Looking Beyond the Check-box: Mitigating Risk, Maximising Performance

As part of an ongoing joint programme on ethical culture, this paper highlights discussions that explored how good corporate governance depends on the right questions being asked, and addressed, within the context of a values-based approach to organisational culture.

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St PAUL'S INSTITUTE

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Context

As part of an ongoing programme between St Paul's Institute and CIMA, an April 2014 seminar brought together four expert panellists from corporate and legal backgrounds. This discussion paper outlines the presentations made[1] related to the purpose of organisations and both their role, and impact, in wider society.

Good corporate governance is based on the right questions being asked, and addressed, within the context of a values-based approach to organisational culture. This includes how an organisation embeds in the business their response to the social, ethical and environmental agenda that affects them, and they affect. With current public mistrust of business and calls for accountability, there is also an increased appetite for enforcement agencies to investigate and prosecute.

This seminar explored:

- Developments in the legal and regulatory framework.
- The preventative measures organisations can take to mitigate risk.
- How leading organisations can aim to embed good practice, use sustainable strategies and create a culture that is beyond checkbox compliance in order to create long term value.
- The overall 'human' element with both the challenges and opportunities that social relations create.

Leading by example rather than relying on written policies and rules encourages employees across the organisation to internalise principles of integrity and to act ethically and responsibly to help rebuild trust and further business' social purpose.

[1] The summaries from panellists represents an abridged summary of their presentations, a full video of this seminar is available at: www.stpaulsinstitute.org.uk/videos

Contents:

The summaries of these discussions represent the panellists' presentations. The discussions are intended to increase the reader's knowledge and do not provide a quantitative evaluation of opinion. Neither the organisations nor the individuals representing them are responsible for the contents of this paper.

The Revd Canon Mark Oakley

Chancellor of St Paul's Cathedral

Introduction

This seminar builds on 'The City and the Common Good' series that St Paul's held last year in conjunction with CCLA, trying to define the purpose of financial sector organisations and their role in facilitating the wellbeing of society. It's good of course to talk about ideals, virtues and values – but how do we reconcile all the lofty ambition with the day-to-day realities and pressures of our work environments?

In many ways these conversations are underway because of the so-called "financial crisis", missing the fact that it is tied up with a larger human crisis. Because the issues need to be internalised and appropriated within in terms of the sort of life that we ultimately find desirable and good, regulations alone will never be enough. Monetary exchange is one of the transparent areas of life in which our decisions show us who we have become. Our purposes and behaviours are the raw material there to be scrutinised to see whether we have long-term goals.

It's an easy thing in today's world to get detached from the realities of our decision making and its inevitable effects on other people. It is too easy and convenient to compartmentalise our existence between humane decisions we may take in important areas of our individual lives and a compliance with a much more inhuman and curdled culture in our work.

I was struck by the poignancy of a statement from Sue Garrard at a Blueprint for Better Business conference last year, who said that it is never enough to try and simply talk yourself out of a situation you have behaved yourself into. This is the fourth year of a very productive collaborative relationship between CIMA and St Paul's Institute highlighting issues of corporate culture and responsible business, a relationship of value. This paper is a contribution to provoke us all into practising what we hope for.

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How effective is your compliance?

Hannah Laming
Barrister (Corporate Crime), Peters & Peters

If you talk to people before a dawn raid, before the knock on the door has come, they might shrug off compliance issues and think they're not that important. I can tell you from my personal experience as a prosecutor and defence lawyer that they don't feel that way when they are in the interview room in the Serious Fraud Office or at the Financial Conduct Authority.

In recent years there's been a real push to change the way in which corporate liability can be established, and to move towards a more vicarious liability or statutory liability type situation. We've had the Bribery Act, where a corporate is liable for the actions of its employees or agents unless it can show that it has adequate procedures in place. We've also had the introduction of deferred prosecution agreements. A co-operating corporate can avoid prosecution and conviction providing it has self-reported, agrees to pay a penalty, and has processes such as monitoring put into place. Another indication has been the introduction of specific sentencing guidelines for corporate offender. That could include fines amounting to 400% of the amount obtained by virtue of criminal conduct.

One of the good things to come out of this change of direction is more guidance, and the recurring theme is culture. Enforcement agencies are not interested in solely looking at whether or not you have some policies and procedures that can be accessed by your staff. Instead they ask whether it is an established part of business practice? Was this part of your business model, the criminal conduct that occurred? Was it, on the contrary, a rogue employee or director that was operating totally outside the culture and compliance policies of the organisation? What does good corporate governance look like from the perspective of enforcement agencies?

There are three key areas which you can focus on:

- Preventative measures, because if you manage to prevent the financial crime in the first place then you're not going to be investigated.
- Effective crisis management. Responding very swiftly to situations if they arise; conducting an internal investigation; collecting any evidence if you think that is appropriate.
- Self-reporting and co-operation. This is essential if you are looking at certain disposals.

It is no longer the case that you can just have a check-box compliance culture. Getting out a few policies and showing them to enforcement officers is just not going to help you in the way that you might think or would like.

Key questions to ask regarding your compliance processes:

As prosecutors may seek 'Existence of a genuinely proactive and effective corporate compliance programme' you should consider the following:

- What training have you given your staff?
- Do you have sufficient management information coming up to board level?
- Do you have an effective whistle-blowing / speak up policy?

They will also look at what approach is taken when warning signals happen

- If you have issues arising via your audits, are they followed through?
- How quickly are they followed through?
- How is action taken and learned from?
- Do you self-report when a problem occurs?

Box ticking is not enough: *follow through and embed good culture.*

"I can tell you from personal experience that they don't feel that way when they are in the interview room in the Serious Fraud Office or at the Financial Conduct Authority."

Long term future value – the sustainability case

Douglas Johnston
Partner (Climate Change & Sustainability Services), EY

The topic is mitigating risk and maximising performance, and I'm specifically going to talk about sustainability. By sustainability I mean an organisation's response to the social, ethical and environmental agenda and what they do as a business to embed that within their operation.

There is a move from what's typically been termed 'CSR' – which is largely about box-ticking, risk management and a little bit of 'eco-bling' on the side – to something that is a lot more embedded within the business. In the 1980s it was to a large extent about philanthropy. It was about doing good things and being seen to be doing good things. In the 90s we start to see the term 'corporate social responsibility' come much more to the fore.

This brought recognition that these issues aren't just peripheral, about looking good, but can present some very significant risks to the business. 2000 to 2010 was the era of sustainability reporting, where it was recognised this wasn't just about risk management but rather the long-term future value of organisations. More recently we have heard of strategies that have an ambition around 'net positive', meaning we're not just going to minimise our impacts, we actually want to leave a net positive impact upon society through the way in which we drive change through our supply chain, the way in which we manage our own operations, and the way in which we bring products to market that are beneficial to society and reduce environmental and social impacts. Sustainability is increasingly not a stand-alone strategy. This is now part of a core business strategy.

What I want to share with you is why this is becoming mainstream, why is this such a fundamental business issue?

- Firstly, there has been massive regulatory change in relation to all aspects of this agenda. In the UK we've seen significant change in the way in which carbon emissions are regulated, and there's been a huge amount of regulation in relation to diversity and inclusiveness.
- There's also emerging good practice guidance, which NGOs will hold you accountable for on matters such as human rights in the supply chain and a whole range of different topics.
- We also have shifting customer and consumer purchasing preferences. We've seen a very significant shift where consumers are no longer prepared to buy products that have been sourced through unscrupulous business practices. If that becomes apparent, consumers won't buy it.

Conforming with social, environmental and ethical standards is now the norm if you want to compete in certain marketplaces.

I'm just going to touch on one other issue here: natural resource scarcity and price volatility. For many organisations that are energy- and resource-dependent, this is seen as a very significant risk. There's a whole range of resources that are becoming increasingly scarce and more costly that a lot of businesses existence depends upon – water is a great example of this.

These aren't just topics that address the needs of certain stakeholders, these issues are absolutely fundamental to the existence of organisations that operate in a global world today. Those organisations that can grasp this agenda most effectively are those businesses that are going to be most successful. So it's no longer 'tick box', the sustainability agenda responding to this is about creating business models for the long term. It's not about choice; organisations that want to be successful *have* to do this.

By sustainability I mean an organisation's response to the social, ethical and environmental agenda and what they do as a business to embed that within their operations.

The value of reporting on value creation

Dr Jeremy Osborn FCMA, CGMA
Senior Manager & Integrated Reporting Leader, EY

Stakeholders take all sorts of different guises and some of the reporting trends which we're beginning to see in the UK are providing an opportunity for companies to move beyond the tick box and communicate the broad value the organisation may be creating. There are three trends which are happening at the moment in the UK.

Strategic reporting:

The first is the strategic report, which is a requirement for all listed companies in the UK. This is more than simply what is the health of your balance sheet, have you turned a profit, do you have a positive cash flow, but actually what value do you create for your stakeholders and the communities in which you operate, for yourselves, and how does that support the underlying business performance. There's also a requirement within this to disclose your greenhouse gas emissions, human rights where it's relevant, and diversity of women in senior management positions.

At EY we see some of our clients moving towards what we term an 'Enhanced' Annual Report and Accounts which is where the concept of 'how do we create value' is explored. This provides an opportunity for a company to explain in a more meaningful way: this is our business model, this is how we create value, these are the types of value that we create, and this is how these different things interrelate with each other.

Integrated reporting

Next is the Integrated Reporting movement, of which CIMA has been a driving force. Integrated Reporting is an international and voluntary business-led movement promoting the integration of your strategy with your material issues, your key performance indicators, your governance processes, your underlying business performance, your broader impacts and your outcomes, and all the while trying to tell this as a coherent story. It's about connecting up the bits of information which to date may have existed in a separate report, possibly without having much of an impact on Board-level decision-making.

Integrated thinking

Finally the concept of integrated thinking, which in many ways is the most important aspect of what this is really all about. If one thinks about a report as the tangible, glossy output from a process, any organisation could probably create an integrated report fairly quickly. But the reporting needs to reflect the underlying business processes and that's where many organisations fall down. They may make broad statements in their reporting about value creation beyond the financial but actually the way decisions are made by the business, particularly at a senior level, might be focused much more exclusively around core financial concepts.

Our view would be that an organisation that is thinking in an integrated way – so it is working effectively across the different functions within the business – and is making decisions based around some of those core value-creation risks and opportunities is all part of running a better business.

This type of reporting, and moving beyond the tickbox, I hope will encourage more sustainable underlying business behaviours.

'At EY we see some of our clients moving towards what we term an 'Enhanced' Annual Report and Accounts, which is where the concept of 'how do we create value' is explored.'

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Purpose and Better Business

Sue Garrard,
SVP for Communications and the Foundation, Unilever

I want to talk about the philosophy of good business. Firstly, a project coming to fruition called the Blueprint for Better Business. The Blueprint for Better Business is something that was born out of an initiative that included now Cardinal Vincent Nichols, Archbishop of Westminster, and banking and business leaders. They were concerned about the way in which capitalism had brought out some of the worst excesses that regulation had not managed to keep in check and thus the impact of five years of global recession.

It was a conversation about what business leaders could do that:

- didn't rely on regulation,
- didn't rely on more red tape, and
- didn't rely on governments taking initiatives.

The really powerful thing is that there is a very large body of CEOs of the top 300 who really want to run their business in a different way. We have come up with an initiative that is meant to be for those leaders and organisations who actually believe that there is another element to how they should drive their business. The big thing that was missing was what most businesses were founded on in the first place, which is a really deep understanding of how they met the needs of the society that they operate in. That's called 'purpose' where I mean the link between the role business plays in society and the organisation.

The initiative summarises what a purpose-driven business actually looks like. The intention is to create something that is a very simple, actionable framework that any business leader can take into their boardroom and use to drive different conversation. We've defined what a purpose-driven business is, and we've defined the five key relationships that a purpose-driven business will have.

I also draw heavily on the experiences that Unilever has and the journey we've had to define our purpose. Our purpose is to make sustainable living commonplace. We sell everyday products, soap and soup, in 186 countries around the world. If we source, for example, our palm oil from places that are not responsible for deforestation we can help contribute to reducing climate change by 20%. That's just one small example of how an organisation that actually defines a purpose can then drive it right the way through all of its operations.

The ability to take away this trade-off between a healthy growing business and a business that is operating in a truly sustainable way, in terms of social and environmental impact, is something that we have found has unlocked a huge amount of energy from our own people.

I wouldn't argue that compliance and regulation don't have a place – they are necessary – but they are by no means sufficient. The real power is about unlocking the beauty of doing something you feel is worthwhile while you're on this planet and spending most of your time at work and really leveraging that, because a company is nothing more than a group of human beings. I believe absolutely in the positive side of where this can take business. It will be very challenging, but I know which journey I would rather be on.

See more:
www.blueprintforbusiness.org

"The really powerful thing is that there is a very large body of CEOs of the top 300 who really want to run their business in a different way."

Summary points of audience discussion[2]

Culture: Adding value through people, processes and leadership

- You can never ensure that things won't go wrong. The best approach is to anticipate where things could go wrong and build appropriate controls and processes to manage such errors. The true culture of an organisation is shown in how it responds when things do go wrong.
- Companies are well-served by having a detailed understanding of, and being able to demonstrate, the contribution they make to the economies in which they operate. They should understand where they create value, as well as where they destroy value. This is particularly important for companies with global operations in many different countries.
- A lot of corporate organisations are keen to move towards a more practical, streamlined reporting process. Shorter reporting can often focus the message and result in a better and more directly impacting report.
- Supply chains today are highly complex and it's possible that a large corporation may not be aware of the ultimate origins of a product. Risk and opportunities in the supply chain are factors that effective integrated reporting can help raise.
- Transparency about where and how companies pay tax is a basic requirement for a genuinely purpose-driven business and the restoration of public trust. People don't expect any organisation to be perfect, but they do expect them to be honest.
- If issues that emerge are kept under wraps and discussed with only a very small core group of people, then the culture of the organisation as a whole does not develop a proper understanding of how such issues are being dealt with. Dealing with issues head-on at a senior level, and openly communicating the results to the wider workforce helps foster a unified message and sense of purpose.
- The CEO should have a clear vision and disseminate it throughout the organisation by articulating the reasoning behind the vision and related policies. Many businesses are starting to understand their relevance to the needs of society, and that this is a fundamental part of their existence.
- Most people go to work and want to do the right thing. Genuine belief and understanding of the purpose of an organisation, not merely the assertion of such, creates an enabling culture for good behaviour and results. Setting the proper tone through aligning stated purpose with the internal operations and procedures of the business is a vital role of good leadership.
- Many businesses are starting to understand that the relevance they have to the needs of society is a fundamental part of their existence. The way in which they deliver value for wider society will define their success for the future as it is an interdependent relationship.

"Most people go to work and want to do the right thing. Genuine belief and understanding of the purpose of an organisation, not merely the assertion of such, creates an enabling culture for good behaviour and results."

[2] The seminar was chaired by Lawrie Holmes, Editor of Financial Management Magazine, and included further discussion and an audience Q&A. This can be viewed in full, along with unabridged versions of our speakers opening positions, at: www.stpaulsinstitute.org.uk/videos

St PAUL'S INSTITUTE

St Paul's Institute exists to engage the financial world with questions of morality and ethics. In doing this, the Institute seeks to recapture the Cathedral's ancient role as a centre for public debate, contributing to the current discussion surrounding the direction of our financial and economic institutions.

By also exploring wider themes such as global poverty, economic theory, financial integrity and the meaning of the common good, we hope to bring the distinctive wisdom of the Christian tradition to bear on our understanding of the way money works in modern society.

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The Chartered Institute of Management Accountants, founded in 1919, is the world's leading and largest professional body of Management Accountants, with more than 218,000 members and students operating in 177 countries, working at the heart of business. CIMA members and students work in industry, commerce, the public sector and not-for-profit organisations.

CIMA is committed to upholding the highest ethical and professional standards of members and students, and to maintaining public confidence in management accountancy.

CIMA has formed a joint venture with the American Institute of Certified Public Accountants (AICPA) to establish the Chartered Global Management Accountant (CGMA) designation. CGMA is the global quality standard that further elevates the profession of management accounting.

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