TAKE IDENTIFIABLE ACTION ON CORPORATE BEHAVIOUR BEFORE REGULATION INTERVENES

A viewpoint on how Corporate Behaviour can and should be measured and reported as a management tool

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Brexit aside, the news during the summer has been dominated by Sports Direct's employment practices and corporate governance and the active demise of BHS. Both these cases dramatically highlight the direct connection between Corporate Behaviour, commercial performance and enterprise value. We have witnessed a marked decline in Sport's Direct equity valuation and a slow-down in commercial sales, together with active shareholder intervention, and on the other hand we wait to see how Sir Philip Green's actions and conduct will impact on other parts of his retail empire.

The repercussions these two cases alone have had on UK corporate reputation has forced the Government, despite having to contend with many other pressing political issues, to clarify its expectations on corporate citizenship. It has flagged up a potential review of the corporate governance code, believing market forces may not be enough to force corporate behavioural change.

We disagree. Firstly, most organisations already take corporate behaviour extremely seriously. A few bad apples should not spoil the barrel. Secondly, the rising trend in stakeholder awareness, ability to source information, interconnectivity and willingness to publicly act means corporates are, and will increasingly be, subject to market forces due to their behaviour.

To avoid further regulation, organisations need to clearly demonstrate their leadership in good Corporate Behaviour and that they are using recognisable tools to embed and enhance it. To do this effectively, companies should have core metrics and KPIs in place to measure Corporate Behaviour and be in a position to report on their progress, in line with best practice. In doing so, organisations can understand how their Corporate Behaviour is perceived by stakeholders and how it influences their decision-making process, in particular in commercial terms.

Metrics for Corporate Behaviour can be embedded into business models and planning, so that it becomes actively managed and improved to create value for a business, as opposed to being viewed more defensively as a risk which needs to be monitored.

All that is required is solid, reportable data and analysis and the ability to link it to commercial performance.

The Boards of UK corporates should stand up and take notice that, even though her in-tray must have been overflowing, the Prime Minister took time to articulate her expectations on corporate behaviour and citizenship, as one of her earlier public statements. She has already aired proposals on employee representation on Boards and greater transparency on executive pay. Such Government action is unlikely to be welcome, but it does highlight the level to which the importance of Corporate Behaviour is reaching.

This banner was soon picked up by Iain Wright, the Chairman of the House of Commons' Business, Innovations and Skills Select Committee. In a letter to The Times, he said

"In the past few days the reputation of British business has been badly tarnished. As a select committee that looks to promote our companies and believes that most act with integrity, our recent findings have been as uncomfortable as they are concerning."

He went on to conclude:

"It is almost 25 years since the Cadbury review led to much-needed improvements in corporate governance. Globalisation and ever larger multinationals have moved the debate on: the time has come to look again at the laws that govern business and how they are enforced. There is an opportunity to lead the world on high standards of corporate governance for the benefit of business and society. We on the business committee intend to explore how we might achieve this without introducing legislation that burdens successful enterprise."

While we agree on the opportunity to lead and define best practice there is one key area where we would take issue and it is a key point for business to address. Iain Wright stated:

"However, history shows that the combined forces of consumers, shareholders and regulators are not always enough to curb corporate excess."

Historically this may possibly have been the case. Going forward, we believe it will be significantly less so. Our work points to two important areas for business.

Firstly, as we have stated before, today's end users of products care not only about the brands they buy or are associated with, but increasingly about the corporate brands behind them. We are seeing a direct convergence between corporate behaviour and reputation and commercial success. This is being enhanced by technology and digital developments, changing the way we communicate and source our information, while accelerating the volume and speed of communication. The end consumer is increasingly placing greater faith in their own sourced information. Everyone can now be informed or be an informer. A stakeholder experience can be shared and expanded to break out of that traditional stakeholder silo to become a mainstream issue impacting the media, public opinion, policymakers, regulators, investors and other corporate influencer groups. The reality is that poor corporate behaviour will lead to poor commercial performance and this will place significant pressure on organisations to change. Sports Direct is witnessing a slow-down in commercial terms which is in turn placing significant pressure on the Board from shareholders, including the Investor Forum and other stakeholders. Such pressure is likely to be a far more effective catalyst for change than the Government currently realises.

What business will need to do is demonstrate that they are taking Corporate Behaviour extremely seriously; are putting it within their strategic framework and decision-making; are using the proper data to understand its importance to their business; are using this data to manage improvement; and, if required, are willing to report on it.

If senior management and Boards can demonstrate that they are using Corporate Behaviour as an asset for commercial enhancement and to ensure good corporate governance, then Government will see that free market forces can influence change, removing the need to resort to potentially burdensome red tape and more legislation.

In order for this to happen, Corporate Behaviour must have its own Boardroom tools. The Board must be able to measure and understand each stakeholder group's views on Corporate Behaviour and how this could influence the commercial success of the business. This is much broader than just corporate responsibility and corporate governance.

We published a report last year on the research we had undertaken, partnering with Deloitte and YouGov, to understand where Corporate Reputation existed within UK companies. We believe there is a direct correlation between Corporate Behaviour and Corporate Reputation. It is worth highlighting one of the key findings from that report is pertinent to our case.

Our research showed the key building blocks of Corporate Behaviour and reputation. As Figure 1 shows, consumer/client service is viewed as the most important factor. Second is culture and ethics, then the quality and vision of the senior management and in fourth place financial performance.

Figure 1

For senior management to understand Corporate Behaviour they need to be able to determine and have data around these key drivers. While metrics for financial performance are in place, most organisations data on other key components either does not exist or sits in silos, providing a disjointed view of important corporate tools. Most organisations undertake many different forms of research amongst different stakeholders – be they customers, employees, investors, suppliers, consumers or various government or regulatory entities. The challenge is this data is often in different formats, does not have any uniform metrics, often is not examined at Board or senior level and may contain information that can't be shared with external parties. This makes any uniform reporting extremely difficult, let alone valid, Finally, organisations should be able to forecast potential behaviour issues and manage the organisation to address these commercial risks in advance. In other words, the data produced must be in a form that encourages and promotes action.

Each organisation has to be able to measure and understand the role of Corporate Behaviour and its potential impact. This involves bringing together every stakeholder important to an individual organisation, creating its own stakeholder matrix of importance and connectivity, and conducting primary research to understand the building blocks of reputation. The findings, on a statistically representative basis, will enable the fundamental understanding of how a company's behaviour is viewed by each stakeholder. This data then can be linked to core commercial KPIs relevant to each business and continually measured for trend analysis.

The Board and senior management team can then make the appropriate decisions to protect and enhance the Corporate Behaviour and reputation of their company both internally and externally.

Importantly, the core metrics can be published to keep key stakeholders informed and enable them to monitor and judge that the appropriate corporate action is being taken.

Our experience demonstrates that multi-stakeholder research is easily achievable and at low relative economic cost. Having established a baseline understanding, which includes qualitative and quantitative feedback from multiple stakeholders, a company can then plan ahead, put a programme of actions in place and set KPIs to track performance as part of the Board agenda. Measurement and the subsequent action planning should become part of a company's business planning. This represents a real commitment towards managing Corporate Behaviour and embedding it within the business which will lead to better risk management and enhanced commercial opportunities.

Looking forward, we firmly believe that companies and Boards that look to actively understand and manage their Corporate Behaviour and reputation as a key asset can generate a significant return on investment. Corporate reputation and its management is still relatively early in its evolutionary cycle, but as consumer behaviour is more influenced by it, and the tools exist for Board's to manage its development, then it will become a core Board discipline and differentiator.

The social, economic and technological trends highlighted above are only growing, as is the question of corporate responsibility in society; the willingness and ability to confront and challenge the role of corporations; a declining trust of business, and the public's growing environmental awareness. Business needs to learn to understand these issues within their own business, embed it within their operations and use it to grow.

The survey referenced was conducted online by YouGov in March and April 2015.

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