

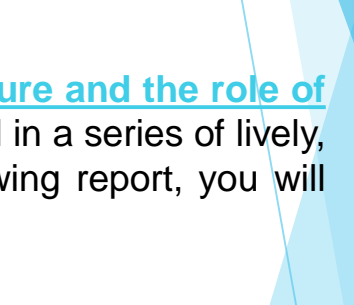
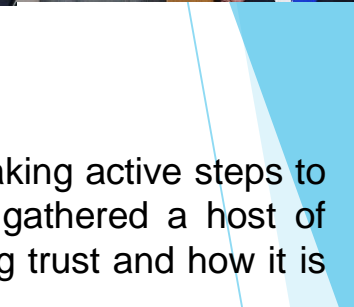
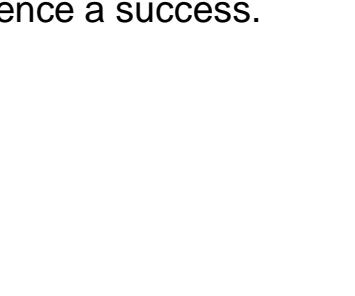
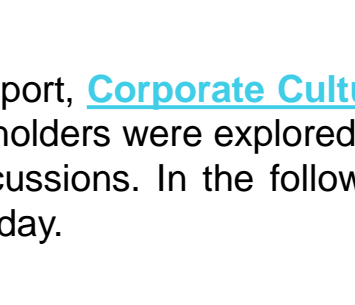
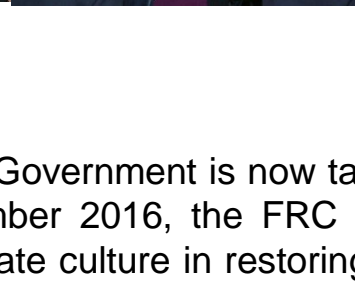
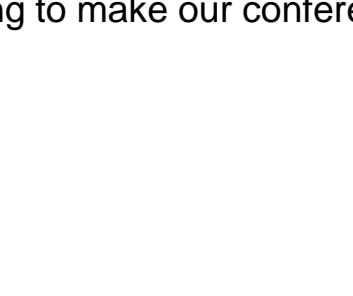
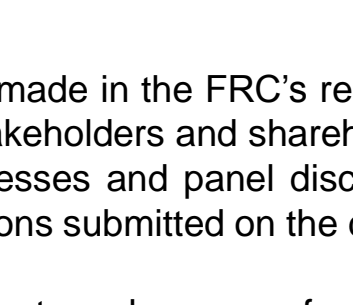
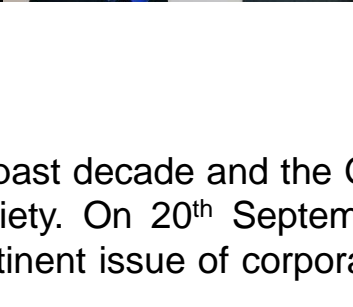
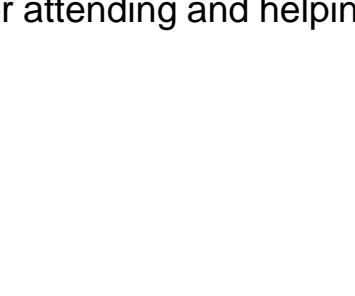
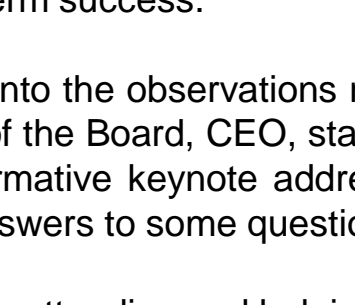
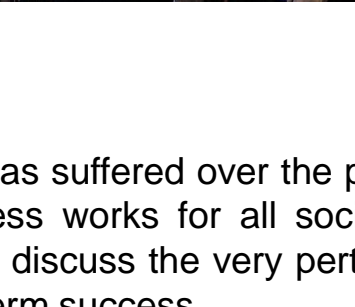
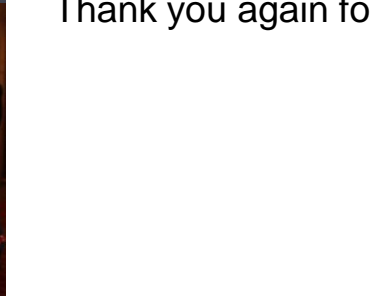
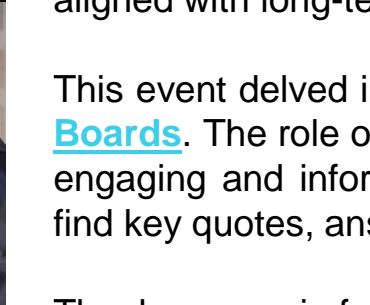
FRC Annual Conference 2016

Culture to Capital: Aligning Corporate Behaviour to Long-Term Success

20 September 2016

Mansion House





Trust in business has suffered over the past decade and the Government is now taking active steps to ensure that business works for all society. On 20th September 2016, the FRC gathered a host of industry experts to discuss the very pertinent issue of corporate culture in restoring trust and how it is aligned with long-term success.

This event delved into the observations made in the FRC's report, [Corporate Culture and the role of Boards](#). The role of the Board, CEO, stakeholders and shareholders were explored in a series of lively, engaging and informative keynote addresses and panel discussions. In the following report, you will find key quotes, answers to some questions submitted on the day.

Thank you again for attending and helping to make our conference a success.

“We beat all other cities in terms of **economic clout**, intellectual capital, innovation, transport, connectivity and, importantly, quality of life.”

“I have visited almost a dozen UK cities during my time in office and nearly 30 different countries. I know what good the City firms do for **ordinary working people** all over the world: growing pensions, funding infrastructure, providing education and training, unlocking growth, and creating jobs, wealth and prosperity.”

Venue Address
Alderman the Lord Mountevans
Lord Mayor of the City of London



“It is also true that if a company is perceived as offering disproportionate remuneration, not linked to performance or customer service, that **trust** can take a hit.”

“In my view, a way for a business to ensure shared good is for its board to take **corporate governance** seriously, embedding the right culture and values from root to branch.”

“**Reputation** can improve sales, gild even the most impressive public images and, importantly, lead to greater employee satisfaction”

“Culture in business is a **key ingredient** in delivering long-term sustainable performance for all stakeholders, including customers, communities, suppliers, employees and shareholders – ultimately, of course, society itself.”

“When there is a healthy culture, the systems, procedures, overall functioning and mutual respect of an organisation exist in **harmony**. This will then lead to enhanced integrity, confidence, long-term success and, ultimately, trust.”

Welcome Address Sir Win Bischoff Chairman, FRC



“The board must be **credible** in the eyes of employees and stakeholders more generally, and it needs to take decisions that are consistent with the values and strategy it promotes.”

“Corporate culture is **intangible**; it is true. We all know that, but culture can be measured and much information is already available to companies to do so: health and safety reports, customer satisfaction data, employee turnover and engagement surveys are all examples.”

“Rebuilding genuine confidence in business and long-term prosperity demands business to have a culture that lowers the risk of failure and achieves a wide range of **positive outcomes**, including serving the needs of wider society.”

“**Management** can get **trapped** in this need **to show short-term profits** and you can imagine that **translating** into **poor behaviours** further down the organisation, in the actual selling of the mortgages, for instance.”

Keynote
Conor Kehoe
Senior Partner, McKinsey



“When we looked at the evidence for short-termism, we thought, ‘**Let us go and talk to management. Let us talk to the boards.**’ We found that **management said: ‘You know, Conor, a lot of the pressure comes from the board.’** When we talked to the board, they said: ‘**A lot of the pressure comes from investors.**’ This chain seems to be causing this pressure towards short-termism.”

“While I worry about the share price as a short-term objective being a very poor guide, **shareholder value** in the **long term** seems to me to be a **great way of running our organisations.** Now what we need is particularly **investors** and **non-executive directors** to step up to **protect** it and **strengthen** it.”

Short-termism is a **real problem** that is leading to **bad decisions** at the top. They are translated into **poor culture** down the organisation. **Remedies** lie with the **investor community** and with greater engagement from **non-executive directors.**”

CEOs in Conversation

Moderator:

Dina Medland, independent writer, editor and commentator

CEOs:

Justin King, Vice-Chairman and Head of Portfolio Business at Terra Firma, and former CEO, Sainsbury's
Sacha Romanovitch, CEO, Grant Thornton



“In the years since the financial crisis, we have heard a great deal about how corporate governance is the essence of a **business**, but far less until now about corporate culture, which surely is faced daily, both internally and externally.”

– Dina Medland

“There is a danger that we talk about culture purely in terms of being a force for good. Culture is as easily a force for bad and that is why changing organisations that do bad things is so difficult, because it is deeply ingrained in their culture. You may prefer not to face that fact, but that is why organisations do bad things: they have a culture that makes that happen, **empowers** it and gives permission to it. That is why changing it is so difficult; culture change is very difficult to effect.” – Sacha Romanovitch

“One of the things that was critically important for us in our firm was moving to an environment where **everybody** in the firm absolutely felt invested in the future that we were creating and that their contributions were really valuable.” – Justin King

“They should be hard earned. The clue is in the word: **bonus**. It is supposed to be for exceptional performance beyond what you are paid for in your day job.” – Justin King

“We set a **purpose** where it was about how we can, through the clients we work with and what we do with them etc., help to shape a vibrant economy in what we are doing.” – Sacha Romanovitch

“It is about looking at the **strategy** you want to pursue and therefore what it is that you need to inculcate into your people and embed into the DNA. For example, looking at our organisation, if I want our people to be continually creating value for our clients over the long term.” – Sacha Romanovitch

“The starting point is looking from a purpose perspective at **why you exist – what you are there to achieve with your business in society** – and to look at your strategy and say: ‘What are the behaviours that we therefore need to have in our people?’ We also need to ask whether our culture enables that.”
– Sacha Romanovitch

“Culture is the number one thing that can **distinguish** you.”
– Sacha Romanovitch

“Culture is at the core of **competitive advantage** because it is hard to do. Broadly speaking, hard things are the things that give you a competitive advantage. Everyone can do and tick off easy things. Without a shadow of a doubt, a business with a culture that is aligned with the customer that it serves has an advantage, whether it is a business-to-consumer or business-to-business business.” – Justin King

“Sacha talked about people wanting to come to work to do a good job; I profoundly believe that to be true, but they only do that if they feel they are part of something **worthwhile**, that they have a sense of purpose and there is a meaning beyond just earning whatever it is that they earn for that hourly work.” – Justin King

“Your **values**, however you choose to express them, are the clearest articulation of your culture.” – Justin King

“**Diversity** needs to be about diversity of perspective. What is wonderful is everyone in this room will see the world differently. If you are inclusive in your attitude and seek to understand other people’s worldviews, you get true diversity of thinking.” – Sacha Romanovitch

Delivering Long-Term Value for Stakeholders

Moderator:

Chris Cummings, CEO, Investment Association

Panellists:

Sir Roger Carr, Chairman, BAE Systems

Amanda Mellor, Company Secretary, M&S

Mark Austen, Chairman, LV=

Elizabeth Fernando, Head of Equities, USS



“Capital should be attracted by culture. Culture should be the magnet that draws capital to it and, of course, capital should find its due reward in the sensible allocation that it takes by favouring culture. Not only is the title particularly apposite for this conference but the content as well.” – Chris Cummings

“We have a very clear sense of our culture in how we **recruit** and train people and how we performance-manage them. It is very much about doing the right thing the right way. Everybody has performance management that assesses not just what they do but how they do it, and how they do it against each of our four values. That goes from the top right down through the organisation. It starts inside and it goes from top to bottom and side to side.” – Amanda Mellor

“We look at what we do as a company so that everybody is very clear why we are in this business. That is simply to protect and serve those that protect and serve us, and we must do that with **pride**.”
– Sir Roger Carr

“Everyone in this organisation is clear that it is a culture that must be adhered to around the clock and around the world. There are no exceptions. There are no excuses. We will support those who struggle to make their numbers. We will never support those who fail to meet the ethical standards of the organisation. Why we do it is very simple. It is for a relationship with all our stakeholders that gives us a licence to operate with our heads held high.” – Sir Roger Carr

“Try to ensure that there is clear, **transparent reporting** in what we do, and this has been a key feature of the annual report and the governance section, trying to share with people what we do right, but also where we go wrong and what we are attempting to do about it.” – Amanda Mellor

“Culture has to be something that people can **identify** with. We have to try to embed it in every aspect of our business, from market evaluation, product design, development to fulfilments and all the stages in between. This is the fundamental of our business.”
– Mark Austen

“In some ways, it is much easier to say what good culture is not rather than what it is. It is not about governance; it is not about systems and processes. It is not about having a beautifully cast set of values and behaviours on the wall behind reception or on your coffee mug. It is about your **people**. It is about how your people behave, how they interact with each other, even when management is not watching.”
– Elizabeth Fernando

“At the end of the day, our brand is a very valuable asset, and brands and reputations are lost very quickly. Our customers trust us to be selling them quality, safe products, in the right **environment** and the right way. That is very, very critical.” – Amanda Mellor

“As part of **due diligence**, there is absolutely no question: you need to look at who is on the Board, the behaviour of the company, and the reputation of the company, because if it is in a very different place to the one you are in as a business, when you buy it, the maths will cease to matter and the influence of the behaviours of the people will be much more significant in the successful introduction of that business into your own. The short answer is: culture is a critical piece, and due diligence is very important. It is people, of course, more than anything, that determine the success of a business, and the behaviour of the people is the thing that ultimately determines the success of the company.” – Sir Roger Carr

“As investors we know that if we can find a good culture, it usually leads to a more sustainable business and better returns, which is what I need for my pensioners. However, if it is difficult getting **insight** into the consistency of culture within your own business, it is incredibly difficult getting insight into the true culture of the businesses that we are investing in.” – Elizabeth Fernando

“Culture in a corporate context can be defined as a **combination of the values, attitudes and behaviours** manifested by a company in its operations and relations with stakeholders.”

Event Summary
Philippa Foster Back
Director, Institute of Business Ethics



You cannot have enough rules and law to regulate behaviour. It just does not work. That is what comes from within us all, and that is what we all need direction and example to follow, to get right.

“Collectively, we need to win over hearts and minds, and create through example and behaviours sustainable cultures. Our system of capitalism is not broken, but it has been severely dented, so good businesses with good cultures need to **stand up, contribute, and get their voices heard.**”

Individual companies need to articulate their purpose, as we have heard mentioned, as evidence of being part of the greater good – and that, again, was touched on by Connor – **connecting purpose and culture.**

“The area where, traditionally, the FRC and its culture has worked well is through this notion of collaboration; convening market participants to come together, to share their **knowledge**, and to take matters forward on the back of that knowledge.”

“There clearly are groups in society who quite rightly feel that governance is not working for them as it should do, and we have to find the right answers there. I hope that in **collaboration**, we can do that.”

Closing Remarks Stephen Haddrill CEO, FRC



“Corporate governance in the UK is internationally regarded as amongst the best, if not the best, in the world, so let us cherish that, whilst **challenging** what does not work. “

What politicians are good at – and there are some things that they are very good at – is spotting that there is a **public concern**. What we heard on the platform today was that pretty well everyone recognises that there is an issue about trust in business, and it has to be addressed.

Sli.do Questions

Answers to submitted questions



Where does the culture of investors fit into the picture – help or hindrance at the moment?

Effective stewardship should include engagement about culture and encourage better reporting. Investors should consider carefully how their behaviour can affect company behaviour and understand how their motivations drive company incentives. Investors are demonstrating more of an interest in culture.

Is creating the right corporate culture for your business all about pay or are there other ingredients?

The incentives created by performance related pay, and the corresponding impact on employee behaviours, is something that should be of utmost concern to boards and remuneration committees, which could do more to apply a cultural and values lens to the design of remuneration policies and individual remuneration decisions. Participants in the project also told us that salary and bonus are not the only levers for driving the right behaviours in employees. Powerful non-financial incentives can be created, especially via promotion, termination policies and decisions.

Is there a danger of boards being required to show they are giving attention to culture leading to box ticking?

Tickling boxes doesn't work. While this could and may lead to box-ticking, companies should consider the benefits of a healthy culture in delivering long term sustainable value, and the risks posed by an unhealthy culture.

What is the killer question an investor can ask to get beyond the platitudes in the annual report and get a deeper sense of culture?

There is no one killer question or answer. Investors reported to the FRC that the answers to simple questions can reveal much about culture, for example the extent to which senior managers care about their employees. The way answers are given can also reveal attitudes to their wider stakeholders. Page 35 of [Corporate Culture and the Role of Boards](#) includes some questions investors can ask boards.

What is the culture at the FRC?

The FRC was asked this question throughout the project, so Chief Executive Stephen Haddrill shared his views on the culture at the FRC in a blog for the [Great Business Debate](#).

As a result of the project, and in line with good practice, the FRC is currently working with staff to revisit its mission (purpose) to ensure it reflects the work we do in interest of the public as well as investors. This is the first step in establishing if aligning organisational culture with strategy.

How do you engage employees with the organisation's values and cultural aspirations, particularly in difficult times?

A key ingredient of a healthy culture is openness and a willingness on the part of senior management to listen to their employees and recognise that their commitment is often long-term. Employees usually want their organisation to succeed, and have good ideas about how to make this happen. It makes sense to empower them.

If the CEO has most influence on culture what can boards do if the culture is toxic?

One of the most important influences a board has on the culture of a company is in selecting and performance managing a CEO. When choosing a CEO, boards should consider if the values and behaviours of the individual align to those expected of company employee. If trying to maintain an existing culture, there is benefit in succession planning and selecting an internal candidate already familiar with the culture. Ultimately, if the behaviour of the CEO is damaging the culture and performance of the company, it is up to the board to take action.

How do you measure culture in organisations?

Pages 19, 27 and 33 of [Corporate Culture and the Role of Boards](#) gives some questions boards can ask to get to the heart of culture in a company, page 39 lists some areas for vigilance that boards should be aware of in a company and pages 41 and 42 provide some indicators of culture that boards and management can use.

What questions can the board ask the executive to seek assurance on culture?

There are a list of considerations on page 37 of [Corporate Culture and the Role of Boards](#).

Isn't a better pay ratio the difference between CEO pay and that of the executive committee? Surely that tells us much more about corporate culture?

Adherence to values and expected behaviours should be an important part of how all leaders and employees are assessed and rewarded. This may be difficult because it requires greater discretion in remuneration committees to reward or penalise behaviour, which is more difficult to measure precisely than profits. Investors do not generally favour discretion and subjective measures; but they do not like the consequences of bad culture either. Short-termism can drive poor business behaviours and conduct, for example: inappropriate incentives, market-rigging, poor customer service, low levels of investment and opaque financial structures and arrangements.

As already asserted by Sir Win, Corporate Culture is an intangible asset, with that in mind, what role do you see the auditor playing?

Many external auditors say they already give informal feedback on culture to audit committees, pointing out that a few leading indicators can stimulate a conversation. Some firms are making significant investments to develop their capabilities and services to measure and assess culture.

Participants at a roundtable for FTSE 100 audit committee chairs hosted by KPMG agreed that external auditors are a useful source of insight into culture, but observed they can be reluctant to share views that are not backed up by hard evidence.

How can boards get assurance on culture?

Chairmen recognise that there are limitations on the board's ability to know what is going on in the business. This can constrain the board's ability to challenge the executive. Management information to the board is inevitably summarised and can be presented to conceal the existence of real issues. Nevertheless, boards can do more by requesting access to relevant information; being smarter in their interrogation of that information; asking pertinent questions; probing and challenging where appropriate; and making sure action is taken when it is not satisfied that senior management is embedding the desired culture effectively. As well as requesting access to a range of information sources, chairmen agreed that spending time in the business was critical for getting a true sense of the prevailing culture in different parts of the business.

How could internal audit help boards to gain a better understanding of the prevailing culture?

IA has the potential to be an important provider of assurance to the board alongside functions such as HR, and risk and compliance.

This can begin with a clear mandate from the audit committee. In financial services firms the head of internal audit is required to report to the audit committee and this is becoming best practice for other sectors. Results can be reported informally or formally within internal audit reports and areas of potential weakness identified can be investigated.

Audit committee members and senior executives, however, must be open to the idea that the sort of hard evidence to underpin conclusions found in more traditional areas of audit will not always be available. Most heads of IA told us that assigning experienced senior auditors who understand the organisation and have sound working relationships in place with managers is key to success.

Should business report the quality of their culture to the market?

For the Culture report, Helena Morrissey Non-Executive Chair, Newton Investment Management, told us, "Companies need to come up with their own metrics on culture and report on those, on a year on year basis, so that investors can understand what boards are focusing on and how well they are achieving their objectives."

Do you foresee external reporting requirement on culture?

The FRC would expect to as investors and other stakeholders are taking greater interest in how companies account to a wide range of stakeholders and align their culture to their strategy and business model.

What can listed companies learn about culture from the partnership model?

Patrick Lewis, Group Finance Director, John Lewis told the project, "Our business model requires us to focus on the needs of customers and employees. The board conversation is not framed or informed by an aggregated set of cultural or values-based indicators and there are few formal reports, but the board spends a great deal of time looking at culture and values, driven by specific issues or by regular feedback, surveys and information from the frontline."

Highlights

- Largest FRC conference to date with over 300 people in attendance
- Over 2000 tweets during the event
- Twitter trending at number 8 with #CorpCul2016
- Strong commentary through blogs on LinkedIn

