Date: June 2007 (updated October 2010) Issue 5

Institute of Business Ethics

Business Ethics Briefing

Business Ethics Committees

How do organisations govern their ethical standards? This IBE Briefing considers the terms of reference and good practice for a board committee with ultimate responsibility for ethical values and business conduct.

Why have a board level Ethics Committee?

Boards of directors and other governing bodies are increasingly concerned with the need to reassure themselves about their organisation's ethical behaviour. It makes sense for risk and reputation management, but also for the requirement in the new Companies Act (2006) that directors have regard to stakeholders and ethical issues and report on them.

A board sub-committee responsible for overseeing the effectiveness of the business ethics policy is one way that boards can ensure that the ethical temperature of their organisation is monitored. This will be part of good governance.

The establishment of a high level Ethics Committee, whether standing alone or with an existing board level committee, can be seen as an essential part of embedding ethical values throughout an organisation. Through regular reports, it raises board awareness of ethical values and issues, and indicates to staff that values and ethics are taken seriously at the top. The continual communication and demonstration of ethical values and practice is essential. A committee will be able to ensure this reinforcement of an ethical culture.

Box 1: What is the committee's role?

*The **Ethics and Environment Assurance Committee** (EEAC) monitors the non-financial aspects of management activity, such as ethical conduct, environmental matter and health and safety*. …BP Sustainability Report 2005

*The role of the **Corporate Social Responsibility (CSR) Committee** is to keep under review and make appropriate recommendations to the Main Board as regards the Company's management of Corporate Social Responsibility and the conduct of business in accordance with the Statement of Business Principles.* …. BAT

*The **[Corporate Responsibility] Committee's** main areas of focus will be health, safety, security, environment (HSSE), community relations, human rights and business ethics. … The purpose of the Committee is to assist the Board of Directors of the Company in providing strategic leadership, direction and oversight and setting the policy on CR*. … BG Group

How is an Ethics Committee structured?

Organisations have different names for Ethics Committees. Examples are CR committee, CSR committee, Business Principles Committee, Risk and Responsibility Committee, 'How We Do Business' Committee. Box 1 gives some examples from UK companies. These names may reflect different interpretations of business ethics and corporate responsibility, and likewise differing Terms of Reference best fitting to the organisation.

Good practice suggests that a stand-alone committee has optimum effectiveness. An alternative is for it to be combined with another board committee, e.g. audit or risk committee. It is important that a Committee's Terms of Reference answer the particular oversight needs of the organisation regarding ethical performance. For example, if the Speak Up Policy is monitored by the Audit Committee, the Ethics Committee would need to have access to relevant reports in order to identify any ethical issues arising.

A Committee should be chaired by a senior non-executive; the impartiality of a non-executive lends weight to the committee and sends a signal to employees that ethical issues are being scrutinised independently. A senior executive should be responsible to the Committee for the organisation's ethics programme. A member of this Committee should also be a member of the audit committee.

The size and 'make-up' of a Committee depends on the nature of the organisation, its governance structure and the need for a balance of independence and expertise. Where independence is considered critical, expertise regarding ethical or operational issues could come from visiting or temporary members. Other issues such frequency of meetings and considerations of what makes up a quorum should be decided when the Committee is formed.

In some companies, Ethics Committees are not board level. They have different status; for example, a sub-committee of executive committee, or a body of specialists with professional experience in areas of stakeholder concern or a steering group consisting of heads of departments or representatives from each division, chaired by a board member.

… Doing business ethically
… makes for better business

What are its responsibilities?

An Ethics Committee will be able to provide an overarching view of the how the company does its business. It will have responsibility for establishing and embedding corporate ethical values, the ethics policy and code and ensuring and monitoring ethical business practice. It may also oversee the organisation's corporate responsibility strategy.

Particularly important is that the Committee is sensitive to ethical issues that arise from board level policy and strategy decisions, as well as being aware of ethical dilemmas salient to employees in all parts of the business.

Broadly, responsibilities will include:

- ensuring that there is effective training in the code of ethics at all levels
- ensuring that there is effective communication reinforcing ethical values and good practice in the business and censuring unacceptable practice
- setting up monitoring, reporting and accountability processes
- establishing and monitoring help lines or mechanisms used by staff to raise concerns
- assessing reports and overseeing subsequent actions following breaches of the ethics policy or allegations of misconduct
- developing and reviewing the effectiveness of and updating ethics and related policies and KPIs
- the liaison with stakeholders over ethical issues
- ethical due diligence prior to a merger or an acquisition or the undertaking of a major new project

The Committee will need authority to seek any information it requires in order to carry out its work effectively. This authority should be set out in the Committee's Terms of Reference.

On the web:

- *Standard Chartered Bank 'Sustainability and Responsibility Committee':* http://www.standardchartered.com/sustainability/our-approach/sustainability-governance/en/index.html
- *National Grid 'Risk and Responsibility Committee':* http://www.nationalgrid.com/NR/rdonlyres/6E2FE6A6-CE45-4387-8E91-FCE1E6A10A09/41285/RiskandResponsibilityCommitteeTermsofReferenceApri.pdf
- *BG Group 'Corporate Responsibility Committee':* http://www.bg-group.com/OnlineReports/downloads/cr/pp4_5.pdf
- *BAE Systems 'Corporate Responsibility Committee':* http://bae-systems-corporate-responsibility-report-2009.production.investis.com/en/overview/cr-committee-chairmans-statement.aspx

Reporting

In order to be an effective conduit to the board, the Ethics Committee should report at least annually and meeting minutes should be sent to the board. The Committee should contribute a review of issues, activities and performance to the Annual Report. It is also becoming common for the Chairman of the Committee to be available to answer questions at the AGM.

The committee may issue internal and external reports on the extent to which the company is living up to its ethical standards, and oversee the organisations reporting on corporate responsibility generally. The committee may appoint third party verifiers to ensure the information they receive is complete and reliable and the underlying reporting systems are robust.

Further reading

- The IBE publication *Living Up To Our Values: a guide to ethical assurance* (2006) was written to assist committees in establishing internal monitoring processes for ethical performance.
- The IBE publication *Ethical Due Diligence* gives guidance on the issues which an ethics committee might consider prior to new business relationships.

Comment

More and more companies are finding that they require 'joined up' thinking about how their company does business in order to avoid integrity risks to their business. A disconnect still exists between companies' codes of ethics, corporate social responsibility polices and how business is conducted in practice. An Ethics Committee at board level can oversee a programme for embedding ethical values and culture, but their added value is to monitor the way in which the company carries out all of its business activities.