

THE COMPANY SECRETARY'S ROLE IN CORPORATE ETHICS



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Sir Winfried Bischoff, the then Chair of the Financial Reporting Council (FRC), in the foreword to the FRC's publication 'Corporate culture and the role of boards' said 'A healthy culture both protects and generates value. It is therefore important to have a continuous focus on culture, rather than wait for a crisis.'

The board is the ultimate custodian of corporate culture in an organization and has a responsibility to set the appropriate tone from the top. But the company secretary is often seen as the individual

who has responsibility for ensuring that the board acts ethically and does 'the right thing' when making decisions not just comply with the legal requirements. This is because the company secretary is often referred to as the 'conscience of the company'.

Why is this?

The company secretary should be in a unique position to fulfill this role as adviser to the board on ethical matters because:

- The company secretary should be a trusted and impartial advisor to the Chair and the board as a whole.
- As the organization's governance professional, the company secretary should have both the technical and emotional intelligence skills and experience to influence the activities of the board.
- The company secretary as the primary point of contact for the board members and the conduit for information flowing between management and the board, should be aware of the issues that the board, its members and management are struggling with.
- The company secretary should also have information about all areas of the organization through their access to the papers and presentations submitted to the board and board committee. This should make them ideally placed to align the interests of the different parties around the board table and facilitate a dialogue through the provision of the appropriate information to the board.
- Through access to all parts of the organization, the company secretary should have knowledge about the ethical culture of the organization.
- The company secretary should be expected to speak out against bad governance and unethical practices, and remind the board and management of the appropriate course of conduct and principles of good governance that they should apply to protect the reputation of the organization and ensure that

the company is sustainable in the long-term.

- The company secretary should be aware of the views of shareholders and other stakeholders relevant to the organizations operations, as part of their role should be engaging with shareholders and other key stakeholders, listening to their opinions and views, and enlightening the board and management to their legitimate concerns and interests.

Setting ethical values

To enable the company secretary to carry out their role as the 'conscience of the company', the board has to set standards of ethical behavior that it expects the board members and all the organization's employees to follow. This entails creating ethical principles and values for the organization. The company secretary is often asked by the board to work with management to develop these ethical principles and values.

Ethical principles are statements that:

- Provide guidance and direction for behavior
- Relate to issues such as fairness, equity and justice
- Are universal
- Set boundaries that should be respected

Ethical values:

- Shape the context in which ethical principles are implemented
- Guide choices made by the board, management and other employees



Figure 1: Creating ethical culture

- Frame norms of behavior within the organization applied to daily decisions
- Are incorporated into the organizational culture

The company secretary would usually advise the board and senior management to select ethical values for the company that are appropriate to that company not just pick them from the internet. Employees should be asked for their opinions, and the values and standards of behavior should be developed including their input.

Be careful when choosing “integrity” as a value, which many companies do. In itself, integrity does not have a meaning; it needs to be combined with other values. It is an assurance that the values will be lived up to, as integrity means we will do what

we say we will do. When choosing integrity as a value, many associate their own values with it and so assume that it means being honest, truthful, and so on. In reality people who are dishonest can be so with integrity if they make it clear it is their intention to be so.

When the values are disseminated to employees, the company secretary should ensure that the reason why the value is so important for the company is also communicated. This will help employees identify with the importance of living up to the value.

Developing a code of ethics.

Once an organization has created its ethical principles and values it needs to explain to board members and employees how they should be applied within the organization. This is usually done through the code



of ethics or conduct.

The company secretary is often asked by the board to develop the code of ethics. When drafting the code of ethics, as with the company's values, the company secretary should avoid recommending the adoption of someone else's code. Every organization is different and has different ethical issues to deal with. Time should be taken to develop a code specifically for the organization.

Employees should be consulted on the draft code and feedback shared with the board before the board approves the code. The board may want to pilot the code for a few months to ensure that it is appropriate for the organization before finally approving it.

Once the code of ethics is approved by the board, the company secretary would normally work with the Human Resource function to roll out the code throughout the organization. This will include posters, workshops, and information on the organization's intranet site (if one exists).

Once the code is operational, the company secretary should work with the internal audit function to monitor compliance with the code. The board should have established a whistleblowing policy and procedure so that any breaches of the code can be reported to the board via the audit committee (if one exists). Breaches may require the code to be revised

and the board may ask the company secretary to work on this. Amendments to the code should only be made when absolutely necessary, as constant changes will confuse employees.

Creating an ethical culture

The recognition that ensuring that the right ethical culture is created within an organization is not new. Bob Bauman, the former CEO of SmithKline Beecham said, about ethical cultures in the late 1990's, 'Culture is an accepted way of doing things around a company. Every organization has a culture. A culture happens either by design or default, we are going to design ours.'

The Institute of Business Ethics (IBE) has issued a board briefing 'Culture Indicators: understanding corporate behaviors' to help boards with this task. The briefing, which was based on a study carried out by IBE into how boards are dealing with culture, includes the top 10 indicators used by respondent boards to monitor culture within their organizations. These are set out in Fig 2: Top ten culture indicators.

The company secretary has a role to play in assisting the board to establish and maintain an ethical culture by:

- Suggesting that discussions about corporate culture are on the board's agenda

Figure 2: Top ten culture indicators

Indicator	Percentage of boards receiving information
Speak up and whistleblowing data	100
Results of employee surveys	88
Taxation Policy	85
Diversity	85
Regulatory infringements	85
Health and safety record	77
Financial indicators	76
Customer satisfaction data	62
Engagement with charities	58
Code of ethics sign off rate	58

- Suggesting that culture indicators are selected based on the expectations of the organisation's key stakeholders.
- Developing a dashboard for the culture indicators that should be reviewed from time to time by the board
- Ensuring that information is drawn from a variety of sources to support and monitor perceptions of performance for the selected indicators
- Organising site visits so that members of the board can get out and about and meet employees to assess for themselves the culture embedded within the organisation.
- Assist in developing the reporting to stakeholders on the organisation's culture.

Ethics in decision-making

The main decision-making body within an organisation is the board. The company secretary, as we mentioned earlier, has a role in ensuring that the board is making decisions in line with the organisation's values. They do this by:

- Not just being a post office. The company secretary should review all of the papers and presentations to be submitted to the board or board committees to ensure that they reflect the organisation's values and do not raise governance issues. If there are ethical and/or governance issues the company secretary should raise these with management first. If management are unresponsive then the company secretary should raise the issues with the Chair and agree how they should be dealt with.
- At the board meeting, the company secretary should not be fearful of advising and reminding the board of the organization's values and also societal expectations of the organization when matters are discussed. The company secretary is often seen as having a role in managing reputational risk within the board's decision-making as they are often the only person in the boardroom that have the skills, experience and knowledge to do this.
- By ensuring that when the board is discussing the organization's policies and procedures that they stay aligned with the values, especially

those related to how the organization motivates and remunerates its employees.

- By coordinating with the internal audit function to ensure that the ethical behaviors of the organization are audited and that there are effective whistleblowing and other checks in place to create and maintain the ethical culture envisaged by the board.

In conclusion, the company secretary has a vital role to play in ensuring that an organization has an ethical culture and that the board is making ethical decisions. To be able to do this, the company secretary should be technically up to date but also have the knowledge of how the organization operates and makes money. They also require strong emotional intelligence. The company secretary should also externally be aware of the environment within which the organization operates and what its legitimate expectations of the organization are. ■