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Governance: It matters what you do when no one is watching

By Rod Newing

Big companies are making an effort through social responsibility reports to demonstrate how committed they are to being good corporate citizens. This is usually expressed in charitable donations and staff volunteering initiatives.

But recent incidents of poor behaviour, involving price and rate fixing, bribery, excessive bonuses, mis-selling and tax avoidance, are undermining public trust in the business. Clearly, organisations still have some way to go.

Corporate responsibility needs to extend deep into business governance, structure and culture.

The Ashridge Centre for Business and Sustainability interviewed chief executives about what it means to be a business leader.

"There is a new generation of chief executives out there, still a small minority, who have a new view of their role," says Matt Gitsham, the centre's director. "They have passion for 'doing the right thing' and recognise that addressing big issues in the world is not adding cost, but is actually core to creating value."

Accountants Grant Thornton's latest annual FTSE 350 corporate governance review revealed that 5 per cent of chairmen talked about culture and values in their annual statement.

Matt Gitsham of the Ashridge Centre in Hertfordshire

"There is a small but growing trend to talk about how they are embedding them into that organisation," says Simon Lowe, managing partner of Grant Thornton's business risk practice. "They see these issues as the bedrock or foundation of good governance practice and are prepared to commit some of that valuable space to driving home that message."

Corporate social responsibility (CSR) groups started as an arm of communications departments, mainly managing outside charitable activities. As boards started to take responsible business practices seriously, the focus turned inward, to educating, advising and supporting line managers in responsible business practices.

"Chief executives' time is limited, so they need 'foot soldiers' on the ground to take the message out around the organisation, acting as internal change agents," says Mr Gitsham. "They are taking a difficult message that challenges people. There will be resistance and they have to take on vested interests."

Leo Martin, director of GoodCorporation business advisers, advises that the CSR department should report to a board committee, chaired by the senior non-executive director and supported by other non-executives. One of its tasks is to encourage staff to speak out when they see something is not right and to listen to them when they do.

He warns that having a compliance department can lead managers to assume the organisation is behaving properly, so they stop thinking proactively about behaviour and risk. The most effective put ethics and values first, ahead of processes and procedures.

Another vital aspect of embedding responsible business practices into the organisation is to measure and report performance on social issues and include the results in the reward and recognition systems.

Mr Gitsham advises chief executives to chair regular meetings with key management. They report their performance against targets and the chief executive holds them to account.

Jonny Gifford, research adviser at the Chartered Institute of Personnel and Development, says organisations need three things to ensure that their ethical reality matches their rhetoric. They must fully understand how their business model affects different stakeholder groups; have a long term sustainable business model, as short term objectives will not drive corporate responsibility; and have the organisation respect appropriate ethical values.

He believes that human resources departments have a key role in aligning values and culture with business practice. They are well placed to understand the organisational culture and to shape and change it.

Changing the culture of an organisation takes a long time, with the board constantly repeating the same messages on the importance of adopting more responsible business practices.

"Leaders need to show that they are prepared to give up moneymaking opportunities, if there is a risk that values might be compromised," says Mr Martin. "Managers need to understand that it really does matter what they do when no one is watching."

The best sign that responsible business practices have become embedded within the culture of the organisation is when they start to become less visible.

This shows that they are becoming part of the way that the company does business and makes decisions.

“Our research shows that chief executives that are changing their organisations use softer persuasion on why things need to change, to reach people’s hearts and minds,” says Mr Gitsham. “To really embed it, they combine it with harder structural changes.”