



NEW CULTURE REQUIREMENTS FOR GOVERNMENT SUPPLIERS

THE CHALLENGE TO ASSESS AND THE CHANCE TO EXCEL

By Michael Pollitt,
Business Ethics Adviser
GoodCorporation

The UK Government has issued a long-anticipated update to its supplier code of conduct, with new expectations for companies of all sizes to assess their corporate culture.

The first Government Supplier Code of Conduct, in use now for over a year, left significant loopholes in its coverage of modern slavery obligations, which were then closed by a separate version issued by the Foreign and Commonwealth Office (FCO) in August 2018, as covered by *In-Procurement*.

The wording of the new Government Supplier Code of Conduct remains almost entirely unchanged on the issue of modern slavery and therefore fails to meet the higher standards set in this area by the FCO's equivalent.

However, it does contain one important difference in the area of corporate governance, which responds to an increasing demand on companies, in both the public and private sectors, to get a better understanding of their organisational culture.

This revised UK Government Supplier Code of Conduct, now referred to simply as 'Supplier Code of Conduct v2', includes a significantly extended section on 'Corporate Governance and Corporate Social Responsibility'.

In this section, the previous wording, which simply called for government suppliers to be 'good corporate citizens',

has been enhanced significantly. Government suppliers are now expected to 'adhere to the UK Corporate Governance Code' or follow equivalent principles.

The implications of this amendment will be far-reaching.

The UK Corporate Governance Code is a best practice guide to annual reporting applicable mainly to companies listed on the London Stock Exchange.

The Supplier Code of Conduct v2, however, applies to all suppliers and subcontractors providing any goods or services to the UK Government, including its central departments, agencies and public bodies, regardless of their size.

Indeed, in his introduction to the new code, Government Chief Commercial Officer Gareth Rhys Williams marks it

as recommended reading for both 'current and aspiring suppliers to the government'.

One upshot, therefore, will be that companies of widely varying sizes and resources, who are maintaining or bidding for government procurement contracts, will be expected to abide by best practice principles which, until now, were intended only for companies with a premium UK listing.

It is significant that this amendment has been made only now.

The Corporate Governance Code itself was recently revised, following a public consultation, to take account of recent changes in the business ethics landscape. The revised code came into force at the start of this year.

One of the most significant changes was a new requirement for companies to 'assess and monitor culture', then take action where behaviours do not align, for example, with the company's values.

This is not as easy as it sounds.

Only 12% of the FTSE 350, for example, provided detailed information on culture in their annual reports according to the most recent survey of the issue.

Perhaps for this reason, a significant number of listed companies have been approaching business ethics consultants over the past six months, to help them achieve accurate and meaningful assessments of the behaviours and decision-making patterns that make up their corporate culture.

The companies of various shapes and sizes that make up the government's supply chain will now have to get a handle on this notoriously complex issue if they are to win and maintain their public procurement contracts.

Few government suppliers will need to begin this process from a standing start.

The 2018 Institute of Business Ethics report, *Culture Indicators*, for example, showed that many companies already have access to pools of information, from which they can make initial assessments of their corporate culture, such as whistleblowing data, employee surveys, exit interview notes, staff turnover rates and records of absenteeism.

For government suppliers, or would-be suppliers, without these resources, there will perhaps be a temptation to run a

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simple culture-based employee survey to meet the new requirements.

However, as the list of culture-based business ethics scandals grows longer, more companies are using the increased scrutiny of their culture as an opportunity to move beyond these traditional means of reporting on 'employee satisfaction' and establish new standards of best practice in assessing corporate culture, and ethical corporate culture in particular.

Although existing employee data, and culture-based employee surveys, will be helpful to government suppliers aiming to meet the new requirements, the best approaches will be interview-based and independently administered.

Data collated by the company itself can only ever reflect the sort of cultural feedback staff are willing to divulge openly to their employer, or their level of faith in the confidentiality of the whistleblowing system.

Likewise, data collated in the form of a simple online survey can sometimes reflect only a 'box-ticking' exercise, completed quickly and without the exploration of personal perspectives necessary to gain an accurate understanding of an organisation's culture.

The best government suppliers, or candidates for public contracts, will therefore combine their existing employee data with surveys designed to assess the ethics of their culture in particular and, ideally, confidential employee interviews with independent assessors.

This combined approach will provide both the data necessary for a robust statistical assessment of the company and the personal perspectives necessary to contextualise it.

It will also give government suppliers their best opportunity to respond comprehensively to the new requirements placed on them to 'assess and monitor' their culture.

The UK Government's commitment, at March's Social Value Summit, to ensure its 'social values' are reflected in the external organisations it employs, and on whom it spends £49 billion every year, re-emphasises that, when it comes to demanding the highest ethical standards from suppliers, government procurement departments are getting serious.

The challenge for companies hoping to win or keep a government contract, therefore, will be to move with these ever-rising expectations.

However, the new requirement for these companies to get to grips with their corporate culture perhaps offers an ideal starting point.

Before they can prove they are the kind of company with whom the government should be associated publicly, suppliers must first prove that they have the kind of culture with which employees would like to be associated internally.

