

# GOVERNANCE AND ACCOUNTABILITY

## What is governance?

*“Corporate governance...specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.”*

The OECD Principles of Corporate Governance - [www.oecd.org](http://www.oecd.org)



For more information on models of governance, why not explore these websites:

- World Bank Corporate Governance Library - [www.worldbank.org](http://www.worldbank.org)
- European Corporate Governance Network - [www.ecgn.ulb.ac.be](http://www.ecgn.ulb.ac.be)
- The Institute on Governance - [www.iog.ca](http://www.iog.ca)
- Governance Publishing, London, UK - [www.governance.co.uk](http://www.governance.co.uk)
- Corporate Governance - [www.corpgov.net](http://www.corpgov.net)
- Development Trusts Association - [www.dta.org.uk](http://www.dta.org.uk)
- Co-operatives.net - [www.co-operatives.net](http://www.co-operatives.net)
- Social Firms UK - [www.ermis.co.uk](http://www.ermis.co.uk)
- Social Enterprise London - [www.sel.org.uk](http://www.sel.org.uk)

*“Corporate governance can be regarded as being about leadership: leadership for efficiency, for probity and for responsibility. Leadership which is both transparent and accountable.”*

Philip Armstrong, in the Corporate Social Responsibility Forum - [www.csrforum.com](http://www.csrforum.com).

All organisations have a system of governance - a set of rules that govern how people interact and how decisions are made.

The choice of rules reflects the aims of the organisation, its size and sector, and the legal and social structures of the country in which it is based.

**Models of governance** differ from each other, sometimes considerably. 💡

### Some models of governance

- Shareholder control (e.g. UK and USA);
- European Supervisory Council (e.g. Germany, France, Scandinavia);
- Social enterprise (e.g. co-operative; employee and mutual ownership; community businesses; and, development trusts);
- Public sector (e.g. Hospital Trust in the UK's National Health Service).

But in all cases, **trust** is an essential ingredient for positive interaction between an organisation and all the people it affects by its activities - its stakeholders. An organisation's system of governance needs to be designed and operated so as to facilitate the building and maintenance of trust.



For more information on new approaches to corporate governance, why not look at these international initiatives:

- The OECD Principles of Corporate Governance, adopted May 1999 - [www.oecd.org](http://www.oecd.org);
- CACG Guidelines - Principles for Corporate Governance in the Commonwealth (November 1999) - [www.combinet.net](http://www.combinet.net)
- The Global Corporate Governance Forum (a partnership between the OECD and the World Bank) - [www.gcgf.org](http://www.gcgf.org);
- The Centre for Tomorrow's Company - [www.tomorrowcompany.com](http://www.tomorrowcompany.com)



For more information, see the [AccountAbility Primer - Sustainability](#)

Traditional governance models are often found wanting in respect of this criterion of trust. They may:

- Treat the organisation as if it were a self-sustaining entity, and not part of a wider society which itself is located in a finite, physical environment;
- Be based on the concept of command and control; and / or
- Provide for accountability to shareholders, but not to any other groups in society.

Such forms of governance seem increasingly ill-suited to help organisations face the challenges of today.

### Global changes

- **Information technology** - the ability to transmit information all over the world in seconds means that there is no longer any hiding place for irresponsible organisations;
- **Public attitudes towards authority** - there has been a change in people's attitudes whereby trust has to be continually earned;
- **The retreat of the state as provider of services** - in many countries, the privatisation of public services has resulted in an accountability gap;
- **Changing public expectations of business** - the public's expectations regarding the role of business are changing rapidly;
- **Unsustainability** - there is considerable evidence to suggest that planet earth is at the limit of being able to support human activity - this presents organisations with both challenges and opportunities.

A key part of the way organisations can respond to these drivers for change is through their system of governance.

Two major approaches to the improvement of corporate governance have been identified:

- **Improving current practice in traditional corporate governance** which "...underlies the findings of the Cadbury, Greenbury and Hampel Reports and focuses on the work of the board and its relationship to shareholders".
- **Building a new model of "inclusive corporate governance** which "...pioneered by the RSA enquiry into 'Tomorrow's Company'" involves "stakeholders other than shareholders and the Board".

A Strategic Approach to Corporate Governance - Adrian Davies.

### The benefits of good governance

"Good corporate governance:

- Reduces risk;
- Stimulates performance;
- Improves access to capital markets;
- Enhances the marketability of goods and services;
- Improves leadership;
- Demonstrates transparency and social accountability.

Corporate Governance, CIMA - [www.cima.org.uk](http://www.cima.org.uk)

The key difference between the two approaches is focus: should the governance system be primarily focused inwards on the relationship between the board and the shareholders or outwards on the company's relationships with all its stakeholders, including its shareholders?

Increasingly, cutting edge developments in good practice are oriented to an inclusive approach, a form of governance based on **engagement with stakeholders**. Take a look at the social reports produced by the Danish pharmaceuticals company, Novo Nordisk, and the UK lottery operator, Camelot:

### 'The Seven Principles of Public Life'

A useful test for a governance system is to ask the question: to what extent does the system of governance encourage or, at least, permit the organisation's employees or members to abide by 'The Seven Principles of Public Life'?

- |                 |                   |
|-----------------|-------------------|
| • Selflessness; | • Integrity;      |
| _____           | _____             |
| • Objectivity;  | • Accountability; |
| _____           | _____             |
| • Openness;     | • Honesty;        |
| _____           | _____             |
| • Leadership.   |                   |
| _____           |                   |

(UK) Nolan Committee on Standards in Public Life

*“Stakeholders need to be taken into account in the governance structures of corporations and their interests need to be appropriately reflected... We believe in a broader stakeholder focus...we need to ask ourselves which stakeholders are not adequately consulted in our governance structures... New issues...are being brought to our attention by stakeholders, and these issues should...be incorporated in our learning processes. Therefore we will need to extend elements of governance to key areas of our activities that are not already covered or are not adequately covered.”*

Putting Values into Action - Environmental and Social Report 1999, Novo Nordisk - [www.novo.dk](http://www.novo.dk)

*“...we set up an independent Advisory Panel on social responsibility to oversee the social reporting process...They (the panel members) are professionals whose experience broadly equates to that of our stakeholder groups. Individuals on the panel took responsibility for a stakeholder group, examined the consistency of stakeholder consultation and reviewed and recommended acceptance of the social reporting methodology. Camelot appointed a paid non-executive director to advise the board on corporate social responsibility. She became the Chair of the Panel, ensuring that the issues of social responsibility are put at the heart of our corporate governance.”*

Camelot and Social Responsibility - Social Report 1999 - [www.camelotplc.com](http://www.camelotplc.com)



For ideas on accountability standards, take a look at the [AccountAbility Primer - Standards, Guidelines and Management Systems](#)

**But how can organisations take a structured approach to the sometimes confused practice of meeting and consulting with stakeholders?** A growing number of organisations are beginning to use accountability standards and systems such as social and ethical accounting.

These can help an organisation develop governance structures that are responsive to the concerns and values of all stakeholders - one way to position an organisation to face the rapidly changing challenges of today.

## Responsibility, accountability and governance

*“Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals . . . The aim is to align as nearly as possible the interests of individuals, corporations and society.”*

Sir Adrian Cadbury, in the Global Corporate Governance Forum - [www.gcgf.org](http://www.gcgf.org)



For more information on business cases for social responsibility, see the [AccountAbility Primer - Socially Responsible Investment](#)

A concern for society and the environment is at the core of many not-for-profit organisations. But this is also true for the private sector. Indeed, long-term studies have shown the enduring financial benefits to companies that are focused on values other than short-term profitability.

- move the organisation towards operating sustainably.

But what have these programmes got to do with **governance**?

As social and environmental issues matter to organisations, they need to be measured and managed.

The governance system can play two roles in helping the organisation to be socially responsible:

And this is what is starting to happen. In different ways, large and small organisations have begun to assess their impact on society, calculate the value of intangible and tangible assets, communicate with different parts of society and respond to their feedback.

- by **indirectly** involving stakeholders in aspects of decision-making - through ensuring that decision-makers are enabled and encouraged to take stakeholder concerns into account and that systems and processes exist for those concerns to be articulated at appropriate levels and times within the organisation;

‘Corporate social responsibility’, ‘corporate citizenship’, and ‘Social and Ethical Accounting’ are among the terms used to describe the programmes that:

- by **directly** involving stakeholders in aspects of decision-making - through, for example, an independent stakeholder advisory panel linked directly to the main board.

For more details on ways to manage social performance, see the [AccountAbility Primer - Social and Ethical Accounting](#)

- measure, communicate, and improve the organisation’s impact on society and the environment; and by this



*"Stakeholder accountability requires a step change in the way business is run: companies need to ensure that governance systems foster an understanding of relationships which allow balanced judgements to be made. Stakeholder voices need to be heard at the highest levels of governance, only then can the greatest possible benefits flow to all stakeholders."*

Claudia Gonella and Chi Mun Woo, KPMG Sustainability Advisory Services in AccountAbility Quarterly Issue No. 13.

**Circle of Governance; the strategic stakeholder review and audit process.**



David Wheeler and Maria Sillanpaa, The Stakeholder Corporation, Pearson.

More specifically, the organisation needs to develop and manage its system of governance so that it facilitates:

- the identification of **stakeholders with a legitimate interest** in the organisation's activities;
- **stakeholder voices being heard and taken into account**, at the right place and time within the organisation - without compromising the organisation's ability to make effective decisions;
- the allocation of **responsibility to manage relationships** with different stakeholder groups;
- a continuous **cycle of improvement** based on stakeholder engagement;
- the building of **trust** between the organisation and its stakeholders;
- the **empowerment of stakeholders** to engage effectively with the organisation.

The guiding principle in the development of an **inclusive** and socially responsible system of governance is **accountability**: every aspect of the system must be tested in terms of whether the particular procedure, rule or other process helps or hinders the organisation's ability to account for its activities and to improve its performance.

This isn't about organisations abdicating responsibility for their activities, but rather using leadership to build relationships with stakeholders and improve all aspects of their performance.

This is a process of learning, facilitated by the **leadership** of the organisation and its engagement with stakeholders.

**Why not take a step-by-step approach to developing your governance, thinking about:**

**Getting started**

- Where are you now - how does the organisation currently engage with its stakeholders?

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- What is your aim - how, in practice, would you like to see stakeholders involved in the organisation?

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- How can you get there - what skills and experience do you need to get started, and how will you judge your progress?

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# Governance, AccountAbility and AA1000

AccountAbility launched the AccountAbility 1000 (AA1000) Framework in 1999 - a first step in establishing a quality framework in social and ethical accounting.



AccountAbility 1000 (AA1000) Framework



AA1000 model

AA1000 is designed to complement existing financial, environmental and social management systems, providing key principles that are relevant to all. Its development drew from the best practice world wide - from the innovation of business and not-for-profit organisations; from traditional and emerging accounting and assurance techniques; from the analysis of academics and civil society organisations; and from existing accountability guidelines.

AA1000 is an accountability standard - a management framework focused on the quality of social and ethical accounting, auditing and reporting. AA1000 is concerned with improving performance - addressing this with a process of **learning through stakeholder engagement**.

*'We welcome frameworks such as AA1000 that aim to provide a basis on which companies can improve their business processes consistent with the principles of sustainable development.'*

**Mark Wade,**  
Sustainable Development Group, Shell International

AA1000 describes a set of **processes** that an organisation can follow in order to measure, manage and communicate performance; it does not specify what that performance should be.

*'AA1000 is a welcome tool, bringing a coherence of process to the various initiatives in the field, and helping to smooth the path towards what must be an internationally accepted set of reporting standards.'*

**Sir Geoffrey Chandler,**  
Amnesty International UK Business Group

Through stakeholder engagement, AA1000 helps an organisation:

- capture different stakeholder aspirations and needs;
- balance and manage the interlinked elements of social, environmental and economic performance.

In this way, **AA1000 can help an organisation on a path towards sustainability.**

AA1000 is being used by a variety of organisations, including those with a high level of experience in social accounting, as well as those who are embarking on their first steps.

*'We believe that stakeholder accountability involves a process. The new AA1000 foundation standard for social and ethical accounting, auditing and reporting will further inform this process.'*

TXU Europe, Sustainability Report, 1999

*'We have been asked to report our recommendations following a comparison of the stated methodology against best practice, as currently represented by AccountAbility 1000 (AA1000).....In our opinion, the... Balancing Priorities report presents fairly the social and ethical data of the Trust contained therein and has been prepared in accordance with the methodology summarized.'*

KPMG verification statement in London & Quadrant Housing Trust Report, 2000

*Southern Sun has taken out corporate membership of the international UK-based Institute of Social and Ethical AccountAbility. We are committed to using its principles as a guide for systematically improving our social and ethical accounting and reporting.'*

Southern Sun Group, Corporate Citizenship Report, 2000.



*"Social accountability is here to stay - there is a gradual awakening in the corporate boardrooms that the issues and their implications are a business imperative that should be addressed seriously. The debate on social accountability is now beginning to shift from 'why should we?' to 'how can we?' The AccountAbility Primers provide a welcome and useful series of introductions into the key topics and their interlinkages in this diverse field. Highly recommended for those who wish to capture the essence of where we are now, how to get started and where to go for more."*

David Coles, Partner, KPMG Sustainability Advisory Services



*"Business managers today are faced with new challenges as customers, shareholders, employees, governments and civil society raise expectations regarding the impacts and interactions that companies (and their suppliers) have with the world at large and the communities in which they operate. By defining the key topics within a framework for action that is readily understood by the business community, the AccountAbility Primers help to demystify many seemingly complex issues and provide a valuable first-step tool for companies seeking to rise to these new challenges in a business-like manner"*

John Brookes, SGS-ICS



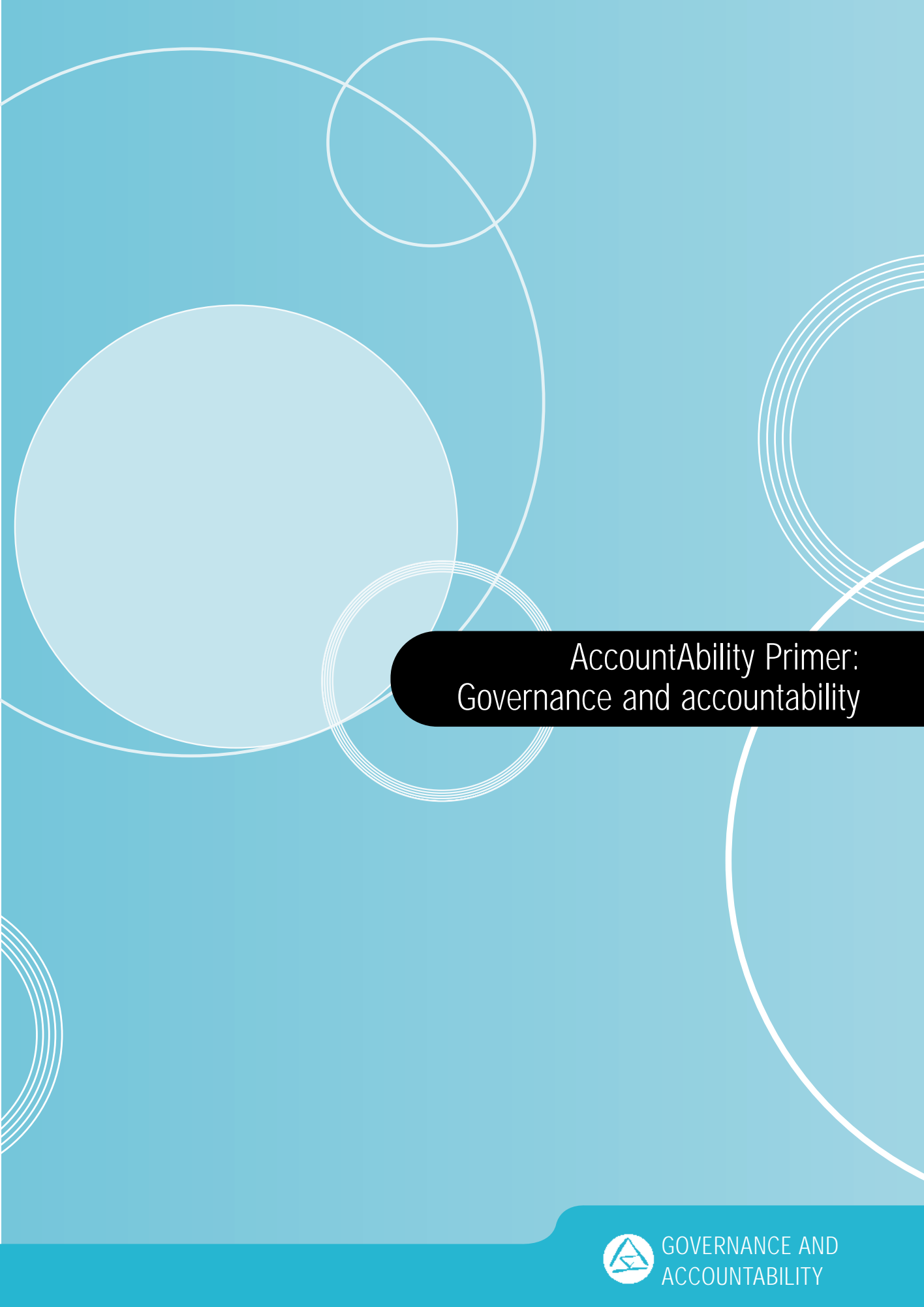
*"There is a real need to make the complex themes of social and ethical accountability accessible to not-for-profit organisations as well as the business community. The AccountAbility Primers aim to kick-start organisations into thinking about, and acting upon, their performance in relation to these key areas."*

Kay Sexton, Chief Executive, AccountAbility

The Institute of Social and Ethical AccountAbility aims to improve the accountability and performance of organisations world wide. It is a membership body for individuals and organisations.

For more information, please contact AccountAbility on +44-20-7407-7370, or take a look at its web site - [www.accountability.org.uk](http://www.accountability.org.uk)

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# AccountAbility Primer: Governance and accountability



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