

CORPORATE PURPOSE THROUGH CORPORATE BEHAVIOUR



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This is a prominent year for both the Hawkamah Institute of Corporate Governance as it celebrates its 10th Anniversary and the Institute of Business Ethics (IBE) as it celebrates its 30th Anniversary.

Such milestones cause institutes such as

ours to reflect on the current climate. There is the sense that the business agenda is at a crossroads. In some countries the public feel left out of corporate success and global advance that has taken place over the last 40 years and have voiced their opinions through the ballot box. One aspect of discontent is the lack of understanding of

what business is for. What is its purpose? How does it serve society, when it seems so self-serving, particularly for those running it?

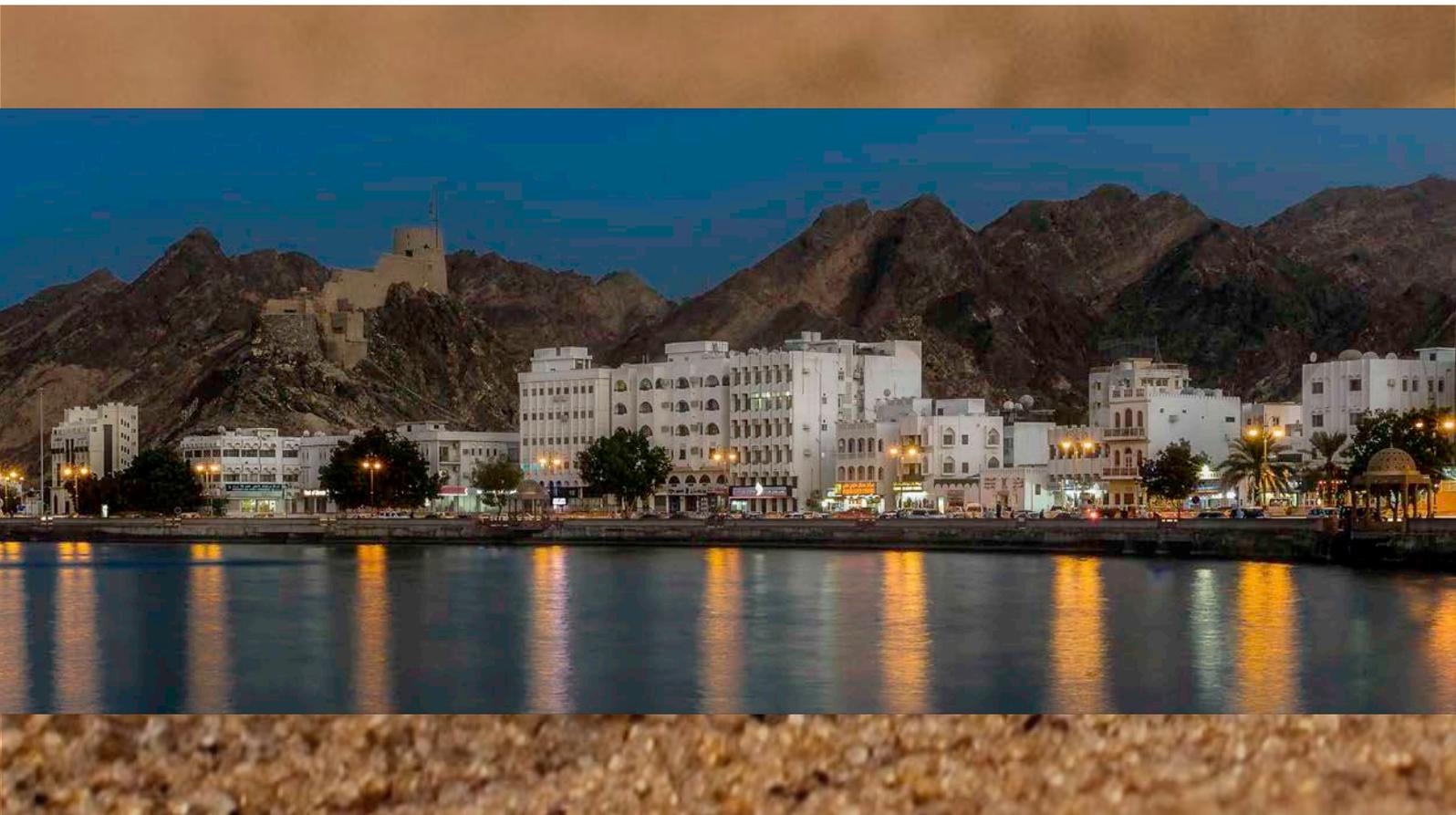
To have a purpose is to have a clear goal of what the business is setting out to achieve in serving society by providing products or services that meet the needs of people. A business can only do this in a sustained way if it is and remains profitable, if it is managed in a legal way and if it meets its obligations to all its stakeholders in society, and does so responsibly.

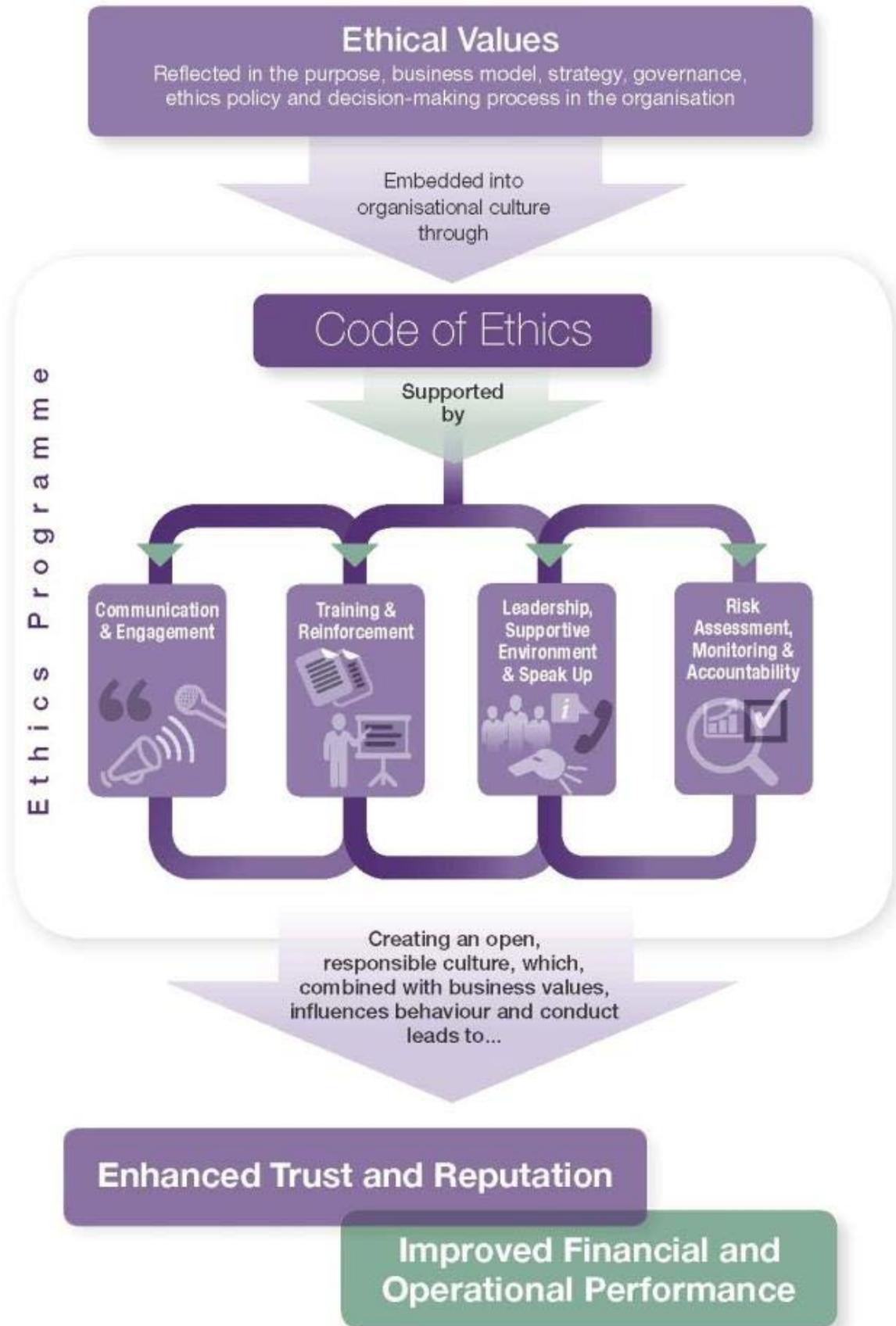
In recent years, governance has focused on vision, mission and values rather than explicitly purpose. Some felt that vision was an articulation of purpose, though perhaps not clearly enough. But whatever

the language used, the wider connection to society was not made, and so we have found the business franchise weakened and trust in business eroded. How can this trust be regained?

It is the role of the board to give purpose direction. In the UK, this is specifically through Directors duties as made clear in S.172 of the Companies Act 2006. Once articulated, the board must bring the purpose alive, firstly to its employees and then its wider stakeholder group.

The IBE's work demonstrates that supporting the purpose with a combination of business and ethical values is the best way forward. Values illustrate how the purpose will be delivered.





Two companies who do this through their ethics and compliance programmes are Barclays and Diageo (see charts below). In both cases they highlight associated behaviours to deliver the purpose. This delivers the 'licence to operate' they seek from society.

Purpose, Values and Behaviours

Purpose

Helping people achieve their ambitions – in the right way

Values

Respect	Integrity	Service	Excellence	Stewardship
We respect and value those we work with, and the contribution that they make.	We act fairly, ethically and openly in all we do.	We put our clients and customers at the centre of what we do.	We use our energy, skills and resources to deliver the best, sustainable results.	We are passionate about leaving things better than we found them.

Behaviours

Build trust with the colleagues and partners we work with.	Show the courage to do and say the right thing.	Take the time to understand clients' and customers' needs, regardless of our role.	Aim for flawless delivery and learn from our mistakes.	Pioneer innovative and better ways to do things.
Seek out alternative perspectives and put our shared interests ahead of any individual or team.	Act in private as we do in public, and honour our commitments.	Always strive to surpass clients' and customers' expectations.	Take pride in both our individual work and that of our team.	Protect and enhance our reputation and legacy at all times.
Collaborate proactively with colleagues across all of Barclays to get the best results.	Challenge things we believe to be wrong and be open to challenge from others.	Create and provide solutions for clients and customers that balance the short and long term.	Actively contribute to the performance, development and engagement of our colleagues.	Find ways to positively impact all of the communities we interact with.
Embrace, and seek to increase, the diversity of our organisation.	Be accountable for failure as well as success, and not allocate blame.	In serving our clients and customers, incorporate the perspectives of all our stakeholders.	Create the environment to attract and keep the best people who share our Values.	Value sustainable progress as much as immediate achievements.

Ethics programmes like these need to be supported through other activities in the business and especially through its leadership.

The importance of leadership should never be underestimated. The culture of an organisation is set by the tone from the top, whether that is from the board, senior management or team leaders. Leaders who talk about ethical issues to supporting staff and behave in an open and transparent way, send the message to all employees, and the wider world, that ethics is taken seriously.

Leaders lead by example. Fine words are all very well, but these need to be backed up by actions. An example in today's environment of particular concern is executive pay. While everyone else tightens their belts, there is a feeling that there continues to be global phenomena of bloated remuneration packages.

This 'say/do gap' of leadership also impacts upon middle management. Top leadership espouses ethical behaviour, but fails to ensure there are sufficient systems and controls in place to support that behaviour. The result is that middle-management, tasked with delivering business goals and targets set by senior management, have little incentive, or inclination, to deliver ethically.

There is pressure on all sides for companies to perform. The demand for profits means companies need to sell more, quicker, cheaper and retain more market share. Goal setting has long been seen as an effective management technique, and one

OUR PURPOSE

CELEBRATING LIFE, EVERY DAY, EVERYWHERE

OUR VALUES

WE ARE PASSIONATE ABOUT OUR CUSTOMERS AND CONSUMERS AND WANT TO BE THE BEST

WE GIVE EACH OTHER THE FREEDOM TO SUCCEED AND VALUE EACH AND EVERY PERSON'S CONTRIBUTION

WE WORK HARD SO WE CAN BE PROUD OF WHAT WE DO AND HOW WE DO IT

OUR CODE

WE CARE ABOUT OUR BUSINESS AND ARE COMMITTED TO THE HIGHEST STANDARDS OF BUSINESS ETHICS AND BEHAVIOUR

WE ARE EXPECTED TO DEMONSTRATE PERSONAL INTEGRITY, AND LIVE THE VALUES AND BEHAVIOURS THAT UNDERPIN ALL OF OUR WORK, EVERY DAY, EVERYWHERE

which helps companies to measure and improve their performance. The best way for organisations to measure and report on how they are doing, both internally and externally, is to create targets and drive to meet them. However, research indicates that, although most people are basically honest, those who are set specific goals were more apt to cheat than those who were simply asked to 'do their best', regardless of whether there was financial encouragement.

Although employees respond well to the motivational use of targets and goals, it seems that when there is a lot at stake, for example, if a job is on the line, or a significant bonus is in jeopardy, employees are more likely to behave unethically in

order to achieve targets. If an employee cannot speak up or challenge then more is likely to be at risk and possibly, ultimate reputation loss. Corporate scandals such as VW or Tesco come to mind.

A climate of competition can encourage staff to put their personal goals (achieving the target, beating their colleagues) above those of the company or society at large. Micromanagement by managers under pressure to meet targets can create an atmosphere of mistrust. Staff do not feel trusted, and in turn are placed under pressure to achieve 'whatever it takes', but at what cost? PPI is a classic example of the downside of the pressure to reach targets. A lack of empathy for stakeholders, compounded by poor systems and controls meant that those tasked with overseeing operations did not understand what was going on in the organisation. This is the kind of bonus culture which needs to change.

However, we have seen two examples of bucking the trend in 2016. Sacha Romanovitch of Grant Thornton limited her pay to 20 times the average Grant Thornton salary and Neil Woodford, the well-known investor, cancelled paying bonuses. This may be the beginning of a realignment as those paid excessive fees think twice about receiving them – there are certainly more instances of bonuses forgone if there has been any corporate failure.

There is no escaping current increasing political pressure for exemplary ethical behaviour from those running our companies and institutions. The threat is

more rules and regulations. But these will never be sufficient as they can never cover all instances of behaviour. We are dealing with human nature and hearts and minds need to be won over to ensure all in society can benefit from globalisation.

This begins with business leaders being able to articulate clearly the purpose of their organisation, its role in society and how it will behave in delivering goods and services. A clearly articulated purpose will help all those in the business begin to restore the trust which society has lost.