



Profiting from values? What can housing associations learn from independent, values led businesses?

Mark Lupton and Angela Lomax

Foreword

In the context of minimal economic growth in the UK and changes to the external landscape, this research is timely in presenting a wider perspective on how housing associations define and promote themselves.

Affinity Sutton traces its roots back over 100 years. We take pride in being a business for social purpose and we consider our values to be embedded deep within our corporate psyche. We are first and foremost a landlord providing good quality affordable homes for our residents and building new homes to cater for the large number of households who find it difficult to meet their needs in the housing market. As a large national landlord we have a positive economic impact in the neighbourhoods and communities where we work.

One of the crucial challenges highlighted in this report is how we can measure the wider social value of our business so that we can get the best possible impact for the investment we make. At a time of reduced public funding and when our residents face unprecedented pressures from government cuts and welfare reforms, we need to ensure that every penny counts. Value for money in purely financial terms is of course only part of the story. The ability to meaningfully demonstrate the social value of our business – in holistic terms, not merely according to specific activities – will help those we work with recognise housing associations as independent, values led businesses.

Clare Miller
Group Director of Governance
Affinity Sutton

Introduction

Until quite recently if a housing association was talking about its performance it would refer to the size of its development programme, its star rating from its Audit Commission inspection and the regulator's view of its overall health. If it was talking to a lender it would have emphasised the way housing benefit underpinned its income stream, with much of this being paid directly to the association.

The changes taking place within the climate in which associations operate now mean that they are less reliant on government funding and are having to define themselves much more clearly as independent businesses.

One difficulty which associations face in making these decisions is an apparent lack of clarity about what associations are. The National Housing Federation's latest perceptions audit showed that MPs and Councillors didn't know if housing associations were private business, social enterprises, public sector bodies or charities.

This confusion may arise because associations have a wide remit or because of the sheer range of associations. MPs and Councillors see differing organisations with differing priorities. However, might it also be because many associations project different messages from different parts of their organisation at the same time? Do they tell a diverse or inconsistent story? Does this inconsistent story reflect the reality of a lack of a clear identity?

In many ways housing associations can be seen as being on a journey from a position where they were more like an NHS Foundation Trust, with strong regulation and inspection and significant public funding, to one where they are more like an independent, values led business.

This research project is looking at a range of values led, non-profit distributing organisations operating successfully in competition with the private sector (see box below). The aim is to consider how they operate, present themselves to the world and are governed and to identify potential lessons which may be of value to housing associations.

The businesses which we have considered in this study are: ARUP, Bupa, **Central Surrey Health**, Cooperative Group, **John Lewis**, **Nationwide**, **Scott Bader**, Suma, Triodos Bank and **Welsh Water**

We undertook more detailed work on particular aspects of the five organisations highlighted in bold.

Part one: independence, values and profit

1.1 Independence and sustainability

At the heart of the organisations we have researched (referred to as values led businesses - the VLBs) are their independence and sustainability. Their independence derives from the fact that - while most are subject to regulation of some kind – they have ownership arrangements that are autonomous from either government or external private shareholders.

The VLBs which were competing directly with public shareholding competitors were particularly strong in emphasising the long-term stability of their business, which they contrast with their competitors who have much shorter time horizons and are in a sense always up for sale.

There is a strong emphasis on the people currently running the business as that business. This leads to longer term performance horizons, but does not however mean being unreceptive to change and growth. For instance ARUP,

Scott Bader and Bupa have developed from their UK roots to become international businesses.

Their belief in the importance of sustainability is part of a wider view among the VLBs that commitment to and the delivery of values are necessarily and explicitly a part of doing business. John Lewis says that:

Achieving our objectives requires us to demonstrate the benefits of co-ownership and the behaviours that differentiate us. Our ability to compete against and outperform conventional companies will be the most important illustration of the effectiveness of our approach to business.

The values of the VLBs underpin the culture of their business in a way that goals and targets do not, and mean that changes have to be not solely about business pragmatism, but also how they chime with the organisations wider purpose. The nature and structure of their business is both driven by and facilitates their values.

The values of the individual VLBs are very different, both in form and content. It is however important to be clear that - whatever the differences - the values are not seen principally as a branding exercise. For the bulk of the organisations we have looked at they have clear mechanisms in place which ensure that the values are the basis of a shared purpose which is understood and transmitted throughout their business.

This gives them some clear perceived advantages:

- Their focus on the long term and acting ethically means they are less likely to run the reputational risk of unethical corporate behaviour
- Their emphasis on values helps provide a clear identity and is a major motivator for staff
- The ethical dimension of the business is a significant factor in the way the organisation presents itself to the outside world, as being one which is worth doing business with beyond a mere financial transaction

A wider perspective

One interesting aspect of the VLBs' emphasis on values is the importance to the long-standing organisations of their "creation narrative". So for instance Bupa emphasises its origins in provident associations, the Cooperative talks about its growth from the Rochdale Pioneers in 1844. the Scott Bader Commonwealth constitution opens with emphasis on being "founded on the belief that a socially responsible undertaking cannot exist merely in its own interests. It is part of the whole national and international community, and, as such, has responsibilities which extend far beyond its factory walls."

It is also the case that most VLBs not only support charities but their values (and profits) support wider objectives. Arup focuses on education and the built environment including the Ove Arup Foundation whose overall purpose is for 'the advancement of education directed towards the promotion, furtherance

and dissemination of knowledge of matters associated with the built environment'. Other examples are:

- The Cooperative supports the development of cooperatives and their principles via The Community Development Foundation whose aim is to promote self-help and mutual aid in community, economic and social development through cooperative enterprise and the Cooperative Party
- Nationwide as part of its *Citizenship* approach (see appendix 2) has put a strong emphasis on supporting its staff to volunteer, and last year 24% did so
- John Lewis puts resources into supporting other co-ownership enterprises (and indeed played a positive role in the development of Central Surrey Health)
- For Scott Bader the first call on profits is to its charitable arm

Are associations clearly independent and values led?

Housing associations are in many respects one of the best developed examples of social businesses in the UK. For many associations the fact that they have a social purpose seems to be almost taken for granted and assumed to motivate staff and be understood by stakeholders. But is that really the case? Do we often hear more about the size of borrowings and business objectives than an association's values? Do associations publicise growth more strongly than their service and community development activities? Do associations sometimes try and be all things to all people?

Associations have in the past been heavily influenced by regulation and government funding requirements. Indeed it is arguable that many associations have often defined themselves in terms of these requirements, rather than being clear about their own values and what independence means for them.

With the housing regulator's focus primarily on economic regulation and the need to satisfy funders' requirements, these bodies may well come to be seen in practical terms as an association's key stakeholders with an accompanying narrowing of focus on business objectives and outcomes, rather than the values of the association.

If the sector becomes too clearly seen as focusing on business objectives at the expense of its customers and the communities with which it works then it will have implications for the independence of associations. Moves are likely to be made by government to either force some model of accountability on associations, or to develop a form of "exit" for tenants. The policy paper endorsed by last year's Liberal Democrat national conference proposed that:

Giving social housing tenants an even stronger role in how their providers are run – with tougher standards of accountability enforced by the Social Housing Regulator. We will also give tenants the power to trigger a vote on whether to move to another housing provider when things go wrong

In the changing economic and regulatory environment associations now have more freedom to redefine themselves in terms of focus and operational emphasis. Individual associations may need to be much clearer in demonstrating that they are a different type of business by reinforcing in the public mind their value-based nature and – crucially – their independent, individual identity.

What aspect of the VLBs' operations and governance might associations consider as helpful to consider in achieving this?

1.2. Valuing values

Some of the external confusion about housing associations and the mixed messages conveyed by them may arise from the way associations currently express their values. Almost all associations have some form of a statement of values, but in practice many of these are fairly generic and limited in their description. The following, anonymised examples, provide an illustration of this position:

<p>Housing association A:</p> <ul style="list-style-type: none"> • <i>Passion for customer services</i> • <i>Using our strengths</i> • <i>Trust and integrity</i> • <i>Willingness to innovate</i> 	<p>Housing association B:</p> <ul style="list-style-type: none"> • <i>Customer First</i> • <i>Ambition</i> • <i>Imagination</i> • <i>Empowerment</i> • <i>Inclusive</i>
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In contrast, the VLBs we have researched demonstrate much more specific values, as the example of Triodos in the box below demonstrates.

<p>Triodos: <i>Our values: a firm foundation</i></p> <p>We are dedicated to making a positive impact on the world, and have four key values that encapsulate what is important to us, and provide a firm foundation on which to build our business:</p> <ul style="list-style-type: none"> • Sustainability: We only finance activities that actively benefit people, the environment or culture. • Transparency: We strongly believe depositors should know how their money is used. So we show them on Know Where Your Money Goes¹. • Excellence: As a bank, we want our products and services to be among the best in our industry. • Entrepreneurship: We're constantly working to develop innovative new ways to finance sustainable sectors and the entrepreneurs leading them.

Associations could consider how explicit they are about their values at present and whether they truly describe the purpose of their individual business. They will then be in a position to appraise how far the values really drive the culture of the organisation and the role they have in providing a clear identity, motivating staff and telling their story to the outside world.

¹ See <http://www.triodos.co.uk/en/about-triodos/what-we-do/who-we-lend-to/>

The VLBs also put a high priority on their values clearly needing to influence all aspects of the business. This lesson is important for associations. It is not about having a mission understood at the top, but one that shapes the culture of the organisation, motivating and challenging staff and shaping what is done. In particular there is a strong expectation on staff to implement the values in working internally and with customers and suppliers. This is illustrated well by the example of Scott Bader set out in Appendix 1.

This is built into employee owned businesses but also in others such as Nationwide's PRIDE approach² which is a set of behavioural standards "that we ask of ourselves and each other to ensure we deliver on the promise to customers".

In this way values place clear expectations on staff in terms of the way they relate to each other and with their suppliers and customers, at the same time giving them certain rights to be heard and their views to be taken into account.

This appears to produce a virtuous circle; the focus on motivating staff is linked to a strong emphasis on them in turn developing good customer and supplier relationships, which in turn produces profits.

If an association is in a position where all parts of the organisation are working on the basis of values that are meaningful and consistently understood, this helps them focus their activities in a way which both internal and external stakeholders can see there is a shared purpose and that they are both independent businesses and have a wider focus than purely business objectives.

Growth and values

Partnerships and competition are both likely to figure more significantly in the future development of associations. Many of these may be with organisations beyond the association sector. Being unambiguous about what makes an association different and communicating that message will be an important aspect of this.

A clear focus on values may also help with some of the difficult decisions that associations are having to make. Associations are potentially part of the solution to many issues wider than housing, including such areas as joblessness, care and support and localised community activity. They will have to be clear about their priorities and know what they are good at doing.

For instance, if an association has chosen to vigorously compete in an area such as the domiciliary care market, it has to make a decision whether it is going to ape its private sector rivals and operate with a very tight employee salary and benefit structure or whether there is scope to focus on better terms and conditions with a view to improving staff commitment and retention and

² See <https://www.nationwide-jobs.co.uk/working-for-us/pride-in-what-we-do.aspx>

compete on quality – making this their USP. The issue of how these options fit in with the core values of the association is crucial to such a decision.

The danger of not being clear about the values that underpin these considerations risks incoherent decision-making, reputational risk, negative effects on staff morale and uncertainty for stakeholders.

A key part of being independent, and being seen to be independent, is the ability to say “no” to opportunities which may have long-term negative consequences for their business or are not in line with their values. For associations this includes saying “no” to government.

One example from the VLBs may be important here. Nationwide stood out very strongly against the demutualising trend that followed the 1986 de-regulation of building societies, arguing that as a mutual society it exists for the core purpose of delivering a service to its members, not chasing a short term profit. Its continuing success in that role contrasts starkly with those societies that did demutualise. Every society which demutualised has ceased to exist as an independent entity, several in spectacular circumstances.

Part of the strengths of the organisations we have looked at is the way they have grown organically, by being very focussed on doing what they are doing well, rather than significant opportunistic expansion. This is in part because of the way they are financed, with retained earnings being a more significant aspect of their capital than for profit distributing companies, but is also about the long term custodianship of the business.

As we were completing this report the well publicised problems at the Cooperative Bank emerged. These show that even an established VLB can cause itself problems by trying to over extend itself in a move to grow significantly, with the push for a “super mutual” leading to its merger with the Britannia Building Society appearing to be at the root of the Banks problems.

The way that the Cooperative Bank is now having to issue shares on the stock exchange and that the Cooperative Groups effectiveness as a mutual has been questioned is perhaps an important lesson for associations.

1.3. Profits for a purpose?

Values therefore provide a strategic underpinning for the VLB’s businesses which acts as a focus for policy direction, effective performance and long-term sustainability. It is also however essential to reinforce the importance – along side this – of a strong commercial ethos as being central to the success of the VLBs.

The VLBs are not *primarily* focused on maximising profits but they do actively seek to make surpluses. They are able to use their surpluses in a flexible way and it is how these surpluses are used and distributed in accordance with their purposes and values that are at the heart of their work.

For associations there are often two attitudes which sometimes cloud debates over the nature of an association's business:

- Being cautious about talking about profits or surpluses
- Seeing becoming more commercial as sidelining values

The services which associations have provided in the past have often been shaped by the need to meet the requirements of the Audit Commission, which tended to incentivise associations to produce similar services and approaches.

Associations now are in a better position to think through their own independent approach to the services they provide. As part of this, taking a strong commercial approach which focuses on driving efficiency and effectiveness throughout the organisation to produce finance for services and development will be important.

The evidence from the VLBs is that there is nothing wrong with making and being seen to make profits. Indeed actively pursuing profit helps drive efficiency. It is however vital to demonstrate how the organisation will utilise those surpluses to further its aims in line with its values, either by reinvesting or distributing in clearly visible ways.

The key issue will be defining what a commercial approach means in practice for individual associations, and how that can be consistently understood and owned throughout the organisation.

Several associations who are branching out into market rent and outright sale have to decide whether it is a means to an end (cross subsidising the traditional social housing products) or it is an end in itself and if so is it in line with their core values, and what this means for its overall approach.

It is useful to consider that values are as important in terms of how things are done as much as what is done. So values are a clear driver of the more conventional approach to lending of Nationwide, as they are at the more overtly ethical approach of Triodos. So for associations it is not about doing particular activities but more about ensuring that the values underpin the activities that are undertaken.

Part two: The social dividend

The VLBs generally take the opportunity to "tell their story" to both their staff and customers about their approach, emphasising both how their values are a very clear focus for the business and their commitment to what matters to customers.

This tends to be done via similar reporting mechanisms to profit distributing companies with two major additions: the need to report effectively to the active shareholder (see below) and a strong emphasis on reporting on how their values impact on their business. Examples include Nationwide's "citizenship" approach (see box below) and the Cooperative's excellent sustainability report.

Nationwide has recently introduced a new Citizenship Strategy entitled *Living on your side*. The strategy has four strands:

Your Home: help 750,000 people into a home of their own, including over 250,000 first time buyers

Your Money: empowers one million people to start saving, including initiatives to help under 18-year-olds

Your Community: is about investing and unlocking £15 million into local communities, as directed by their customers and employees

Your Society is about “staying true to our mutual values” by treating customers fairly, having a sustainable supply chain, supporting employees and minimising the impact on the environment through their operations

The programme is being led by Nationwide's chief executive, and has a strategy to ensure that it is “owned” by all employees, including its being coordinated by a dedicated Citizenship team and rolled out by a network of Community Champions within Nationwide

For more detail see Appendix 2

One lesson that associations might learn from the VLBs and from the recent Kay report is that it is important to get the right information that is “clear, relevant, timely, related closely to the needs of users and directed to the creation of long-term value”³.

Associations are in a different position to the VLBs. Most VLBs have narrower stakeholder interfaces, few external funders and are operating in active markets where customers have more “exit”. Associations have to deal with the wider expectations of a range of bodies whose principal role involves interactions with wider social and policy implications.

However much the context is changing, associations are heavily involved in the provision of housing for those who struggle to afford it in market situations, and they will inevitably be seen in the context of - and directly affected by - wider social and political debates around how the country houses the population. This can be seen at the present time in the way that associations have to think very hard about the risks involved to their tenants and their business from the current recasting of the welfare system.

It is therefore important that associations are able to demonstrate to their stakeholders the ongoing social value of their activities. Many associations are taking this on board and seeking to develop approaches around measuring social value. These are in some cases however limited to assessing the value of wider community investment activities rather than capturing the social value of their all-round performance.

HACT has been doing some good work on a number of initiatives in this area. Indeed Matt Leach from HACT is surely right when he says that “the impact of

³ The Kay review of UK equity markets and long-term decision-making, 2012

individual community initiatives is less important than looking at the social impact of a business as a whole and how that then influences the investment choices you make”.

It is certainly worth associations considering developing more sophisticated approaches to assess their social value. There are however a number of dangers with relying too much on metrics:

- The approach can be complicated and comparison may come at the expense of a wider understanding of the methodology - and its potential limitations - by those considering the figures
- A focus on a narrow statistical approach holds the danger of lacking a clear link to wider narratives particularly in terms of the overall values of an association
- Considerable time and resources are required to produce this analysis and there needs to be an opportunity cost consideration as to whether this is the most worthwhile use of an association’s analytic capacity

The issue for associations is therefore whether this will help their approach become more focused and sophisticated or whether this is a complex metric which will not be easily understood by the people involved in making decisions about strategic direction and the use of resources.

Associations have several potential audiences for the information which they collect. How the information gathered is to be used in respect of the following areas might be crucial in determining a coordinated response to measuring social value:

- Information to assist in making the most effective strategic decisions
- Information that can help provide a clear picture of the impacts of what they are doing
- Information to be relayed to stakeholders to inform them of the impact of the association’s activities
- Information for regulators and government to help with accountability challenges and to justify activities

There is a danger for associations that the information they produce is aimed at influencing an ongoing dialogue with the regulator and government, rather than less complex information which would be accessible to a wider audience, and would demonstrate their overall social and economic impact and how they deliver their aims and values.

One particularly important aspect of this is that associations need to be clear about their own values and objectives and to develop mechanisms to both monitor their work and tell their story.

Rather than looking to report a detailed set of metrics it might be better to utilise such approaches to focus on reporting a **social dividend** – the transparent benefit of the added value of being a values led business. This could be based on being:

- Clear and unapologetic about reporting the surpluses which they make to internal and external stakeholders, but equally clear and accountable about how they use these to invest in better homes and services in line with their values.
- Better at explaining how their business creates social value. However this needs to be presented simply in a way that a range of stakeholders can readily understand.
- Wary of ambiguity and differing messages going to different stakeholders. Their overall messages should be consistent and communicated to all audiences, although these may need to be framed in the appropriate language to suit the different audiences.

This would bring together key, relevant information on both the business and social outcomes and would explain:

- How they have obtained stakeholder views to guide their priorities
- The wider social value of their business
- How their surpluses arises from their activities
- How they are converting such a dividend into activities in line with their values.

Clearly defining who you are and demonstrating that the services provided are both commercially effective and meet the organisation's values is a strong message.

Dividends for staff and tenants?

In thinking about the social dividend it is also necessary to reflect on the fact that five of the VLBs are owned in trust by their employees, in two of which staff receive a share of profits. For John Lewis and Scott Bader this profit share is clearly strongly linked in to the wider issues of values and ownership. Might associations want to consider going down a similar route?

A particular issue here is whether in the context of a housing association looking to distribute profits in line with its values, this is likely to have a significant impact, particularly in terms of staff motivation.

Charles Handy has argued that on the classic model of business employment practice, employees at all levels are seen essentially as 'mercenaries, on sale to the highest bidder, hired for projects, unwanted when not needed, loyal first to ourselves, then to our project and last and least to the hiring organisation.... A larger and, if possible, a nobler cause is needed to keep the enthusiasm of the workforce at the requisite level'⁴.

Financial rewards are obviously important. If however Handy is right then focusing on the "nobler cause" inherent in the values of the organisation might

⁴ Handy C (2002) *The Elephant and the Flea: Looking Backwards to the Future*, New York: Random House

be the more important lesson to learn from the VLBs, rather than the particular form of financial reward.

It is interesting that when interviewed, representatives of both John Lewis and Scott Bader said that while the bonus to members is something that has a positive effect on morale; it is the **culture and leadership** of the organisation, which drives and is driven by staff engagement across the company that is key.

John Lewis stressed that this leads to not just better working relations but positive well-being generally. They have done some work on the well-being of their partners and found that their “well-being scores” were 10 to 15% higher than workers in comparable organisations.

Associations have figured prominently in the Sunday Times Best Not-for-Profit employers and the social values of associations are clearly an important motivating factor for many employees. Associations have however, in the main, tended not to give as much emphasis to staff engagement as they have for tenants and other customers. The VLBs clearly see their ability to motivate staff via their values and practices as a key benefit from their current arrangements. Associations might therefore want to consider whether they want to develop a stronger staff voice.

Central Surrey Health is owned by its staff, but they do not receive an employee dividend. Instead the focus is on their values which elaborate their overall goal to “revolutionise healthcare in our community and improve health standards for all.”

Elected representatives sit on a co-ownership council called 'The Voice'. They challenge the Board on behalf of all the Co-owners on strategy and performance “and raise Co-owners' questions and views directly with the Board”. Representatives to The Voice are based on geography given the dispersed nature of the co-owners, with there being approximately one representative for every hundred staff.

A more radical possibility would be the development of an ownership stake by the tenant’s equivalent to that of the John Lewis members, who would receive a “profit share”. The possibility of such an “equity stake” has been explored in several reports in recent years⁵. These have identified a number of difficulties, not least that the funding of such a stake would divert money from other priorities, particularly potentially reducing an association’s ability to invest in homes and services.

An association “sector”?

As associations establish their own individual paths - rather than responding to signals and incentives from the regulator or grant giver - they will

⁵ A stake worth having. CIH/IPPR, 2002, HomeSave, Increasing choices for tenants to own assets, Chartered Institute of Housing, 2005, A stake in the future, London councils, 2006

increasingly form a diverse set of organisations in terms of what they are doing, how they are structured and what they are achieving.

We have seen that for the VLBs their independence is key, nevertheless Nationwide still values the role of the Building Societies Association and John Lewis is passionate about promoting staff ownership options. Thought needs to be given to the collective story of associations' commonalities as well as their individual stories.

Is it possible to develop a clearer narrative that ensures that the wider public has a better understanding of what housing associations do and the impact they make?

In being clear about their independence, associations should also be clear about not adopting terms applied to them by others. The term *Registered Provider* is both a poor description of the diverse businesses that most associations are and gives the impression of them being an agency of government.

Part three: Ownership and governance

3.1. An active shareholder?

While there are very different approaches to the way the individual VLBs are governed, for most of them there are three key aspects to this:

- The operational arm has the freedom to manage the business
- There are clear accountability mechanisms to the “owners”
- Both the board and the owners have responsibility for the values of the company

All of the VLBs have an ownership structure which is vested in a way that is designed to support its values based principles. This has the advantage of a very clear focus on the “owners” or **active shareholders** holding management to account for results and values.

This focus on boards *and* ownership contrasts with associations where much of the debate around governance focuses rather narrowly on the role, size and composition of boards and the role of the executives.

This raises a number of questions:

- Most associations have executive teams and non executive boards, but who else has significant influence?
- They have shareholders, but are they really actively engaged?
- In the past associations were responsive to the government regulator. Instead of a top-down regulator's influence how can associations develop mechanisms that help guarantee their independence?
- Might the way the VLBs' independence is underpinned (by having a clear reporting mechanism which gives them accountability and legitimacy) be an option for associations?

Most associations have very small memberships who play a relatively inactive part in the governance arrangements of the organisation. Indeed most associations are still Industrial and Provident societies, which were not designed to deal with the complexities of running the large businesses that many housing associations now are.

The Ownership Commission⁶ talked about the emergence of “ownerless corporations”. Their thoughts here were aimed at businesses being dominated by short term trading of shares, but there is a sense in which associations can also be seen to be a form of ownerless corporation, with the danger that they are seen as self-perpetuating, without the checks of markets or wider accountability.

While there are a range of thriving cooperatives within the housing association sector and a number of newer mutuals⁷, there have been surprisingly few moves to develop more accountable structures.

Part of the reason for this is difficulty of amending existing regulations and governance arrangements as the ‘rules’ may restrict any proposed changes to the board membership arrangements and the allocation and distribution of any surpluses. Moreover there is a danger that investors will see such a structure as untried and complex.

It might therefore be the right time for creative thinking about moving to a different form of legal status for larger housing associations. Some associations might therefore benefit from developing a model whereby there is a clear operating arm with freedom to manage but held to account by the sort of *active shareholder* role, to whom they have to continually justify their positions and who guarantee values and independence.

There are a variety of structures within the 11 organisations, but all do have this active shareholder aspect. The different models are set out in the box below.

The active shareholder

Selected shareholder model – a defined number of members selected on clear criteria whose role is to elect the board and be the active shareholder holding the board and executives to account (Bupa and Welsh Water)

Consumer cooperative - owned and controlled by its members. Anyone can become a member and there is a democratic structure which governs the business and its activities (Cooperative)

⁶ Plurality, stewardship and engagement, The report of the ownership commission, 2012

⁷ Community Gateway Association and Rochdale Boroughwide Housing are important examples

Worker cooperative - members of the co-operative collectively own the business. All members are responsible for the operation, management and therefore the health of the business (SUMA)

Democratic mutual – a wide membership which annually elects the board, receives regular reports and potentially member benefits (Nationwide)

Supervisory board model – having an operating board with a strong chairman role and supervisory board representing a shareholder interest (John Lewis, Triodos Bank)

Owning trust – the managing company is owned by a membership trust or “Guardian Shareholders” on behalf of the co-owners who hold it to account on the basis of a constitution (Scott Bader, ARUP, Central Surrey Health)

Most of these active shareholders act as long time custodians of the values of the organisation who have to be consulted and their views taken into account when significant strategic decisions are made. The VLBs claim that this forces the directors of the company to think through the full implications both in terms of the business itself and its values and also helps clarify what the business is there to do.

For some of the VLBs - such as ARUP and Scott Bader - their current structure and approach emerged to ensure a legacy of values for the future, giving their business its distinct character and independence. For associations having to make difficult decisions about their future role, that sort of clarity might be particularly important.

One apparent benefit of a structure with an active shareholder is the discipline involved in the need to provide appropriate information to the active shareholder, particularly if this involves the right to ask for further information. This is a better mechanism for transparency and developing focused and intelligible information than incoherent publishing of reams of financial and performance information.

Simplifying accountability?

The development of an active shareholder role may help associations to focus on simplifying the accountability mechanisms they have at present.

Some providers are starting to evaluate whether, bearing in mind the costs, they should be undertaking the range and detail of measures to which they are currently committed or whether there is scope for more targeted approaches to achieve their objectives.

Associations already have a variety of mechanisms for involving tenants and reporting to stakeholders on their performance, but:

- Might there be too many accountability mechanisms in many associations?
- Might these put out diverse and sometimes conflicting messages?
- How much influence do they really have on strategy and performance?

Whilst the democratic structures of the Cooperative Group and Suma involve a considerable emphasis on accountability structures, the competitive environments in which the VLBs work means that they are using customer information and technological developments in relation to their customers in a similar way to their private competitors.

Associations are becoming much better at developing and utilising customer profiling information and understanding how technology is reshaping consumer behaviour.

Associations therefore may look to streamline the number of methods for interacting with tenants and other stakeholders, as they become more adept at using customer insight and electronic sourcing mechanisms and combine these with a focused active shareholder role.

3.2 Governance and the board

As we have seen above all, the VLBs have a strong emphasis on their being clear operational independence for the running of the business with the “active shareholder” role acting as the accountability mechanism.

Many associations’ boards might be characterised as being half way between a “private sector” board and a sounding board for the executives. Yet the new situation facing associations requires clarity. This is leading to a new set of questions for associations.

- Did the way that regulatory scrutiny operates stop association boards maturing into the key forum for running an independent business?
- Has the role of the chief executive been too pronounced in associations, with the board being more like an accountability mechanism?
- Should smaller boards with fewer non- executives become the key forum rather than senior management teams?
- Given the new risks faced by associations what should be the role and background of non-executives?

So what is the situation with the VLBs?

A framework for leadership

There are a variety of arrangements relating to the respective roles of the chair, board and chief executive among the VLBs and also in relation to the size and composition of the boards. This variety perhaps contrasts with associations, where any ten of the larger or medium associations would have less diversity of arrangements than the VLBs.

For some such as Central Surrey Health and Scott Bader the group board is the focal point of running the business, with accountability to the active shareholder. For others such as Bupa and the Cooperative the chief executive and an executive team are responsible to the board for the day to day running

of the business. There are however no executives on the Cooperative board while Bupa has its chief executive and finance director on its board.

For most VLBs the governance and leadership roles are specified (often in some detail) in their guiding framework. For Bupa this is in their articles of association, for Scott Bader it is their constitution and for Nationwide it is a framework of authorities (see box)

Nationwide

Nationwide is run day-to-day by a senior management team overseen by an elected Board of Directors. The Board focuses on formulation of strategy, control and review of business performance. There is a framework of authorities in place which maps out the structure of high level delegation below Board level and specifies those issues which remain the responsibility of the Board.

It is also notable that in most cases the chair and the board have wider responsibilities for the values of the organisation as well as for holding the management to account (see box below)..

The Bupa Board's objectives are:

- to help Bupa to succeed;
- to add value and support, as a Board, to the executive team;
- to deliver exemplary corporate governance and build an effective and open Board;
- to represent well the values that Bupa stands for; and
- to enjoy being part of a great company.

A particularly interesting example is at John Lewis where the chairman of the group has responsibility for both values and business performance and has to report directly to the Partnership Council on these twice a year. The chair also appoints five members of the group board but can be dismissed by the Partnership Council.

While the leadership role of the individuals holding these positions is vital, they are clearly framed within the context of the purposes and accountability structures within which they operate. Both John Lewis and Scott Bader were particularly keen to emphasise how their constitutions provide a framework for leadership which is grounded in principle and has a clear integrity and clarity of purpose.

The focus in most VLBs on an active shareholder and a constitution is that leadership is not principally about driving performance from the top of the organisation, but rather about ensuring that the substance and spirit of the constitution are being met.

This is underpinned by two crucial aspects which we highlighted earlier:

- The way the constitution emphasises the responsibilities of staff alongside the benefits. This helps to spread the positive culture throughout the organisation
- Effective communication throughout the organisation, where information and knowledge is openly shared

It is also important to note that many VLBs have other constituencies represented on their boards allowing a diversity of voices. This might be something that associations need to consider. If too many non-executives are focussing on the business, will there be a loss of focus on values and wider experience. As Derek Joseph has pointed out “smaller boards will have little place for the non-executive who is not professional but provides local knowledge and insight”⁸. This may be less of an issue where there is a clear “active shareholder”.

Non-executive directors

Larger housing associations have been moving towards having smaller boards, with non-executive directors (NEDs) increasingly being recruited for their business experience. For the VLBs, NEDs also play a significant role however it is also important to note that many have other constituencies represented on their boards allowing a diversity of voices, which is reinforced by the active shareholder role.

Several of the VLBs have boards directly elected by their active shareholders, as are ARUP’s 14 board members, Nationwide’s 12, Welsh Water’s 11 and BUPA’s 10..

John Lewis and Scott Bader have a clear majority of NEDs, including incorporating representatives of the active shareholders within their boards. Central Surrey Health however has a four person board, two being non-executives.

The Cooperative Group and Triodos Bank both have small executive boards responsible for the day-to-day operation of the business, but both are clearly responsible to a board., In the Cooperative’s case it is 20 strong group board and Triodos has a supervisory board “which monitors the Bank’s business operations and advises and assists its Executive Board”.

But are these more “professional” arrangements by associations really the best way forward? If too many non-executives are focussing on the business, will there be a loss of focus on values and wider experience? Derek Joseph has pointed out there are dangers from relying on smaller boards as they “will have little place for the non-executive who is not professional but provides local knowledge and insight”⁹

⁸ Social Housing magazine, September 2012

⁹ Social Housing magazine, September 2012

A recent paper on NEDs¹⁰ has suggested that diversity on boards is important: “Diversity may support independence. Diversity of thinking may lead to better decisions.” It is however also worth noting that the paper went on to say “the dynamics of the boardroom may inhibit this advantage”.

There is perhaps a danger of a cultural difficulty if narrow business decisions become the focal point for all discussion, rather than the wider purposes of the association, particularly if professional non-executives identify more with the business than with the objectives. Certainly there is a strong strain of thinking among those writing about the banking crisis that it showed how well paid NEDs can be deterred from challenging the business ethos.

This is something that associations may want to think seriously about. Are associations in danger of reducing that “diversity of thinking”, particularly in terms of having people with genuine experience of the communities in which associations work involved?

Active directors

Some VLBs have developed arrangements to give directors specific roles:

- **Bupa** and **Welsh Water** have a senior independent director
- The **Scott Bader Commonwealth** board includes five externally appointed Guardian Trustees
- **John Lewis** has two positions designed to uphold the integrity of the business, known as *The Partners' Champions* (see box)

John Lewis Partners' Champions:

- **Registrars** act as Ombudsmen and are responsible for ensuring that the Partnership remains true to its principles and is compassionate in its dealings with individual Partners.

- **The Partners' Counsellor** monitors and upholds the integrity of the business, its values and ethics as enshrined in its constitution. He/she is a member of the Partnership Board and performs the role of senior independent director in his interaction with Partners as co-owners of the business.

It might be worth associations considering whether and how far they need to develop such individual responsibilities for board members. This may be particularly useful for some associations in terms of upholding values or reporting to stakeholders.

3.3: Stakeholder engagement led by the board

Some associations might find the active shareholder role inappropriate to their situation. So other mechanisms could be developed which ensure that the board is clearly in the lead in ensuring that the accountability linkages occur. Learning from the VLBs suggests that these could include:

¹⁰ Be careful what you wish for: the consequences of mandating board composition, Laura F Spira Oxford Brookes University, UK, 2012

- The board having responsibility for identifying key stakeholders and ensuring that there is a satisfactory dialogue with them
- The board having a periodic item on its agenda to consider reports of how its operations are linking into its values, and a commitment to report back to stakeholders on its conclusions
- Specific board members being designated as the liaison with key stakeholders

One other possibility might be in relation to the annual general meeting. The Ownership Commission¹¹ has said that the annual general meeting of PLCs “needs revitalising to promote the greater involvement of shareholders”, and this could be an area for associations to develop. Triodos has developed its AGM so it is both an interesting day out for people and is also accessible via the Internet.

Conclusion

Housing associations are businesses which provide housing and related services and initiatives to meet the needs and aspirations of a variety of individuals, particularly those with limited housing options.

Most associations have been effective in carrying out this role. This can be seen from when in 2012 Affinity Sutton employed McKinsey to undertake its Organisational Health Index Analysis, which compared the association’s performance against a range of global benchmarks from over 600 organisations across the public, private, and social sectors. The results of this exercise were impressive (see box).

The McKinsey survey showed that Affinity Sutton:

- displays a strong health profile with all nine elements rated top quartile
- outperforms the database average and industry peers across all dimensions
- has a healthy practice profile with clear spikes around a shared vision and strong leadership

Results from the values survey revealed strong alignment between current and desired values mainly around social purpose and external focus, yet employees seek better work-life balance.

However despite their success, associations now face significant challenges. In meeting these challenges individual associations can learn some key lessons from the businesses we have considered in this research:

- Being good at what they do
- Seeing their emphasis on values as a major motivator for staff
- Business focus is vital, but should not be perceived as the key aim
- Values motivate and tell a story both internally and to the outside world
- Being seen as open and trustworthy

¹¹ Plurality, stewardship and engagement, The report of the Ownership Commission, 2012

- The “owners” or active shareholders hold management to account for results and values

In doing so they should consider:

- The need for clear mechanisms to be in place which ensure that their values are the basis of a shared purpose which is transmitted and owned throughout their business.
- There is nothing wrong with making and being seen to make profits. How these are used and distributed in accordance with their purposes and values needs to be at the heart of their work.
- Values and a commercial approach need to be clearly intertwined. The key issue will be defining what a commercial approach means in practice for individual associations, and how that can be consistently understood by staff and stakeholders.
- Associations need to demonstrate that they are a different type of business by reinforcing in the public mind their value-based nature and – crucially – their independent, individual identity.

Appendix 1

Scott Bader – values into practice

Everyone who works for Scott Bader is expected to work to an agreed set of values. The words used to describe the values are: **Commitment, Responsibility, Team Working and Fairness**. These are described in detail as:

Commitment - We're committed to the principles of common trusteeship and making Scott Bader a successful and sustainable organisation.

What this means in practice

- Working safely and in line with our operating procedures, to keep ourselves, others and our company safe.
- Being a positive ambassador for Scott Bader, acting ethically, respectfully and with honesty and integrity all the time.
- Keeping the promises we make.
- Using our values to guide our actions and decisions.
- Taking everyday situations as an opportunity to learn and improve.

Team working - We work co-operatively and in collaboration with colleagues, customers and suppliers to deliver excellence.

What this means in practice:

- Supporting others and building on ideas to improve what we do.
 - Working towards what's best for the whole organisation.
- Collaborating with colleagues and partners across functional and geographical boundaries in support of company goals and priorities.
- Working towards consensus while respecting differences in opinion and accepting that we sometimes need to compromise.
- Completing actions on time so that others are not delayed.
- Freely sharing information.

Fairness - We are fair, honest and ethical in how we work with others and how we are treated at Scott Bader.

What this means in practice:

- Accepting, respecting and embracing differences and recognising that our diversity is vital to our success.
- Ensuring that we are truly objective and impartial and create opportunities for everyone.
- Listening to and valuing the opinions of others and taking account of these when we make decisions.

Responsibility - We each take personal responsibility in how we work to do the best for Scott Bader.

What this means in practice:

- Taking responsibility for doing what is best for Scott Bader.
- Being accountable for the delivery of exceptional service to customers.
- Demonstrating maturity, dependability, reliability and care in how we go about our work.
- Acting responsibly when things go wrong and working to find solutions.
- Being a responsible neighbour – minimising our environmental impact.
- Taking personal responsibility for our own behaviour.
- Making the best possible use of our time.
- Challenging behaviour that undermines our values.

Appendix 2: Nationwide Citizenship approach

Nationwide has recently introduced a new citizenship strategy entitled *Living on your side*. They say that:

For us, citizenship is about how we can use our products, services, campaigning and community investment collectively to deliver a greater social impact. It's also our ability to mobilise our customers, employees and wider stakeholders to work together to achieve our social aims.

The strategy sets out three “ambitious” targets to be delivered by 2017:

- **Your Home:** help 750,000 people into a home of their own, including over 250,000 first time buyers
- **Your Money:** empower one million people to start saving, including a partnership with National Numeracy focussing on developing new savings products and initiatives to help under 18-year-olds.
- **Your Community:** invest and unlock £15 million into local communities, as directed by their customers and employees. Including helping 500,000 young people through their schools and youth programmes

They also have a fourth strand **Your Society** which they say is about: “As a mutual we will stay true to our mutual values and run our business in a responsible and ethical way” and involves:

Treating our customers fairly and making our products and services inclusive. It's about having an ethical and sustainable supply chain. We want to support our employees and champion diversity in the workplace. And we aim to minimise the impact we have on the environment through our operations.

As part of this approach they are also supporting and encouraging staff to volunteer within their communities more. Last year 24% of their staff undertook voluntary work.

The programme is being led by Nationwide's chief executive, and has a strategy to ensure that it is “owned” by all employees, including its being coordinated by a dedicated Citizenship team and rolled out by a network of Community Champions within Nationwide. Working groups with experts on key issues from across the business are designed to drive innovation and new thinking needed within each pillar of the strategy.

As part of this innovation, under the *Your Home* strand, Nationwide is looking to explore further how they can support affordable housing activities such as community land trusts and develop new innovative products.

In terms of reporting, the aim is to produce a progress report on the citizenship strategy each year to link in with the annual report and accounts, to demonstrate the links between the citizenship and overall business strategies. They also provide quarterly updates on progress against the *On your side* goals via their website.

Appendix 3 – Organisational profiles

Below are profiles of the five organisations which we undertook more detailed work on:

- Central Surrey Health
- John Lewis
- Nationwide
- Scott Bader
- Welsh Water

Central Surrey Health
Description of business Central Surrey Health (CSH) is a not-for-profit organisation that provides therapy and community nursing services to the people of central Surrey. CSH was the first social enterprise organisation to develop out of the NHS, and is owned and run by the 700+ nurses and therapists it employs
Their corporate form CSH is owned by its staff, consisting mainly of nurses and therapists. The shares are not held individually but by “Guardian Shareholders” on behalf of the co-owners.
Their mission The goal of CSH is to revolutionise healthcare in our community and improve health standards for all. Their Values are: <ul style="list-style-type: none">• To put patients and clients first• To act with openness, respect and integrity• To communicate clearly• To be decisive and focused• To help and support each other• To be innovative and creative - say yes not no• To work with our local communities• To live within our means• To show our commitment to environmental sustainability
The stated objectives <i>We will be the provider of choice, recognised for the excellent provision of integrated healthcare services. CSH co-owners will lead the field in developing outstanding and accessible services.</i>

Competency and evaluation of governance

They have an Integrated Governance Committee which is a subcommittee of the Board. It is the main way in which the Board are assured and is chaired by a non executive board member. Throughout the year this committee receives reports and presentations from clinicians and chairs of specialist governance groups, such as health and safety, medicines management, integrated safeguarding (adults and children).

How do they demonstrate that their values are being achieved?

Each profession within the company has a professional lead and these “participate in local and national networks” and form a Professional Congress. Their role is to share best practice, ensure professional standards undertake benchmarking and develop joint initiatives.

They run a number of coownership awards:

The quality, innovation and change award - given monthly to recognise outstanding contributions to productivity and efficiency

The co-owner spirit award – is awarded to individuals or teams who have made outstanding contributions to care

The CoCO award – this is an annual award for those individuals and teams who have made a significant contribution to coownership and care. The winners receive a trophy and certificate at the AGM

How is added value from not distributing profits utilised?

Any financial surplus is reinvested back into the company to improve patient care. There is no shareholders (employees) dividend.

What are their reporting arrangements to stakeholders?

CSH have a very comprehensive annual quality account. This sets out details of their performance for the past year, their priorities for quality improvement in the current year. See

<http://www.centralsurreyhealth.nhs.uk/image/csh/ee9b5b4a-8cf6-4d1a-951a-2bb0b78c3e7c.pdf>

John Lewis Partnership

Description of business

The John Lewis Partnership is an employee-owned UK partnership which operates John Lewis department stores, Waitrose supermarkets and a number of other services. There are currently 36 stores throughout England,

Scotland & Wales, including six new 'At Home' stores.

Their corporate form

The company is owned by a trust on behalf of all its employees — known as *partners* - who have a say in the running of the business and receive a share of annual profits, which is usually a significant addition to their salary.

They have a written constitution that sets out their principles, governance system and rules. The Constitution establishes a system of 'rights and responsibilities', which places on all Partners the obligation to work for the improvement of the business in the knowledge that all share the rewards of success.

Their mission

The Constitution states that *The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business. Because the Partnership is owned in trust for its members, they share the responsibilities of ownership as well as its rewards profit, knowledge and power.*

They also have a set of points to clarify this mission:

Power

Power in the Partnership is shared between three governing authorities, the Partnership Council, the Partnership Board and the Chairman.

Profit

The Partnership aims to make sufficient profit from its trading operations to sustain its commercial vitality, to finance its continued development and to distribute a share of those profits each year to its members, and to enable it to undertake other activities consistent with its ultimate purpose.

Members

The Partnership aims to employ people of ability and integrity who are committed to working together and to supporting its Principles. Relationships are based on mutual respect and courtesy, with as much equality between its members as differences of responsibility permit. The Partnership aims to recognise their individual contributions and reward them fairly.

Customers

The Partnership aims to deal honestly with its customers and secure their loyalty and trust by providing outstanding choice, value and service.

Business relationships

The Partnership aims to conduct all its business relationships with integrity and courtesy and to honour scrupulously every business agreement.

The community

The Partnership aims to obey the spirit as well as the letter of the law and to contribute to the wellbeing of the communities where it operates.

The stated objectives

The 2011 annual report says that:

The challenge for Partners of today is to prove that a business which is not driven by the demands of outside shareholders and which sets high standards of behaviour can flourish in the competitive conditions of the third millennium. Indeed, we aim to demonstrate that adhering to these Principles and Rules enables us over the long term to outperform companies with conventional ownership structures.

They set out the following objectives

- Partners should gain personal satisfaction by being members of a co-owned enterprise in which they have worthwhile, secure and fulfilling employment and confidence in the way the Partnership conducts its business.
- The Partnership should recruit and retain loyal customers through their continued trust and confidence in our reputation for value, choice, service and honesty and for behaving as good citizens.
- The Partnership should make sufficient profit to sustain our commercial vitality and distinctive character, allow continued development and distribute a share of profits each year consistent with Partners' reasonable expectations.

These objectives build on the advantages of our co-ownership structure and demand an appetite for continuous improvement, innovation and enterprise to maintain the vigour of our commercial and democratic capability. They also require the highest levels of corporate governance through effective Audit, Corporate Social Responsibility and Risk Committees.

Achieving our three objectives requires us to demonstrate the benefits of co-ownership and the behaviours that differentiate us. Our ability to compete against and outperform conventional companies will be the most important illustration of the effectiveness of our approach to business.

Governance arrangements

John Lewis say that:

High standards of corporate governance are at the heart of the Partnership: our structure gives our management the freedom to be entrepreneurial and competitive in the way they run the business for long-term success, while giving the company's owners, the Partners, the rights and responsibilities of

ownership through active involvement in the business.

The Chairman, the Partnership Board and the Partnership Council make up the main governing authorities of the Partnership:

Chairman

The Chairman has personal responsibility for:

- ensuring that the Partnership retains its distinctive character and democratic vitality.
- ultimately accountable for the Partnership's commercial performance responsible for developing a business strategy which ensures the long-term sustainability of the Partnership in a competitive environment.

The Chairman's Committee includes the Chairman, appointed directors on the Partnership Board plus the Director of Partnership Services. It meets frequently as an informal committee to develop strategy, business plans and budgets and review major operational and management issues, financial results and forecasts and proposals for capital expenditure.

Partnership Board

The John Lewis Partnership board is responsible for the proper management of the Partnership's commercial activity. Members of the Partnership Board include the Chairman, five directors appointed by the Chairman, five directors elected by the Partnership Council who provide a direct link with the Partnership's democratic structure and three non-executive directors.

John Lewis and Waitrose have their own Divisional Management Boards who are accountable to the Chairman for performance, and are held to account internally by their own Divisional Councils.

Partnership Council

Representing Partners as a whole the partners elect at least 80% of the 82 representatives, while the chairman appoints the remaining. Its main role is to hold management to account, to influence policy and to make key governance decisions.

Partnership Council has the power to discuss, to ask questions, and to make recommendations on any subject and elects five directors to the Partnership board.

The Council has the ultimate power of dismissing the Chairman if he fails to fulfil his responsibilities. The Council has an important role in influencing Partnership policy and how profits are spent, particularly on things that affect Partners directly, like pay, pensions and discount policies.

John Lewis and Waitrose have divisional councils, with at least one elected councillor to represent each branch.

The councils have the power to discuss 'any matter whatsoever', and are responsible for the non-commercial aspects of the business – the development of the social activities within the partnership and its charitable actions.

Elections to the councils take place every two years, with Partners voting in constituencies that are decided by the three Trustees of the Constitution. Councillors are elected to represent Partner opinion, but not to act as delegates of their constituents. Their responsibility is to exercise their judgement for the best interests of the Partnership as a whole, not to promote sectional interests.

Branch level democracy

Each John Lewis selling branch has a Branch Forum, the members of which are selected by their fellow Partners to represent them.

Each Waitrose selling branch has a PartnerVoice forum. This is the local avenue for Partner opinion and is the means by which Partners can provide feedback, question management on branch matters, raise their own issues and be consulted.

Similar arrangements apply for the head offices and distribution in each Division, for the production unit and Corporate activities, taking account of their particular circumstances.

Competency and evaluation of governance

The 2011 annual report states that:

In accordance with the recommendation of the Financial Reporting Council, the Board has decided to carry out an external evaluation for the period under review and instructed Board Intelligence to assist in this process. The outcome of the evaluation will be reported in the Annual Report and Accounts 2013.

The Partners' champions

To make sure the integrity of the Partnership and its democratic system remain intact in perpetuity, the founder, John Spedan Lewis, created the position of Registrar and the Partners' Counsellor monitors and upholds the integrity of the business.

Registrars

Registrars act as Ombudsmen and are responsible for ensuring that the Partnership remains true to its principles and is compassionate in its dealings with individual Partners.

Partners' Counsellor

The Partners' Counsellor monitors and upholds the integrity of the business, its values and ethics as enshrined in its constitution. He/she is a member of

the Partnership Board and performs the role of senior independent director in his interaction with Partners as co-owners of the business. He supports the elected directors in their contribution to the Board and thereby helps underpin their independence. The Partners' Counsellor convenes meetings with the elected directors, without other executive directors being present, as appropriate and at least once each year.

How do they demonstrate that their values are being achieved?

The chairman's democratic and commercial roles come together when he appears twice a year at the Partnership Council to report on the performance of the trading divisions and on responses to the annual Partner Survey, to set out strategic goals and to answer questions from elected representatives.

In terms of their links to customers, the constitution says that:
The Partnership aims to offer its customers the best value in the marketplace for goods and services of comparable quality and availability. Prices must be as low as is consistent with achieving sufficient profit. John Lewis focuses on this at least in part under the heading *Never knowingly undersold*. This states that if a customer could buy the same item cheaper elsewhere they would refund the difference. The principle has been refined over time, most notably to exclude retailers who only trade through online shopping. The pledge has recently been revised to include extended insurance and delivery charges when comparing undersale values. The policy is also to monitor local competitors and reduce the shelf edge price if they are being 'undersold'.

How is added value from not distributing profits utilised?

John Lewis Partnership plc and its subsidiary John Lewis plc have small issues of preference stock which have first claim on the profits. The whole of the remaining profit is available to be used for the benefit of the business and the Partners. The share of profits allocated to Partners, the Partnership bonus, is fixed each year by the Partnership Board and is distributed as the same percentage of gross annual pay for all Partners. All Partners received a 14% bonus for 2011/12 as their share of profits at a total cost of £165.2m. ordinary shares and dividends would be payable to a shareholding Trust

What are their reporting arrangements to stakeholders?

The key one is to their partners via their democratic structure.

How do they handle issues of internal and external transparency?

The constitution of John Lewis gives partners a 'right to knowledge.' Essentially this means that they have a right to know what is going on within the firm.

Related organisations with charitable objectives

John Lewis reports in its annual report on its community investment which for 2011 was 3% of profits before Partnership bonus and tax.

Community programmes included:

- The Partnership donating over £3m in 2011/12 to a wide range of charities and community groups through Community Matters.
- Providing Community Rooms which was launched in 2011 whereby Waitrose and John Lewis shops make their meeting and training rooms available free of charge to local charities and community groups.
- The Partnership-wide payroll giving scheme which is well established enabling Partners to make tax-free charitable donations directly from their pay.
- The Golden Jubilee Trust which is the Partnership's flagship employee volunteering scheme where any Partner can apply for a full or part-time volunteering secondment with a UK registered charity for up to six months. In 2011/12, this scheme saw 21,000 hours awarded to 58 Partners for 57 UK charities.

The John Lewis Partnership has a very extensive programme of social activities for its partners, including two large country estates with parklands, playing fields and tennis courts; a golf club; a sailing club with five cruising yachts and two country hotels offering holiday accommodation for the partners. Partners are also enrolled in a very favourable pension scheme, receive a death in service insurance, and are given very generous holidays. In addition to this, upon completing 25 years of service for the company, partners are given a paid 6 month break.

Nationwide

Description of business

Nationwide is the UK's largest building society and the second largest savings provider and a top-three provider of mortgages in the UK. It is also a major provider of current accounts, credit cards and personal loans. Nationwide has around 15 million members.

Their corporate form

Mutual building society with a set of memorandum and rules.

Their mission

As a member owned mutual we have a duty to be a responsible corporate citizen. This covers every aspect of our business and means being prudent with our members' money, delivering long-term good value products and services, engaging our employees, creating a great place to work and delivering positive social and environmental impacts.

Corporate Responsibility mission statement

As an organisation, we embrace our responsibilities to our members, our employees and the communities we serve.

Everything we do is underpinned by our core values of transparency, fairness and security. These are the foundations which enable us to maintain our financial strength and deliver long-term good value.

The stated objectives

Nationwide has a set of Five Year Strategic Goals

Number 1 for service satisfaction

Be the clear number 1 in service satisfaction, with a lead of at least 2% over the next best competitor

Deepening our customer relationships

Grow the proportion of our prime customers from 40% to 45%

Core Tier 1 ratio

Have a Core Tier 1 ratio that is top of our peer group comparison (Basel II)

Other income

Increase other income by 50% over the period 2009/10 to 2014/15

Underlying profitability

Achieve £1 billion profit per annum to support growth plans and maintain capital self-sufficiency

Employee enablement and engagement

Employee enablement and engagement scores in line with external high performance benchmarks

They also have ***10 Guiding Principles for Corporate Responsibility*** which form the basis of our decisions and provide a tangible way of measuring our success:

- Sustainable Business. We operate a sustainable business model to provide safety and security for our members;
- Member Value. We continue to invest in products and services for the long term benefit of our members. We seek to develop best value products that recognise the diverse needs of our customers;
- Treating Customers Fairly. We treat customers fairly and are passionate about our customer experience;
- Responsible Lending. Our lending policy is based on affordability and seeks to manage and minimise the risk for both our customers and members;
- People Focus. We take our responsibilities as an employer seriously. We work together to ensure Nationwide is a safe place to work and

- that employee policies and procedures are fair and transparent;
- Diversity. We embrace diversity. We promote equality of opportunity and diversity for all Nationwide employees and customers;
 - Engagement. We actively encourage employee and member involvement in community activities;
 - Financial Support. We strive to help people in financial difficulty through our robust and fair policies and processes as well as our educational initiatives;
 - Environmental Responsibility. We continue to focus our efforts on reducing our energy consumption and limiting avoidable waste;
 - Social Change. We work effectively with charitable, community and industry partners as well as political stakeholders to address issues of mutual concern and strategic importance.

Governance arrangements

The members

Nationwide is a membership organisation. Membership entitles certain rights:

- to vote in the election of Directors and on resolutions
- to attend the Annual General Meeting
- to receive certain information
- to support an election candidate or a member resolution, or to request a Special General Meeting

The board

Nationwide is run day-to-day by a senior management team overseen by an elected Board of Directors. The Board focuses on formulation of strategy, control and review of business performance. There is a framework of authorities in place which maps out the structure of high level delegation below Board level and specifies those issues which remain the responsibility of the Board.

Board Committees

The Board has delegated authority to four principal Board committees, the Audit, Remuneration, Nomination and Board Risk Committees.

Electing the board

Anyone who meets certain criteria may stand for election to the Board. To do this, he or she must obtain the support of at least 250 members who have each invested or borrowed at least £200 with the Society for at least two years. The candidate must deposit £500 with the Society which will be returned after the election in certain circumstances.

Any member can vote who:

- is the first-named account holder
- is aged 18 or over and
- has £100 or more if an investing member, or owes £100 or more if a

borrowing member.

Competency and evaluation of governance

There is a very full section of the annual report devoted to corporate governance. See:

http://www.nationwide.co.uk/pdf/about_nationwide/annual_report2011.pdf

They also state that they:

Undertake a formal and rigorous review annually of its own performance, that of its committees and individual directors

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, succession planning for the Board and identifying suitable candidates to fill Board vacancies.

How do they demonstrate that their values are being achieved?

They have built citizenship objectives into their Corporate Plan, *both to reinforce the strength of our commitment and to reflect the contribution it will make to our future success.*

Therefore: alongside delivering activity under the current corporate responsibility themes of housing, money, environment and communities, we have been reviewing our overall approach to citizenship. We want to ensure that over the next five years our efforts support our main business activity and make a meaningful difference to our members and their communities.

To inform their thinking, specialist agencies New Philanthropy Capital and FreshMinds were engaged to help them deliver a new citizenship strategy.

How is added value from not distributing profits utilised?

The key stated advantages to reinvest profits in the business and provide better services and products to customers.

What are their reporting arrangements to stakeholders?

They have a very comprehensive annual report.

They have recently launched the Your Nationwide members' website. The site provides: *members with access to a wide range of information, including our customer service and complaints handling data, while inviting them to regularly interact with the Society.*

They also have a number of online initiatives:

- Talking Points which provides opportunities for discussions on product innovation
- You Asked, We Acted, which gives feedback to members to highlight

- the action taken to address issues raised by members
- an online service improvements suggestions facility.

They also hold Member TalkBack events (both face-to-face and via the internet) to give members an opportunity to ask questions or express points to the Societie's directors.

Related organisations with charitable objectives

Nationwide have asked their members whether they were happy to dedicate 1% of pre-tax profits to their Corporate Responsibility activity. 98% voted yes. There are 2 key ways they do this:

Charitable partnerships and employee volunteering

This involves an employee volunteering programme 'Nationwide Volunteers' who support in communities at a local level. They also *support local causes and continue to make a difference through our national charitable partnerships.*

The volunteering programme offers employees two days paid leave to support charities and good causes. Their principle charitable partners are Macmillan cancer support, Disability sports events and Shelter.

The Nationwide Foundation

The Foundation is principally funded by the Society which makes lump sum donations to the charity from time to time. This *is one of our biggest vehicles for community support. Since 1997 it has made grants of over £28 million to other UK charities.*

The Foundation's grants are designed to provide relief to people in need by reason of disadvantage and focus on causes which are not well supported by others. All of the charities it currently funds tackle housing and finance issues affecting disadvantaged.

The Foundation's Board comprises 10 Trustees who meet quarterly, with sub-committees which meet more regularly. The Trustees are drawn from a wide variety of professional backgrounds including from the voluntary, public, private and commercial sectors. The Trustees are all members of the Nationwide Foundation and serve a maximum term of six years. When vacancies arise, Trustees are recruited via open advertisement on the Foundation's website and usually in the relevant press, e.g. Third Sector magazine, The Times, The Guardian.

Scott Bader

Description of business

Scott Bader (SB) is a multinational chemical company employing 600 people worldwide with a turnover of 220 million Euros.

It is an international polymer company with a network of agents and distributors around the world. They manufacture and market synthetic resins for use in the marine, transport, construction and chemical containment industries and polymers for industrial coatings, building and decoration, graphic arts and textiles.

Their corporate form

SB has been a Common Trusteeship Company for 60 years, with no external shareholders. Its shares are held by Scott Bader Commonwealth Limited, a Company Limited by guarantee and a Registered Charity.

The Commonwealth has a constitution which sets out the governance arrangements. It lays out specific behavioural standards that all governance bodies have to ensure are met and includes a code of practice for commonwealth members.

Their mission

The Commonwealth constitution states that:

The Scott Bader Commonwealth was “founded on the belief that a socially responsible undertaking cannot exist merely in its own interests. It is part of the whole national and international community, and, as such, has responsibilities which extend far beyond its factory walls.”

Scott Bader Company Limited is the means to fulfil this vision. Giving money to charity is excellent, but it is not why Ernest Bader gifted the company to us. He wanted to create a radical company; whose well-being was entrusted to those who work within it; a company that was not based on the capitalist model; a company with high levels of democratic involvement, which could exist in perpetuity.

There is a comprehensive set of “guiding principles” within the Articles of association:

Sustainability

to develop the overall strength of the SB Group, and to act as stewards of its resources in order to ensure its long-term sustainability and prosperity through effective, accountable management and efficiency to ensure those working in the company can be economically secure and will not need to strive for personal advancement at the cost of others;

Fair trading

to produce goods not only beneficial to customers of the SB Group at a fair price and of as high a quality as possible, but also for the general good of society; as far as possible to source raw materials and supplies ethically;

Environment

to ensure that the Scott Bader Group’s activities have the minimum possible

adverse impact on the natural environment and that it always strives for increasingly efficient, prudent use of natural resources;

Innovation

to conduct research directly and through long-term partnerships and to provide technical education in fields relevant to the SB Group;

Developing partnerships

to develop mutually beneficial long-term partnerships with customers, suppliers and collaborators based on fairness, honesty, integrity and openness;

International presence

to contribute towards the general welfare of society in the S B Group's immediate neighbourhoods as well as nationally and internationally;

Ethical business

at all times to be a role model for the ethical approach to successful business; so that SB Group's approach to wealth creation and use is clearly seen to be sustained by its guiding principles, values and common trusteeship nature.

The stated objectives

The SB "Purpose Statement" defines the way they operate *within Scott Bader, with our External Partners, and with Communities in the wider world.*

Scott Bader Business

- We deal honestly with our customers and partners to foster loyalty, trust and to build lasting business relationships.
- We put innovation at the heart of Scott Bader in the way we think and act.
- We use profit as one of the measures of business success, to sustain Scott Bader and as a means of fulfilling our Purpose.
- We will be judged as a leader in the application of sustainable development principles across our business activities.

Scott Bader People

- We respect the needs and values of others in an open and honest way.
- We encourage the growth, development, health and well being of our people, who take responsibility for their personal contribution.
- We ensure equality of opportunity and recognise that motivated people are essential to the success of Scott Bader's diverse businesses.
- We as individuals, and we as Scott Bader will have a positive impact wherever Scott Bader operates in the World
- We will continue the tradition of helping those less fortunate than ourselves by sharing our business success through money, time and effort.

- We will be recognised as a thriving international Trustee Ownership Enterprise, an exemplar to others.

Governance arrangements

There are three governing bodies:

Members of the Board of the holding company – Scott Bader Commonwealth Limited

The Commonwealth Board is not involved in the day-to-day running of the business, but has responsibility for ensuring the company adheres to the Commonwealth Principles. So, the Board is consulted on topics such as future business strategies, acquisitions and the distribution of profits. The Board also monitors the development of industrial democracy within SB.

All Members of the Board are Directors and Charity Trustees. The Board consists of

- Five externally appointed Guardian Trustees
- Three internally elected Members
- The Chairman of Scott Bader Company Ltd
- The Chairman of the Members' Assembly, or a nominee of the Members' Assembly.

Guardian Trustees have additional responsibilities to safeguard the Constitution, of both the Commonwealth and the Company. They ensure that the Commonwealth stays true to its founding purpose and Guiding Principles. They have the power to veto changes to the Constitution and any measure taken or proposed by the Group Board. They do this by exercising their special voting rights in relation to the Trustee Shares in Scott Bader Company Limited.

Trustees are appointed by a joint nominating committee convened and chaired by the Chair of the commonwealth board comprising:

- 2 members from the Commonwealth Board one of which must be a Guardian Trustee;
- 2 members from the Group Board;
- 1 member from the Members Assembly;
- another who from time to time the JNC think is appropriate.

Directors of the operating company – Scott Bader Company Limited

The Group Board deals with business and makes similar decisions to boards in traditional companies. These include financial, legal, policy and strategic decisions, but with the additional requirement to help promote the Charitable Objects, adhere to Commonwealth Principles and ensure the business is run in accordance with the Guiding Principles.

The Group Board is made up of nine external and internal Directors.

- Three Executive Directors, including the Group Managing Director
- Three externally appointed Non-Executive Directors, including the Chairman
- Three internally elected Community Directors.

The latter three are elected from three constituencies – the UK and Eire, Continental Europe and the Rest of the World. Commonwealth Members in each constituency vote to elect the Community Director for their constituency.

The chairman of the Group Board is appointed by the Group Board

Elected Representatives on the international democratic forum – the Members’ Assembly

The Members’ Assembly represents Commonwealth Members. The Group Board is accountable to the Members’ Assembly for the exercise of its responsibilities and for the health and success of Scott Bader businesses.

The Members’ Assembly also monitors adherence to the Commonwealth Principles and may discuss any issue. However, it cannot displace the overriding authority of Commonwealth Members in General Meeting,

There are also ***Local Councils*** in each of the manufacturing sites with more than 50 staff. They are designed to work with management on local issues and this includes *representing the interests of the staff of that Subsidiary in that Member Country* and being *consulted about the manner of distribution of any local bonus*.

Competency and evaluation of governance

As they have expanded globally they have had to adapt their model. In particular moving from a participative to a representative democracy.

This involved reviewing the whole structure and in April 2010, Commonwealth Members agreed to change the governance structure *to reflect the international status of the company, and to strengthen and add clarity to our industrial democracy*.

How do they demonstrate that their values are being achieved?

They say that:

Business relationships are more sustainable because Scott Bader cannot be taken over - it is totally independent. As we have no external shareholders we cannot be acquired, so we are more stable and can think more long term

Everyone that works for SB is expected to work to a set of values. These are reviewed and revised from time to time but always need to be in line with the founding principles and reflect and demonstrate how they will work together

internally and with customers and suppliers. Today the words used to describe the values are: Commitment; Responsibility; Team Working and Fairness and what these mean in practice are laid down in detail.

The aim is for these values is to help SB to be a “Partner for Excellence - building strong and effective relationships with customers, suppliers and colleagues – for today and tomorrow”. This means:

- doing our jobs exceptionally well
- striving every day to exceed expectations
- challenging others to deliver excellence, and supporting them in achieving it.

The values are used in recruitment; performance management; the development of policies and procedures etc

How is added value from not distributing profits utilised?

They say that:

We use profit as one of the measures of business success, to sustain Scott Bader and as a means of fulfilling our Purpose.

Laid down in the articles of the company is the basis for distributing profits: *the Commonwealth as the sole member of Scott Bader Company Limited shall resolve how the consolidated net profit of Scott Bader Company Limited for any given financial period is allocated (and that such allocations are made) within the following limits*

- *as to a minimum of 60 per cent for taxation and reserves;*
- *as to a maximum of 20 per cent for the Group Staff Bonus; and*
- *subject as aforesaid, as to dividends of such amount as the resolution may prescribe.*

In reality the limit above is a guideline. As the primary way of raising money is via loans or overdraft the majority of profit each year is reinvested back into the business. It is for the Group Board to decide what should be made available for Group Staff Bonus and in 2005 a formula that an agreed minimal threshold should be achieved before any bonus is paid was agreed by Members in General Meeting.

Currently the formula is that there is a 5% distribution of profits once a deduction from PBT has been made for the minimum agreed threshold of 0.5% of sales. e.g. the amount available for distribution as Group Staff Bonus in relation to the profits for 2009 was £158,800 because 0.5% of sales was £752k, therefore when PBT was £3,928k the amount available for GSB was 5% of (£3,928k-£752k).

The minimum amount that has to be paid to the Scott Bader Commonwealth Limited (the charity) is also defined in the constitution ‘an amount equal to the amount payable as Group Staff Bonus or 1 per cent of the Scott Bader Group Staff Salary Cost, whichever is the greater’.

This is done for two reasons (i) to ensure that there is always money paid to the charity and (ii) to ensure employee rewards do not rise too steeply as to make the company unsustainable and thus impact on SB as a whole. As can be seen, if the company does well then so does the Charity and so the people that work at SB.

What are their reporting arrangements to stakeholders?

A key emphasis of SBs is on values producing ongoing engagement: They say that: "These values, coupled with our independent ownership structure, enable us to build long standing relationships with our customers and suppliers. We have lower staff turnover".

Related organisations with charitable objectives

Global Charity Fund

The Scott Bader Global Charity Fund aims to annually provide grants to charitable organisations around the world whose purposes support our charitable objects e.g. to help young or disadvantaged people, especially anyone suffering deprivation and discrimination, such as poor, homeless and vulnerable women and children, minority communities, particularly where people are affected by: poverty, a lack of education, malnutrition and disease.

Local Funds

Funds are made available to all the companies in the Scott Bader Group (proportionate to the number of people employed at each location) for them to submit applications to the Charity Trustees for charities they wish to support. Usually this will be to support the work of charities situated near to or associated with each company.

Central Fund

The central fund annually supports two large, community based, environmental or educational projects to the value of £25,000 each. These can be located anywhere in the world.

Welsh Water (Dŵr Cymru)

Description of business

Welsh Water is the sixth largest of the ten regulated water and sewerage companies in England and Wales. It supplies water and sewerage services to over three million people in Wales and some adjoining areas of England.

Their corporate form

Glas Cymru is a company limited by guarantee. It is unique in the UK utility

industry in that it is:

- a private company with no shareholders,
- financed in the capital markets, with no government support,
- not allowed to diversify into other activities or geographies, and
- all financial surpluses are used for the benefit of its customers.

Their mission

Their primary purpose is to provide efficient high quality and affordable water and sewerage services to their customers.

The stated objectives

Welsh Water's principal responsibilities are to:

- Provide a safe and reliable drinking water supply to its 1.3 million customers, 24 hours a day, 365 days a year, while ensuring its water abstractions and water supply activities do not damage the environment; and
- Collect and treat the wastewater produced by households and businesses, together with surface and highway drainage in many places, in a way that safeguards public health and protects the environment.

Governance arrangements

Glas Cymru is a company limited by guarantee and "has no shareholders and so its corporate governance functions are the responsibility of its Board and its members".

The Board of Glas Cymru currently comprises eleven Directors (including three Executive Directors) and "are collectively responsible for the long term success of the company".

The Board is accountable to the Members of Glas Cymru for its management of the Company. The role of a Member is "similar to that of a shareholder in a public limited company, save that a Member has no financial interest in the Company". Members perform this corporate governance role by receiving regular reports on the Company's performance and by participating in member conferences and general meetings of the company

In addition Members have a role in:

- Approving certain major transactions or changes to the Company's constitution
- Approving the appointment and re-appointment of Directors; and
- Approving the appointment and re-appointment of the Company's auditors.

Members are appointed by the Board following a process of nomination by an independent Membership Selection Panel. The panel recommends "individuals who have the skills, experience and interest to be effective

Members”. It also has responsibility to seek to ensure that the Company has a balanced and diverse Membership which is, as far as possible, broadly reflective of the range of customer and other stakeholder interests served by Welsh Water.

The Membership Selection Panel comprises a Chairman, who is independent of the Company, together with one non-executive director of Glas Cymru and between one and three other Panel members who shall also be independent of the Company.

Potential Members may be sought in a number of ways including by:

- Asking suitably qualified or representative persons, bodies, groups and organisations to promote awareness of Membership among individuals associated with them.
- Placing press releases and/or advertisements in appropriate journals, press and media.
- Promoting membership via the company's website.

There are around 70 individuals who are “not representatives of outside stakeholder groups but rather are unpaid individuals whose duty is to promote the good running of the company, in the best interests of its customers”.

Competency and evaluation of governance

The board has recently completed an evaluation of its effectiveness by an outside consultant.

It also has a Senior Independent Director role whose job it is to appraise the Chairman and publicly report that the chairman has the time and capacity needed to carry out all aspects of this role.

How do they demonstrate that their values are being achieved?

The members have a clear role in ensuring that their values are being achieved. The other key way they do this is by the way they distribute their profits as outlined in the next box.

How is added value from not distributing profits utilised?

The key point for them is that all financial surpluses are used for the benefit of its customers.

They also have a strong emphasis on the fact that “Welsh Water’s assets and capital investment are financed by bonds and retained financial surpluses. The Glas Cymru business model aims to reduce Welsh Water’s asset financing cost, the water industry’s single biggest cost”.

They also stress the importance of focusing on their region. It is in their constitution that the activities of Glas Cymru are limited to the provision of

water and sewerage services in the region served by Welsh Water. Glas Cymru cannot diversify into unrelated activities.

What are their reporting arrangements to stakeholders?

Their key mechanism for reporting is their annual report.

They are however significantly regulated, having responsibilities to:

- **Ofwat** as the economic regulator.
- The **Consumer Council for Water** promotes and represents the interests of customers in respect of prices, service and value for money. It also investigates customer complaints
- The **Drinking Water Inspectorate** ensures that water supply is safe to drink and meets standards set out in Water Quality Regulations. It also investigates consumer complaints and incidents that affect, or could affect, drinking water quality.
- The **Environment Agency Wales** monitors and enforces compliance with environmental water quality standards.
- The **Welsh Assembly** ensures compliance with EU and UK legislation by making regulations and issuing statutory guidance. The Assembly also issues guidance to the Director General on the drinking water and environmental quality programmes to be taken into account when setting price limits.

Related organisations with charitable objectives

They provide support for Water Aid.

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33 Margaret Street, London, W1G 0JD
Telephone: 020 7409 5992
Email: mejones@savills.com
www.savills.co.uk



Affinity Sutton Group Limited
Level 6, 6 More London Place
Tooley Street, London SE1 2DA
Telephone: 0300 100 0303
Email: communications@affinitysutton.com
www.affinity.com