be a source of direct information not intermediated by management.

Positive comments:

- **Twitter** *"Amazing culture. I love how the 10 core values drive the company to always be better."*
- **Google** *"It is obvious that Google loves its employees. The culture is amazing too. Each employee does not mind helping the other out if they are stuck. I feel it is encouraged to reach out to others."*
- **Southwest Airlines** *"The people are friendly and helpful. The culture fosters hard work and fun."*



¹³ 'Effective Social Media Strategies, Four tips four benefits'. M Chaturvedi, *Profit magazine*, Oracle.

continued

At the other end of the spectrum, the financial news and opinion website 24/7 Wall Street, in a report dated June 29, 2015, analysed data and reviews from Glassdoor to identify the worst US companies to work for. For example:

- **Drugstore company** Employees were likely to be dissatisfied not only with their working conditions, but also with the decisions of the company's top management.
- **High tech company** *"The work-life balance is a joke"* was among the most frequent negative reviews on Glassdoor. Another common complaint from current and former employees was the high turnover rate even among management positions.
- **Retailer** makes a point of saying it treats associates with respect. However, on Glassdoor, many employees told a different story.
"Company is very secretive, don't like to share information with vendors that could be beneficial, this level is not usually included in important meetings"
"No real recognition for hard work. Communication between employees, management, and directors is very poor. You get the feeling that some supervisors don't know what they are doing."
- **Office equipment company** Many employees complained about a culture of favouritism in the company, saying that personal relationships are more important than work ethic when it comes to promotions and raises.

Engagement with customers

Delivery of value to the customer is a vital requirement for corporate success and an essential indicator of trust. A positive culture is one that seeks to put the customer first, backed up by incentives, communicates this clearly to staff and provides training which promotes the delivery of value.

Organisations that fail to respect their customers will ultimately fail because their customers will desert them. At one level this requires senior leadership to be familiar with customers and their expectations and to make customer service a clear priority for their workforce. At another, it is important that the company allows its customers ready access when they have a problem that needs resolving. Companies also need to be careful in the way they handle confidential data, as unauthorised release can severely damage customer confidence.

In many businesses, frontline employees are the ones who engage most with customers, even though they may not always be particularly senior. Communicating with employees and ensuring good morale is therefore a key part of the requirement to look after customers.

The Institute of Customer Service is an independent UK body for customer service with over 500 organisational members and 5,000 individual members. It regularly publishes a UK Customer Satisfaction Index which enables companies to benchmark themselves against the average.

Among the indicators that affect the index, the Institute singles out complaint handling as being critical. Failure to deliver product quality, to support customers in finding the desired product and billing are also important. The latter qualities may not add to customer satisfaction, but if not done consistently and correctly will certainly detract from it. The Institute says there is no single measure of customer satisfaction and companies should rely on a basket of metrics tailored to their business, rather than a single headline measure such as Net Promoter Score.

In its latest index publication,¹⁴ the Institute notes a correlation between customer satisfaction and financial results. Taking the food retailing sector as an example, it says that firms with an index score one percentage point above the average or more saw their sales rise 17% in the year to October 2015. Those within a point of the average saw their sales rise 3.8%, and those more than a point below the average saw their sales fall by 0.4%.

Case study 3

Facebook: barriers to access

Headquartered in Menlo Park, California, Facebook is a social networking site founded in 2004 by Mark Zuckerberg together with a group of fellow Harvard students. In 2015 its revenues were \$17.9 billion and as of December 2015 it had 1.04 billion active daily users. Its mission is *“to give people the power to share and make the world more connected”*. However, it can be hard for customers and those affected by its business to connect with the company itself.

On December 4, 2015, the BBC Radio 4 programme, *You and Yours*, broadcast an item about the experiences of a 12-year old girl who had been the victim of bullying through a Facebook account. This case study is based on a transcript of the broadcast.

The girl's stepfather told the programme that, at the beginning of the previous October, another child at her school had opened a Facebook account in her name and used it to send messages purporting to come from her which were *“quite sexual in nature”* and the cause of considerable distress.

The stepfather described how he, the girl's father and his wife's cousin had sought to contact Facebook but heard nothing back. Asked if there was any opportunity to talk to anyone at the company he replied: *“No and that was the biggest frustration of all: we could sense that this was not going to stop any time soon.”* By mid-November the family had sought the help of the school, the police and the local council, but no one had been able to persuade Facebook to address the issue.

The BBC also could not find phone numbers for Facebook, so the presenter said the programme had emailed the company to invite it on to the programme. Facebook declined. At the time of the broadcast, the company had confirmed that it had taken the fake account down. The company had said it takes reports of harassing and bullying very seriously but had not said why it had taken so long to respond to this case. According to the programme, the account was only taken down after the broadcaster's e-mail and this happened very quickly once a media organisation was involved.



¹⁴ UK Customer Satisfaction Index, January 2016, The Institute of Customer Service.

Case study 3 *continued*

Julia Fossi from the NSPCC child protection charity told the programme that online bullying had become a big issue. *“What is essential is that it should be easy for children and parents to report abuse and that social networking sites respond in a timely manner and take action to keep children safe,”* she said. The programme presenter cited a Department for Education Report that states one in ten young children say they have experienced online bullying.

A key feature of this episode is that the girl in question was not actually a Facebook user. Though the account used her picture it was opened by someone else. Facebook could have saved itself reputational damage by ensuring that well-flagged channels are available for customers and others to access it when they need help.

In separate research, based on an online survey of over 650 customer service executives and interviews with 30 senior executives, the Institute argued that strategic commitment to customer service and the development of long-term relations with business partners sharing the same values and ethos are important ingredients of successful customer focus ¹⁵. While over half those surveyed felt their company’s leadership had a clear strategy, a sizeable minority did not. Only 41% of those questioned felt that customer service was valued by the rest of the organisation and 46% felt the strategy towards customers changed too frequently.

Employee engagement was seen as crucial to motivation that delivers value to customers: *“Leaders need to be able to connect with employees at both a rational and an emotional level,”* the Institute said. The importance of emotional intelligence has grown because of the diverse make-up of the employee base, the increasing pace of change and the need for everyone in the organisation to respond to rising customer expectations. The business rationale for employee engagement is clear: engaged employees care more about the customer experience and demonstrate more creativity and innovation in solving problems.

It follows that boards need to consider the impact of customer service indicators on reputation, risk management and long-term business performance, the Institute said.

Case study 4**L’Oréal:** Group wide employee engagement at CEO ethics day

Headquartered in Paris, L’Oréal is the world’s largest cosmetics and beauty products company with sales in 2015 of €25.3bn. It has some 80,000 employees worldwide and aims to be an exemplary company in business ethics. Each October the company holds an ethics day at which the entire workforce is invited to put questions on ethics directly to the Chairman and Chief Executive, Jean-Paul Agon. It also has a network of 67 Ethics Correspondents throughout the business.



¹⁵ *Leading by example: How values-based leaders will shape the future of customer service.*
The Institute of Customer Service, 2015.

Case study 4 *continued***Background and context**

L'Oréal's approach to ethics is about having a large international staff adhere to a common set of ethical principles, engaging them, and helping them to make good decisions in situations where there are no clear-cut solutions. This goes beyond simple compliance with rules and, to emphasise this, its ethics and compliance departments are separate, with the Chief Ethics Officer reporting directly to the Chief Executive.

The company has four ethical principles: integrity, which enjoins people not to lie or cheat; respect which reminds them to treat others as they would wish to be treated themselves; courage, which recognizes that ethics is not always easy and so encourages them to speak up if they have concerns, recognising that for many people this is very difficult; and transparency which promotes an open environment in which there is less need for formal procedures and controls.

As part of its open approach, there is no blame culture for people who admit to getting things wrong. The company calls this *le droit de l'erreur* the right to make mistakes. Its preferred response on these occasions, subject of course to the severity of the mistake, is to spend time on understanding why the error arose, putting in place corrective actions and encouraging those involved to talk about their experiences for the benefit of colleagues. Telling the story is an important part of embedding the culture.

L'Oréal also considers that getting the right culture is not just about having the right values, it's also about ensuring ethics is visible in the company's 'rituals ⁱ, symbols ⁱⁱ and heroes ⁱⁱⁱ'.

Ethics day

The ethics day fits well with this philosophy. Starting in 2009, Mr Agon, L'Oréal's CEO, has made himself available on a particular day each October to answer questions on any ethical matter of concern from any staff worldwide through a live web chat. This is followed on the same day by a similar session conducted by each of the country managers.

Together this resulted last year in over 4,100 questions being submitted group-wide, of which 1,300 were directed specifically to the Chief Executive. The company estimates that the web chat was followed by around 56% of its staff, which is a substantial increase on the numbers following the event when it first started.

Mr Agon cannot answer all the questions but the ethics team works with him to pick out the most difficult ones to ensure the exercise is not simple spin. Difficult subjects might include direct questions around hardships arising out of restructuring, evidence of 'bad' behaviour on the part of the Chief executive himself, concerns about the standards applied by the company to advertising, or worries about working in countries with a high level of corruption. In the last case the company would use the answer to remind staff about the company's zero tolerance policy, as well as of the speak-up line.

The only constraint is that with the exception of the chief executive who is able to answer in person, no questions that are directed against named individuals are accepted.



- ⁱ The important events which form part of the Company's calendar
- ⁱⁱ What employees see around them in their workplace everyday
- ⁱⁱⁱ People that employees look up to and wish to emulate

Case study 4 *continued*

Staff may ask their questions anonymously or under their own name. The questions are sorted to reflect recurrent themes and ensure that all parts of the group are represented.

The questions sent in enable the company to identify possible areas of improvement. It has identified three specific benefits: the ethics day allows company leaders to show their commitment to ethics, keeps the company in better touch with its employees, and it promotes active discussion about the company's ethical principles.

Ethics Correspondents

L'Oréal describes its 67 Ethics Correspondents as 'heroes' because they are chosen because of their capacity to be good role models. Their job is to act as a local 'activist' for ethics, bringing ethical leadership to all parts of the business and helping the group principles come alive at the operational level. In particular, their role is to help the country managers who have formal responsibility for ethics actually to deliver.

As they are normally a national of the country in question, one role is to help by identifying areas where local customs may need to be aligned with the group ethics approach.

Tasks include working with the management team to ensure that ethics is integrated in each function's daily life, for example working with Communication to ensure that the company's code of ethics is properly communicated, working with HR to ensure that the relevant training is in place, with Marketing to ensure sign-off procedures cover all ethical issues etc. They also serve as a local ethics expert, providing advice to employees on various subjects such as conflicts of interest and how to handle concerns (this may be to remind them of the existence of formal speak-up arrangements or simply to say that they should take the problem initially to HR or to their line manager).

To help them with these tasks, they have access to management tools, such as an ethics self assessment tool or ready-to-use communication material.

They have no official authority but use what the company calls *pester power* to ensure that the programme is delivered. Generally they are part of the senior country management. A level of seniority is required to ensure that they enjoy the trust of both the management and the employees.

Each Ethics Correspondent usually serves for a term of three years which can be renewed. The country manager submits at least two names to the Chief Ethics Officer who interviews both candidates and has the last say on selection. L'Oréal estimates that the role takes up around 10% to 15% of their time. About a third of the Ethics Correspondents manage one of the company's four business lines (consumer products, professional products (hairdressers), luxury and active cosmetic products (pharmacies), about 20% each come from the HR or finance functions and the remainder from other disciplines, including scientists, communications and purchasing. This means that all functions of the group are represented.

L'Oréal believes the Ethics Correspondents are a good way of spreading understanding of ethics throughout the organisation. They provide leadership at local level from within the company's operation and help create an environment where staff feel able to speak up and it comes naturally to managers to listen.



Case study 4 *continued***The L'Oréal Spirit posters**

Because it attaches a high importance to the value of symbols, L'Oréal ensures that posters of the L'Oréal Spirit, a one-page document setting out L'Oréal's commitments as a business, as an employer and as a good corporate citizen (a type of credo) are displayed in the entrance of all their premises and in meeting rooms. This allows employees to be reminded daily that ethics is important.

Supply chain management

Larger companies have extensive supply chains which may in aggregate employ more people than the group employs directly. Often a principal supplier will itself have a supply chain. One of the big engagement challenges for companies is to ensure that the culture and behaviour of companies in its supply chain meets the expectations that they apply within their own group.

This can be difficult because suppliers may resent interference in their own working methods and they may be supplying many different companies in the same sector, each with a set of requirements. However, a considered policy towards the supply chain is becoming all the more important given the requirements of the UK Modern Slavery Act 2015 which explicitly enjoins companies to ensure acceptable behaviour in their supply chains.

Prompt payment

A starting point for engagement with suppliers is to treat them as the company would itself wish to be treated and to recognise the mutual benefit of the relationship. A record for prompt payment is not only fair, it is likely to create leverage over business practices within suppliers. It is easy, however, for boards to overlook this when they become concerned with the need to preserve working capital. When setting targets for working capital, boards therefore need to ensure that these are achievable without managers down the line exerting unfair pressure on suppliers. Trust between a company and its supplier will ebb away rapidly if the company changes payment terms unilaterally once the contract has been entered into or fails to meet terms that have been agreed.

There is some evidence that prompt payment remains difficult. An EU Directive setting 60 days as the maximum payment term between businesses took effect in 2013. This can be over-riden if supplier and customer agree otherwise and the new terms are not grossly unfair to the creditor. This has proved controversial, however, and the UK government and courts have struggled to define the meaning of grossly unfair, particularly between large corporate customers and their smaller company suppliers. The balance of 'power' to negotiate may not be equal in these circumstances, usually to the detriment of the smaller supplier.

According to the Department of Business, BACS data from January 2015 show that small and medium businesses are owed a total of £32.4bn in later payments.¹⁶ On average small business were waiting for £31,900 in overdue payments with a damaging knock-on effect on their ability to manage their cash flow and plan for growth. According to the report, 25% of small and medium enterprises said that overdue payments of £20,000 or less were enough to jeopardise their business prospects. In the light of this evidence, there is merit in companies publishing their payments record. Boards should certainly track the data.

¹⁶ Department of Business, Innovation & Skills, responses to consultation on "Challenging grossly unfair terms and practices" June 2015.

Case study 5**Marks and Spencer: Supply chain in context of comprehensive sustainability plan**

Headquartered in London, Marks and Spencer is a leading retailer of clothing, home products and food. With revenue of £10.3bn in the year to March 2015, it employs 83,000 people. It aims to create value through a comprehensive approach to sustainability based on respect for the environment and long-term relationships of trust with all stakeholders. This is embodied in Plan A, a detailed programme of sustainability targets in every relevant area.

Plan A

Marks and Spencer's business model aims to create long-term value through the effective use of its resources and relationships. It manages these in line with its core values of inspiration, innovation, integrity and InTouch. Plan A is the embodiment of these values. It consists of a wide range of targets and commitments which are measured and updated regularly. Progress is overseen by an Executive Committee which includes several main board directors and by an Advisory Board which includes external stakeholders.

The supply chain forms a critical part of this programme. This partly reflects the fact that 98% of what Marks and Spencer sells are its own products. A breach of trust in one product area could therefore have consequences for the brand as a whole. Also, the supply chain is a much bigger universe than the company itself. The company deals with about 700 factories in each of its food and general merchandise divisions and with about 20,000 individual farms. The company believes that a long-term relationship of trust with its suppliers helps ensure that they understand and reflect the values that the company has set for itself.

Supply chain standards

Its approach to the supply chain is based around Global Sourcing Principles which set standards in areas such as human rights, gender equality and fairness to all suppliers, including small ones. Its standards are demanding, but it seeks to help its suppliers to meet them for example through the training of its sponsors.

Measurable targets in food production relate, among other things, to sustainability, wildlife conservation, responsible fish farming and addressing deforestation. Targets in general merchandise include energy efficiency, chemical and effluent management, living wage, use of sustainable cotton and training. The company works with its suppliers and partners to provide a training and education programme covering employees' roles, responsibilities and rights, health care and, where possible, numeracy and literacy. Around 650,000 workers in its general merchandise supply chain have received training since 2010.

A feature of Plan A is that new targets are introduced as existing targets are met. Among new commitments, it aims to work with industrial bodies, opinion formers and suppliers to deliver innovation and working practices that will reduce hazardous waste discharges from clothing manufacture to zero by 2020. The company has also introduced a new target of removing plastic micro-beads from all own brand personal care products from this year onwards.



Case study 5 *continued*

In food production, it has created an incentive for suppliers through a Gold/Silver/Bronze benchmarking standard for human resources, environmental and resource efficiency management. Orders will flow to suppliers that meet the highest standards. The company has now met its original target of buying 30% of product by volume from suppliers meeting the Silver standard. The figure was 32% in 2015, up from 19% the previous year. It is now looking to buy 100% of product by 2020 from factories that have met at least the Silver level. This target itself has been increased from 75% previously.

In some areas, the company realises it must work with others. Deforestation is an example where it works with other global retailers and food producers through the Consumer Goods Forum to promote sustainably produced palm oil, low carbon refrigeration and eliminate food waste. This should help the company meet its own target of zero deforestation from the use of palm oil, soy, cattle and paper materials in the company's products by 2020.

A critical part of the process is audit and assurance where it must both satisfy itself that the required standards are being met and avoid alienating its suppliers by being too strict. A policy of unannounced audit in which the assurance team can arrive at any time can be disruptive, especially when the bulk of suppliers are meeting the expected standards. On the other hand, previously announced audits allow the supplier to hide bad practice. The company has opted for a middle road of «window» audits, so that the suppliers know that the assurance team will arrive at some point within the space of, say, a month. The period is short enough to limit the disruption but long enough to prevent bad practice being temporarily hidden.

Cost/benefit

Marks and Spencer says that Plan A as a whole has delivered measurable savings of £160m in the 2014/15 business year and a total of £625m since 2007. The figure relates to savings generated through reduction of waste and environmental efficiency. Some of these savings accrue to the supply chain where, for example, it has required its top clothing suppliers to install energy efficient lighting, and improved insulation and temperature controls. The aim was to reduce energy consumption by 10% by 2015.

However, the company does not seek to measure the financial impact of Plan A in terms of margin, corporate earnings and brand value. It considers this is a number that cannot be calculated, but it believes that the impact of Plan A in terms of the trust it generates with customers, as well as on the morale of its workforce and that of its suppliers, will make the company more resilient and more adaptable, enhancing its sustainability in a rapidly changing world.

Procurement policies

Companies which seek to live by a strong set of values aimed at securing their franchise for the longer term will stumble if their suppliers adopt policies contrary to these values. Procurement policy therefore has to be consistent with the firm's own values. Companies need to be clear that preference will be given to suppliers that meet the expected standards. In some cases this may involve helping suppliers to develop and train their own workforce in the expected standards of behaviour.

This needs to be clearly articulated and procurement staff should be trained to understand the implications for procurement of the company's own code of ethics¹⁷. Openness and a good information flow between the company and its suppliers will make expectations clear. An open tendering process is important. Companies should regularly monitor and enforce standards regarding gifts and entertainment. This has become all the more important since the introduction of the UK Bribery Act 2010, which has raised major compliance issues for many international companies.

Labour standards

Companies can face severe reputational damage if they tolerate exploitative labour standards in their supply chain. It is important that they are informed about the standards adopted by their suppliers and also that they inform their suppliers of the standards they expect. The starting point for many companies is a human rights policy for their suppliers which should be public.¹⁸ Examples quoted by the IBE in a recent briefing¹⁹ include wording from Vodafone as follows:

"Forced, bonded or compulsory labour is not used and employees are free to leave their employment after reasonable notice. Employees are not required to lodge deposits of money or identity papers with their employer."

Such requirements focus directly on the expectations of the Modern Slavery Act. However, there are more general considerations regarding labour conditions in the supply chain. Safety of employees, an acceptable working environment, strict enforcement of rules against child labour, appropriate diversity policies and reasonable working hours are all important.

Companies which are exposed as using suppliers which flout these expectations may suffer a loss of reputation which will affect their franchise. It helps to have a long-term relationship of trust and familiarity with key suppliers, and to audit conditions regularly, though this has to be approached sensitively.

Case study 6

Unilever: collaboration with Oxfam on labour standards

Unilever is an Anglo-Dutch global consumer goods company with joint headquarters in London and Rotterdam and sales of €53.3bn in 2015. The company's stated purpose is to *"make sustainable living commonplace"*. It employs more than 172,000 people and operates in 190 countries. In 2013 it collaborated with Oxfam on a path-breaking assessment of employment conditions in Vietnam where the company directly employs around 1,500 people. The study covered not only its own factory at Cu Chi, but also at three suppliers where Unilever accounted for more than 20% of turnover and could therefore be expected to influence standards.

The Oxfam Study²⁰ is a rare example of a collaborative effort between a major multinational company and an NGO. Unilever accepted a request from Oxfam to



¹⁷ IBE Briefing, *Procurement and Business Ethics*, August 2010.

¹⁸ A June 2014 study by the American Bar Association and Arizona State University's McCain Institute and School of Politics and Global Studies found that more than half Fortune 100 companies have publicly available policies addressing human trafficking.

¹⁹ IBE Briefing, *Modern Slavery*, September 2014.

²⁰ *Labour Rights in Unilever's Supply Chain: From compliance towards good practice*, Rachel Wilshaw with Liesbeth Unger, Do Quynh Chi and Pham Thu Thuy, Oxfam, January 2013

Case study 6 *continued*

conduct the research because it wanted to learn more about the implications of the UN Guiding Principles on Business and Human Rights, and how a global business can further improve and refine the labour standards of its employees and workers.

The context was a relationship of trust between the two sides, built up over many years of collaboration and dialogue, notably on sustainable agriculture. The long-term relationship is important in a world where NGOs and companies still find it difficult to overcome their mutual suspicion.

The study looked at four key areas: freedom of association, wages, working hours and contract labour. It revealed that Unilever's head quarters' working assumption that production workers were paid well above a living wage in its own operations was misplaced. One lesson was therefore that companies need to monitor their own operations as well as those of the supply chain. Also, contract workers at its own factory had lower wages and conditions than those directly employed. One supplier was found to have reduced its labour force to a minimum level after signing its contract with Unilever and managed fluctuations in demand by having a high ratio of temporary non-unionised workers to permanent jobs.

That said, Oxfam was complimentary about Unilever's commitment to high standards and willingness to address problems. Liesbeth Unger, one of the report's authors, praised its efforts in a world where these standards were not being implemented in practice.²¹ Oxfam felt Unilever had the potential to play a leadership role, in keeping with its stated corporate purpose. For the company, the main benefit has been in increasing awareness of issues that are hard to measure, identifying areas of potential improvement and offering some practical suggestions as to how to proceed.

Among the key recommendations were the need for Unilever to acknowledge that, in countries such as Vietnam the minimum wage is not always an adequate proxy for the needs of workers and their families, and that it should source only from suppliers with good HR management, industrial relations and grievance mechanisms. The record of its suppliers as revealed in its report was mixed with some evidence of positive practice.

The report also suggested that Unilever should introduce measurable targets for buyers to place an increasing value of orders with suppliers who are proactive in raising labour standards, and to implement, with industry peers, a training programme for business partners and key suppliers at country level.

The study also suggested a range of indicators that would help stakeholders – and the Unilever management – assess progress. These were:

- Wage levels for a standard working week relative to the minimum wage, the international poverty line and the best available estimate of a living wage
- Ratio of permanent to temporary contracts
- Percentage of workers with an employment contract
- Percentage of workers covered by a recent collective bargaining agreement
- Number of significant grievances raised by workers and resolved by management
- Awareness of workers and supervisors, based on a survey of workers' rights.



²¹ 'Oxfam and Unilever, no longer such strange bedfellows', Oxfam Policy and Practice Blog, February 7, 2013.

Case study 6 *continued*

“Unilever has the kind of corporate culture and long-term relationships with suppliers that make it ideally placed to sustain good quality jobs in its supply chain, if it is willing to make the necessary changes to its policies and processes and work collaboratively to address the root causes of labour problems,” the report concluded.

For its part Unilever states that it has been working to implement its commitments and an update on progress will be published in 2016.

Relations with regulators

Relations between a company and its regulators are not always easy because their interests are not fully aligned. Regulators tend to be exclusively focused on the elimination of risk. Companies also seek to avoid unnecessary risks, but they are also concerned with entrepreneurial success which means they are instinctively risk-takers. Friction may arise when the regulator appears to stand in the way of this. Sometimes companies will seek to influence the regulator to eliminate requirements, which they see as damaging to their commercial prospects.

Some analysts argue that the banks were all too successful in reducing the regulatory burden ahead of the 2008 financial crisis. By playing on the competition for business between London and New York, they were able to reduce the regulatory and supervisory burden in both centres to what subsequently turned out to be dangerous levels. This is known as regulatory capture. The consequence for both sides was highly negative. The public lost trust both in the banks and in those that regulated them.

Regulators themselves need to understand that their own approach will have an impact on those they regulate. A punitive, bureaucratic and adversarial approach will result in lack of trust and a determination to reduce or evade the impact of rules. A more open approach from both sides is desirable, based on a shared desire to achieve a positive outcome for consumers and stakeholders. When both sides recognise this, the effect can be positive and regulation both proportionate and effective.

TI on lobbying

Transparency International (TI) has investigated lobbying practices in Europe and found them wanting.



In a 2015 study, entitled *Lobbying in Europe: hidden influence privileged access*, it was found that only 7 out of 19 EU member states had some form of dedicated lobbying law.

Though it acknowledged that lobbying is an integral part of a healthy economy, it said *“multiple scandals throughout Europe demonstrate that without clear and enforceable rules and regulations, a select number of voices with more money and insider contacts can come to dominate political decision-making, usually for their own benefit”*.

In the UK it says there has been too little transparency accountability which has helped undermine public trust.

Companies for their part need to see their relationship with regulators as not one driven by narrow self-interest. This means seeking to understand what regulators are trying to achieve and helping them do this in a way that does not unnecessarily impede the development of their business. Lobbying can be helpful when it is about helping develop regulation that works in a practical way. It is unhelpful and likely to result in reputational damage when it is aimed narrowly at supporting an individual company's business model.

Generally relations with regulators are a matter for the executive leadership, although boards of financial companies have become much more directly involved in the wake of the banking crisis. An important role for all boards is, however, to ensure that the balance is appropriate. Companies need an open relationship with regulators which enables them to avoid costly and ineffective prescription. They may sometimes need to take the initiative to improve or change regulation, but the objective should be to improve general market outcomes for consumers rather than narrow self-advantage.

Case study 7

De Nederlandsche Bank: supervising culture directly

Based in Amsterdam, De Nederlandsche Bank is the Dutch central bank and is responsible for supervising the financial sector. An important objective of its current strategic plan is the restoration of trust in the financial sector. To recapture trust, it says banks must continue to work on an ethical culture, sound remuneration policies and sustainable business models.

The Dutch central bank concluded from the 2008 financial crisis that an organisation's behaviour and culture had a significant bearing on the level of risk in banks and financial services companies ²². As a result, from 2011, it started explicitly supervising behaviour and culture at the institutions for which it was responsible. The aim was to shed light on two main questions:

- What influence do individual actions on the one hand and group dynamics on the other have on financial performance, risk and integrity of the institution, and how does the prevailing culture facilitate desirable behaviour and restrain undesirable behaviour?
- What measures are needed to mitigate the risks related to human behaviour?

By looking at the root causes of behaviour, the bank believes that risk can be reduced and financial problems can be prevented, but it shies away from prescribing one particular culture. It believes behaviour and culture are matters for the board. Its own work focuses on verifying whether the risks attached to particular cultures and behaviours are managed properly. *"This is why we expect institutions to keep evaluating the effects of their own behaviour and culture and to aim for ongoing improvements."* ²³



²² 'The seven elements of an ethical culture', De Nederlandsche Bank, 2009, www.dnb.nl

²³ 'Behaviour and Culture in the Dutch Financial Sector', De Nederlandsche Bank, 2015, www.dnb.nl

Case study 7 *continued*

From 2011 it assigned behaviour and culture to a dedicated Expert Centre and recruited a team of professionals with relevant expertise including governance, risk, change management and organisational psychology. Up to July last year, the bank had performed 54 assessments of culture. In 34 of these cases, it found fundamental risks in the area of behaviour and culture.

Among its concerns were that management boards did not generally have sufficient expertise in behaviour and culture, and there was still too much emphasis on content-based leadership. The stated intentions of the management were not convincing. Proposed measures did not always go far enough and were not consistently implemented. Executive directors did not sufficiently abide by the values they themselves set for their organisation.

The bank said it found that management boards in financial institutions do not always give due weight to the interests of stakeholders when making decisions. Important risks are thus overlooked or they are not discussed in sufficient detail and decisions are not challenged. Instead, there is often a tendency towards “*consensus and optimism*” and the perception may emerge within boards or parts of the organisation that dissenting opinions are not appreciated.

The central bank’s approach focuses heavily on the approach of the board and senior management. Supervisors spend less time looking at how culture is built up from the grass roots and on the use of techniques designed to embed desirable values. However, it says there should be an ongoing public dialogue aimed at accelerating the pace of change in the financial sector. The public must be convinced that the changes have filtered down to the very core of institutions.

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

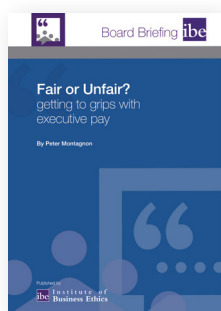
Setting the right values and culture is integral to a company's success and its ability to generate value over the longer term. The challenge for business is how to develop and embed real values. This requires leadership and is a core task for boards. Many boards acknowledge the importance of a healthy 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.



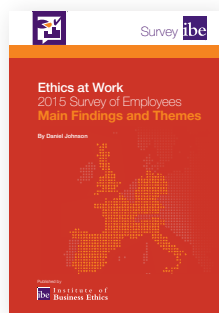
Culture by Committee: the pros and cons

Peter Montagnon

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.

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.

This survey was prepared in collaboration with ICSA: The Governance Institute and Mazars



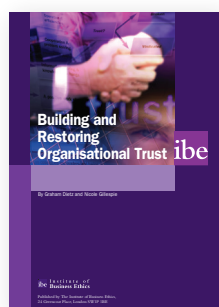
2015 Survey of Employees - Main Findings and Themes

Daniel Johnson

Employee views are a key indicator of the ethical temperature in today's organisations. What do employees think about the ethical business practices of their employer? What do they consider ethical behaviour? And how much support do they get to 'do the right thing'?

This report presents the main findings from the 2015 IBE Ethics at Work Survey across Britain and the four continental European countries. It also explores five key themes which emerged from the 2015 Survey relating to the impact of ethics programmes; the experience of younger employees; employees attitudes to certain workplace practices; employee sensitivity to ethical issues; and the difference between managers and non-managers.

Full survey reports are available for Britain, France, Germany, Italy and Spain, with an overview of Continental Europe from our website.

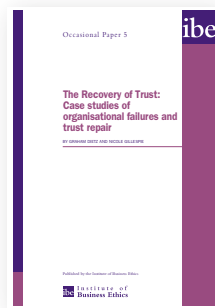


Building and Restoring Trust

Graham Dietz & Nicole Gillespie

Understanding and managing trust is a critical competency for organisations that take their ethical values seriously. Organisations need to know how trust is won, developed and sustained, and also what to do when that trust is threatened or has broken down.

This Report helps organisations understand what trust is and how it is established at the interpersonal and organisational level. It outlines strategies for building and sustaining a resilient reputation for organisational trustworthiness and, through the use of case studies, illustrates good and poor practice in repairing internal trust after an organisational failure.



The Recovery of Trust: Six case studies of organisational failures and successful trust repair

Graham Dietz & Nicole Gillespie

These six case studies describe and analyse the experience and response of companies that have faced a trust failure. These cases demonstrate how the companies – Siemens, Mattel, Toyota, BAE Systems, and Severn Trent – have successfully repaired the loss of trust and provide insight into the process involved.

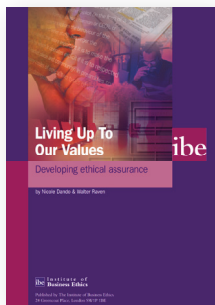
The Paper supplements the IBE's earlier report, Building and Restoring Organisational Trust.



Supplier Relationships in the UK: business ethics and procurement practice

Laura J Spence

This report examines the complexities of supplier relationships and ethical procurement practice in the UK. It explores how companies can achieve fair relations with their suppliers and particularly considers issues raised in relationships between large organisations and small and medium sized suppliers. Three case studies, from Camelot, Waitrose and Toyota, help draw out the issues and good practice approaches. Guidance on good practice is offered for suppliers and customers alike.



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.

Other IBE Resources



Investing in Integrity Chartermark

How does your corporate integrity measure up?

The IBE has developed a chartermark in association with the 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** (Iil) Chartermark gives an assurance of trustworthiness to clients, customers, investors and other stakeholders doing business with the organisation. The real strength of the Iil 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 Iil partner, **GoodCorporation**, whose methodology has been adapted for the Iil 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 or 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 organisation's needs and detailed procedures. For more information email info@ibe.org.uk or call the IBE office on +44 20 7798 6040.

Stakeholder engagement

values, business culture & society

Companies do not exist in isolation. They depend on society for their franchise. So they need to maintain relationships of trust with a range of stakeholders, including not just shareholders who provide their capital, but also customers, suppliers, employees, regulators, non-governmental organisations, the media and policy-makers.

In order to foster trust, external engagement should always be driven by ethical values. A considered approach to engagement, with a range of external stakeholders is a core task for boards and management but the company needs to be clear in the first place what its purpose and values are.

Stakeholder Engagement: values, business culture and society analyses corporate relationships with a wide range of stakeholders and includes case studies from companies exemplifying some of the challenges and complexities of business' relationships with stakeholders.

The report forms the IBE's contribution to the Financial Reporting Council's Culture Coalition.