

THE GOLDEN RULES OF GOVERNANCE

What does good corporate governance mean in an age of transparency and ethical awareness? How can it best be communicated? Our panel of executives and academics analyse an idea that is constantly evolving

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Matthew Gwyther The aim of this discussion is to talk about corporate governance, which has been defined as the 'system in which corporations are directed and controlled'. Governance provides the structure through which corporations set and pursue their objectives, reflecting the context of the social, regulatory and market environment. However, it's so much more than that these days. It increasingly embodies everything to do with business, and now is a term that applies to SMEs as well. It's to do with the culture of an organisation and having a sense of doing the right thing. As an academic, Chizu, what do you think?

Chizu Nakajima I think governance has two main strands: corporate performance and financial performance. Accountability is something academia has tended to ignore in the past, because we've been totally confused by it. The mainstream research thus far has been done by those people who tended to measure only by share price going up or down. And that's a very narrow view of measuring the effectiveness of corporate governance. We've got to make sure that academia isn't excluded from discussions on this.

Carol Bagnald I'm responsible for commercial and business for HSBC in London. I've been in the industry for 37 years and seen huge changes. I agree that corporate governance has two strands: it's about how you run your business. But the strand that has become a lot stronger is the way you run your business. In organisations such as HSBC, which has 270,000 people working across 6,500 offices in 80 countries, it's not just about how you do it at the top, it's right the way through the organisation. You can only appreciate effective governance when reputation is at risk. Reputation takes years to build up and can be lost very quickly.

Pat Cleverly For a long time, I think governance became obsessed with structures and processes and tick-boxes. But it's important to remember culture and values are the things that hold your whole organisation together. It's easy to forget it's people who lead an organisation and set the tone. The reality is that organisations are living in a world that pays attention to their behaviours. You can't manage brand reputation: it's the outcome and consequence of what you're doing.

Estelle Brachlianoff For me, governance is about making sure all my 14,000 employees in the UK are proud to work for Veolia. You start with the head of the business, but then it has to reach everybody within the organisation.

Howard Kerr I've worked in a number of industries in various countries, and the first thing to point out is that corporate governance is not new. What's changed is that every business is now doing it within a goldfish bowl. Most companies are doing the right thing every day, but it's something that needs to be done habitually as part of their business.

Kitty Owen Isn't that the huge challenge of governance: how do you effectively communicate it? Antony Jenkins drove through huge changes at Barclays that, arguably, were extremely admirable, but he is now suffering the consequences of that. Paul Polman at Unilever had to take a huge risk and persuade shareholders that quarterly reporting wasn't the best thing for the company. So the difficulty can be getting the message of corporate governance across.



Howard Kerr chief executive, BSI



Professor Chizu Nakajima professor of corporate law and governance in the faculty of business and law at London Metropolitan University



Estelle Brachlianoff executive vice-president, UK & Northern Europe, Veolia



Michael Conn MBA student from London Business School

'The reality is organisations are living in a world that pays attention to their behaviours'

Carol Bagnald



Pat Cleverly director of research, strategy and policy, Tomorrow's Company



Carol Bagnald regional director for London, HSBC



Kitty Owen Headland Consultancy





Matthew Gwyther editor, Management Today



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Pat Cleverly We sometimes forget that business is about people and relationships. Businesses should tell their story openly, not wrap it up. That's how you communicate to younger generations, who are more demanding. Leadership teams have to be brave. It's hard putting your head above the parapet when there's a high level of cynicism in business.

Carol Bagnald What's been going on in the financial services industry is horrid, but I have never shied away from saying that I work in banking. I think it's really important that you don't. I'm a senior leader and I have to stand up and be counted and be visible for my clients. We can't change the past, but we can change the future. You've got to look at every single piece and ask: 'What can we do better?'

Matthew Gwyther Michael, you're relatively new to the world of work. Is banking something you'd thought about?

Michael Conn I come from a banking family, but I'm more of a marketer. In my studies, I've seen a lot of evidence that CSR often helps companies thrive in the financial market in the long term. So, for me, it makes a lot of sense to take that approach. But in the corporate boardroom, what kind of influence is happening? Are stockholders given too much influence?

Carol Bagnald It has to be right the way through. In bigger organisations, you have all sorts of different people, some who have been there for many years. How do you bring that to life? It's about making people feel they can make that difference. We strongly focus on doing the right thing and asking the right questions. Is it right from the point of view of the client, who doesn't want lots of questions asked about a particular transaction? Yes, we need to question everything.

Matthew Gwyther Kitty, when you graduated recently, what were you looking for in your career?

Kitty Owen I was looking for a corporate job, the opportunity to be involved in an interesting business and to do something that was different from my contemporaries. I don't think people now are following the set paths they used to. I'm quite lucky that I ended up in a place where I get a chance to help people look at reputation. I slightly disagree with Pat's point that you can't necessarily manage brand reputation. I think through building narratives and telling stories, you can do it. With social media, companies are now more exposed than ever. There's no one person putting out a press release, and the surface area of where you are exposed is huge. That presents us with an interesting challenge, but it makes communicating governance more difficult, because you're doing it across many different channels and having to communicate to many different people what the essence of your business is. That's why people struggle to communicate one narrative.

Howard Kerr There is also the spin element. How do you decide whether what your clients are telling you is spin – whether they are trying to hide behind something – or whether they are genuinely doing the right thing?

Kitty Owen I agree. I think that good communication has to be something that is as honest as possible. Spin is a very difficult term. If you can tell a consistent story and be really engaging, you can make a very good PR move. Spin is potentially corporate speak that people switch off to.

Pat Cleverly When I talked about managing your brand, I wasn't saying that there's nothing you can do. Everything you do is the point. It's every time your employee sees a customer, or they deal with an internal or external client.

Matthew Gwyther Carol, do you think people want to go back to the days of bank managers being like Captain Mainwaring? You've got much better at working out the risk profile of your clients now. It's a myth that somehow you can go back to the golden age of retail banking.

Carol Bagnald It's more difficult to understand individuals now. In the Mainwaring days, you probably looked after a small group who you could know well. I get emails at 3am from people all over the world. You can't provide the same proposition. You have to look at different ways of knowing people and building relationships.

Howard Kerr New companies in Silicon Valley are now brought up on this idea of free data, free information and open access. It's not the world we were brought up in, where information was power, personal information was private and corporate information was highly sensitive. Now everything is there for people to see. It's not necessarily a bad thing because it's speeding up the transfer of knowledge. Sharing of good practices has to be good for innovation. The rules are changing and people now are perhaps thinking that we've just got to accept it. The world is moving faster than a lot of individuals can keep up with.

Matthew Gwyther It isn't just the banking industry that has had a tough time recently. In the past year, the focus has been on energy companies and outsourcing firms.

Estelle Brachlianoff It's even wider. Almost all businesses have been affected. Will charity soon be the only sector that is good in this country? Businesses create wealth and jobs. I'm very proud to say I'm investing £200m a year in this country and creating 30,000 jobs. Business can be a force for good.

Pat Cleverly Absolutely. And I think we forget that businesses are the engine of wealth creation.

Howard Kerr Greed is a fundamental human motivation and always will be. That's why people will want to be in business. What interests me is why something like ethics needs to be

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taught on MBA programmes. Can you teach ethics? Isn't it fundamental to the way we are as people?

Michael Conn We have an ethics course on my MBA programme. It's there because it is important. These are potentially the future business leaders of the world, so you need to make sure they have certain values. But it's definitely a life experience. The first job I had taught me about ethics and what I needed to prioritise. I think I'm now at a point where I'm trying to decide what kind of business leader I want to be. It's about standing up and having the courage to make the right decision. I also believe that sustainability is important. Companies can make a profit while looking after the people and environment. Some of the best career advice I've been given is to become known for something.

Howard Kerr One person's bravery is another person's normal behaviour. I was three days into my CEO position at BSI when we found out that our directors in Mexico had been diverting customers to their own businesses. We flew in someone from the US and removed the management team involved. Very quickly the rest of the organisation understood that Howard has a zero-tolerance approach to fraud and non-compliance. I didn't think about whether it was brave or a moral issue, it was just the right thing to do. Our good clients in Mexico saw that and approved of what we did and long term it made a difference.

Kitty Owen I admire bravery. The point about morality is a difficult one. We are incredibly conflicted human beings. I didn't stop using Amazon even though I disagree with corporate tax avoidance. We're difficult consumers to please.

Carol Bagnald But the voices are getting louder, so companies need to stop doing it, or correct these issues.

Matthew Gwyther Governance needs a rebranding. The problem is that 'boardroom' feel. That's what I associate it with rather than being something that is right at the heart of an organisation. So it needs rephrasing.

Carol Bagnald In HSBC, I think it had that reputation, but now it's strengthening. We do different business competitions and what strikes me is how innovative people are in the UK. But now people are also talking about governance when they enter competitions. A decade ago, it was something only big corporates would have thought about it. Now SMEs are using it to showcase their businesses and their integrity. Perhaps that shift is already taking place. **MT**

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