

The Institute of Business Ethics  
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By email: [engagement@ibe.org.uk](mailto:engagement@ibe.org.uk)

13<sup>th</sup> August 2023

Dear Sir / Madam,

### **Institute of Business Ethics – Board Guidance for Developing an Ethical Business Culture**

We welcome the opportunity to comment on the Institute of Business Ethics consultation on its new guidance for developing an ethical business culture.

The Chartered Governance Institute UK & Ireland is the professional body for governance and the qualifying and membership body for governance professionals across all sectors. Its purpose under Royal Charter is to lead 'effective governance and efficient administration of commerce, industry, and public affairs working with regulators and policymakers to champion high standards of governance and providing qualifications, training, and guidance. As a lifelong learning partner, the Institute helps governance professionals to achieve their professional goals, providing recognition, community, and the voice of its membership.

One of nine divisions of the global Chartered Governance Institute, which was established 130 years ago, The Chartered Governance Institute UK & Ireland represents members working and studying in the UK and Ireland and many other countries and regions including the Caribbean, parts of Africa and the Middle East.

As the professional body that qualifies Chartered Secretaries and Chartered Governance Professionals, our members have a uniquely privileged role in companies' governance arrangements. They are therefore well placed to understand the issues raised by this consultation document. In preparing our response we have consulted, amongst others, with our members. However, the views expressed in this response are not necessarily those of any individual members, nor of the companies they represent.

Our views on the questions asked in your consultation paper are set out below.

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## General comments

As the Chartered Governance Institute, we have an interest in promoting effective and ethical governance. For this reason, we commend the draft guidance for being written in a broadly applicable way; and for being accurate, short, and factual.

Nevertheless, while we appreciate that the guidance was not written to be all-encompassing or overly descriptive, since it is intended as a guide to the Board as they develop an ethical business culture, we think it should incorporate these suggestions in its structure and wording.

We appreciate that the guidance is intended as an operationalisation tool for the principles of good corporate governance identified in the 2018 UK Corporate Governance Code and aimed at companies listed on the London Stock Exchange. However, we feel it would be useful to clarify who should be the targeted audience, specifically the type of organisations and governance people that might use this guidance. As currently written, the audience is not immediately obvious, but seems mostly directly relevant to small businesses with no structured process and a limited governance team (startups and SMEs).

Therefore, we recommend amending the wording of some articles to expand the reach of this guide to a wider audience (see our specific suggestions below). With these changes, we believe that the guidance can benefit not only listed companies but also a wider range of individuals and organisations. Induction packs, for example, support the transition from a managerial to a directorial role by helping individuals to adjust to their new role – with consequent new behaviours and thought processes. We see this guidance as a valuable addition to their induction pack.

We believe that it would also be helpful to provide case studies on how to apply the principles of good governance outlined in the guidance, since, although it offers a concise and relevant overview, it is in a principle-based format which can make it challenging to apply in practice. The inclusion of case studies would complement the existing guidance and provide practical examples of how to operationalise the principles.

Furthermore, the Institute of Business Ethics (and others, including ourselves) have a library of publications and it might help with the practical applicability of the guidance, were it to be complemented by footnotes that reference relevant articles and papers, so that the reader can delve further into specific themes should they so choose, for example, the guidance on boards and senior management leading by example written by the Institute of Business Ethics.

Finally, it would be useful to include a small section detailing how the guidance will be updated, given that expectations in ethical conduct evolve rapidly.

In terms of specific wording, we recommend the following changes:

- **The introductory section.** It would be helpful to include a precise explanation of business ethics in the initial paragraph of the guidance, using the standard IBE definition. This will ensure that all individuals are on the same page from the start.
- **Article 1.** Consider replacing 'deeds' with 'actions'.
- **Article 3.** Consider the usage of modal verbs. When deciding between using "may" or "should", it's important to consider the audience. "May" can be used to express an optional compliance requirement, while "should" implies a compliance requirement that must be followed. It is

expected that large companies will produce a statement of the purpose and value (a 'should'), but for smaller companies, it is optional (a "may").

- **Article 5.** Include the word 'identify' in the phrase 'The board should identify and monitor' to emphasise the importance of the board being satisfied that the indicators meet the needs of the organisation. Our suggested drafting is as follows:

The Board should identify and monitor both leading and lagging indicators of ethical risks.

Lagging indicators might track actual or potential ethical breaches. Leading indicators might measure stakeholder satisfaction, including complaints and grievances; as well as weak signals or proxies, such as staff turnover or absenteeism, that may indicate a heightened risk of misconduct; or the implementation of mitigation measures.

Where possible, both internal and external **benchmarking** should be used to recognise best practice and identify areas requiring remediation. It should be noted that ethical risks can vary depending on the nature of the business and that certain indicators may not accurately represent the ethical risks appropriate for that organisation and so it may be helpful to explore alternative options.

- **Article 7.** The important role that whistleblowers play in promoting transparent and efficient communication between companies and society should also be mentioned.
- **Article 11.** Consider substituting the term "moral decency" with another word. As a concept, 'moral decency' is outdated and vague. Also, it can be interpreted differently depending on who is defining it.
- **Article 12.** Consider adding to the list of roles that should regularly report to the Board or a sub-committee of the board that of the Company Secretary and more generally include the whole Governance team.

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If you would like to discuss any of the above comments in further detail, please do feel free to contact me.

Yours faithfully,

**Valentina Dotto**

Policy Adviser

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