Board Briefing

Culture Indicators
understanding corporate behaviour

By Peter Montagnon

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Institute of Business Ethics

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By Peter Montagnon

Culture Indicators: understanding corporate behaviour

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Contents

		Page
Author and Acknowledgements		4
Forewords		5
Executive Summary		7
Introduction		9
Chapter 1	**What Happens Now**	11
Chapter 2	**The Challenge for Boards**	21
Chapter 3	**Getting the Right Information**	27
Chapter 4	**Reporting: Do you Really Mean It?**	35
Conclusion		42
Appendices		
1:	Survey Methodology	43
2:	Section 172 of the *Companies Act 2006*	45
Related IBE Publications		46

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IBE Foreword

Culture has become a big talking point for companies, but we still have a long way to go in understanding what we mean by a good culture, how to shape it and how to measure it. This Board Briefing is an IBE contribution to the debate.

We see culture as the combination of factors that define the way people within an organisation behave. It starts with a clear set of values and an understanding of the purpose of the company. That leads on to the development of a framework in which the values are built into the way the company and its staff operate on a day-to-day basis. Embedding the culture is principally the job of the executive, but boards have a vital role in setting the values, in overseeing the embedding process and in assuring themselves that the resulting culture is the one they really want. They need also to have an awareness of the sub-cultures that exist across the company.

This is a significant new challenge for directors. It requires them to look at some new information and to consider old information in a different way. In this Board Briefing we look in some detail at the flow of information to boards, what they need, how they can assess it and how they can best explain to stakeholders what they have done.

The debate is still evolving, and we cannot yet pretend to have definitive answers, but we hope this Board Briefing will help steer thinking in a useful and practical way. We do not want to add to the burden, but rather to help focus effort and attention on those things that really matter.

Philippa Foster Back

Philippa Foster Back CBE
Director
Institute of Business Ethics

Foreword from Grant Thornton

The issue of corporate culture has finally moved to centre stage, and an increasing number of company failures and successes are being attributed to distinctive cultures. Our research at Grant Thornton has shown that in the last two years there has been a growing momentum in the reporting of culture: moving from something nebulous and 'soft' to something boards recognise as a vital part of business success. However there is still some way to go before the momentum reaches a tipping point.

Challenges remain when companies are asked to define and measure culture; it can all too quickly descend into the generic. Relaying company values is second nature to most directors: integrity, honesty, respect and collaboration are common, but they can often apply to any business rather than being distinctive factors that distinguish the company. And values are only half the story. When it comes to articulating and instilling behaviors as everyday practice, the message can start to lose clarity. This makes assessing the degree to which culture has been embraced throughout the organisation an even greater challenge for the board.

Some companies are starting to use new and innovative ways of measuring culture, but the majority are only just starting the journey. Employee surveys are the default measure for most companies – similarly health and safety statistics, diversity, customer satisfaction, staff recruitment and churn rates all feature – but each is limited in the story it can tell. As always with emerging practice, there are a small number of companies that monitor culture trends using a basket of metrics. There are an even smaller number that, recognising the impact of culture on their internal control environment, employ internal audit to review how embedded the espoused culture really is into the heart of their business.

Turning what has been intangible for many years into something tangible is not an easy task. The findings of the IBE's Board Briefing offer encouragement that the board's journey to get to the heart of culture in organisations is very much underway.

Simon Lowe
Chair
Grant Thornton Governance Institute

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Executive Summary

While boards are increasingly focused on corporate culture, they often struggle to understand the forces that drive behaviour in their business. Most directors agree that culture cannot easily be measured. However, boards can and do have access to a range of information that will shed light on the drivers of behaviour within their organisation and help them to shape it. This Board Briefing sets out to help them through its examination of a range of relevant indicators and how to interpret them.

It starts with the results of an IBE survey into the information boards currently receive, how they consider it and how they report on culture to the outside world. This is followed by analysis drawn from a series of interviews with directors and those that advise them. A positive finding is that boards do discuss culture and receive a lot of relevant information. However, this is not necessarily presented systematically so boards may find it difficult to make connections and draw conclusions about culture.

The survey shows most boards regularly review Speak Up and whistleblowing data. They look at the results of the employee survey, and health and safety, as well as items in the public eye such as taxation policy and diversity. Yet the survey also suggests that boards appear to pay relatively little attention to some issues that might provide important insights. These include customer complaints, supply chain data, social media records and exit interviews. Two fifths of boards surveyed do not receive information on customer satisfaction, while only 20 percent of boards receive data on the supply chain relationship.

The survey results set out the challenge, which is then picked up in subsequent sections of the Board Briefing. The starting point is that there can be no effective oversight of corporate culture unless boards have first set and promulgated a statement of values and purpose against which expected behaviours can be defined and measured.

Boards are rightly worried about being drowned in information. Many seek to address this by channelling more detailed work through committees and tailoring the information flows they receive to suit their particular needs. Critical indicators might be based on the expectations of key stakeholders i.e. groups that the company cannot afford to alienate. Directors also need to consider factors that will inform them about morale and motivation among staff, suppliers and customers, as well as levels of operational stress that might lead to conduct and other types of risk.

For this boards need Key Performance Indicators (KPIs) covering a wide range of data from different sources, including human resources, commercial, operational and financial information. This will allow them to see where patterns are emerging and check one indicator against another. Large companies face a particular challenge because group-wide KPIs will not differentiate between what is happening in different parts of the business. Group boards need to be able to disaggregate sufficiently to know where there are pockets of poor culture that might cause a risk to the whole concern.

One important factor to consider is whether and how the chosen indicators are predictive. In health and safety, for example, incidents that might have caused serious injury or fatality matter even if no-one was hurt, because they may reveal serious flaws in the control process.

Directors need both quantitative and qualitative data. Where KPIs are concerned, they need to look beyond the raw figures to understand the underlying message and compare the results with other indicators to see whether they confirm the picture. Evaluating culture involves monitoring process as well as data. Executives may report on the number of calls to the Speak Up line and even what the main points of concern are. Again, however, the board needs to know about how the arrangements operate. For example, what steps have been taken to publicise the line and how are those that report concerns protected from retaliation? Chapter 3 looks at getting the right information across a range of indicators: health and safety, employee surveys, Speak Up, codes of behaviour, staff turnover, stakeholder engagement and customer satisfaction.

An important part of board oversight of culture, however, remains the assessment that flows from first hand observation. The demeanour of the CEO, the degree to which he or she embodies the desired values and the way in which the management engages with the board speaks volumes.

The Board Briefing then turns to how boards report on their engagement with culture. The key word here is 'authentic'. Boards will not be believed if their communication is spun in a way that simply presents a positive gloss. The UK government has announced that it intends to require companies to state how the board has taken account of Section 172 of the *Companies Act 2006* in making decisions. This section of the law deals with the obligation of directors to have regard to the interests of stakeholders – including employees, suppliers and customers – to consider the longer-term impact of their decisions and to promote high standards of business conduct. The IBE has argued in evidence to the government that the person best placed to make the statement is the chair, as he or she is responsible for organising the board.

More detailed reporting is likely to involve a number of indicators, particularly those the board itself finds useful in testing corporate culture. To be useful, these need to be presented in a way that shows their relevance and explains the underlying meaning behind the figures and the conclusion the board has drawn from them. Examples of where more data may be needed are customer satisfaction, staff turnover and supply chain relations. In each of these cases, disclosure often appears scant.

Consideration of the various indicators of culture needs to be joined up. When alarm signals are ringing in several different places at once, there really is a problem. In each case it is also necessary to ask the question about what the figures really mean. The next stages on the journey will present a challenge, but the debate on culture and the new focus on Section 172 have created an opportunity that deserves to be seized.

Introduction

A series of corporate scandals has raised serious questions about the standing of business in society. These continued after the banking crisis a decade ago and lead up to the collapse of BHS, accounting problems at BT and Tesco, the controversy around employment practices at Sports Direct and, most recently, Carillion going into liquidation. Business worries that it is both mistrusted and misunderstood. Public antipathy is exemplified by widespread protests over issues such as executive remuneration and taxation.

The intensity of these issues has raised questions about whether there are endemic issues at the heart of business and whether these public manifestations of poor behaviour reflect a flawed internal culture in at least some companies. Thus the question of corporate culture has risen up the agenda. Business needs to regain its standing in society so that companies can secure their long-term franchise and their right to be heard in the debate on public policy. The 2016 Financial Reporting Council (FRC) project on corporate culture was a concrete example of how seriously these issues are being considered.[1] So was the government's subsequent Green Paper on corporate governance reform [2] and the reference to culture in the new draft *UK Corporate Governance Code*.[3] Though the May 2017 election result means the prospect of major legislation has receded and the government has opted for more modest reforms than originally suggested, the problems that gave rise to the Green Paper have not gone away. They need to be addressed.

> *Business needs to regain its standing in society so that companies can secure their long-term franchise and their right to be heard in the debate on public policy*

Fortunately, there is evidence in the latest crop of annual reports to suggest that companies are themselves keen to address these issues. Even in 2015, an IBE survey found that 57 out of the FTSE 350 companies (16 percent) had a board level committee looking at sustainability, ethics and integrity. Research from Grant Thornton [4] in 2017 shows that 39 percent of FTSE 350 companies now provide good or detailed disclosures of their culture in the annual report (up from 20 percent in 2016) and only six percent make no reference to culture. Also, the results of a survey of IBE subscribers detailed in Chapter 1 of this Board Briefing suggest that boards are regularly informed and do discuss a wide range of issues related to corporate culture.

1 FRC (2016) *Corporate Culture and the Role of Boards: report of observations*

2 Department for Business, Energy and Industrial Strategy (2017) *Corporate Governance Reform: the Government response to the Green Paper consultation*

3 FRC (2017) *Proposed Revisions to the UK Corporate Governance Code*

4 Grant Thornton (2017) *Corporate Governance Review 2017*

Yet we are still very much at an early stage. While many executives, shareholders and other stakeholders agree that culture is important, both boards and the market still struggle with the challenge of how to measure it. Part of the problem is that the subject matter is unfamiliar. Many companies now have a code of ethics or conduct, but it can often be hard for boards on the inside, and stakeholders on the outside, to judge whether the code is effective. The other part of the problem is that the market is addicted to numerical measures. Numbers can form part of our understanding of culture but they often need interpreting, which requires judgement. Raw data on the number of calls to a Speak Up line, for example, do not give a clear message. A falling trend could either mean that morale has risen or that people have suddenly become frightened to speak up, which is exactly the opposite.

This Board Briefing does not seek to provide definitive answers. We are not far enough into the journey for that. However, it does seek to provide some more granular analysis of the indicators of culture and how they can be measured and interpreted. The starting point is the information the board receives, the way it is presented and the way it is analysed. Then there is the question of what the company says in public. This is difficult both because of the temptation to 'spin' the information and because some of the most revealing indicators of culture are likely to be confidential. Finally, there is a question of how stakeholders can equip themselves to interpret the data put before them. Once again this requires them to become familiar with subjects quite far removed from the traditional agenda.

The debate on culture provides companies with an opportunity for a better dialogue with shareholders, stakeholders and the broader community. It will fail to deliver if it descends into a bureaucratic and sterile discussion of which KPIs companies should be obliged to publish so that their interlocutors can tick the right box. The IBE hopes that the analysis offered in this Board Briefing will help ward against that.

At the outset the debate about corporate responsibility focused on outcomes, particularly around the environment. The debate around culture has shifted attention to inputs, the factors that drive behaviour and lead to good or bad outcomes. Boards now need to home in on these and, as they learn to do so and report on what they are doing, a new challenge is emerging for narrative reporting. We hope this Board Briefing will help in a practical way with this transition.

What Happens Now

To find out more about the information boards are currently receiving in relation to culture in their organisations, the IBE surveyed larger companies in its subscriber base. This produced responses from 28 large companies in a wide range of sectors. The survey is of sufficient size to give a reasonable snapshot of current practice, though it should be noted that the respondents are more likely to be from companies whose boards take culture seriously. Thus the results may overstate the degree to which all boards systematically review data related to culture, but they help provide an indication of which indicators are most relied on. Also, though the range of sectors covered is indeed wide – from finance to telecoms, utilities and defence – there are some gaps, notably the retail sector. Again, this is a reflection of the self-selection nature of the exercise.

Despite the caveats mentioned above, the results provide an indication of the direction of travel and a benchmark from which to observe future progress. The survey also sheds some light on the way boards approach these issues: whether directly or through committees, about the frequency of their discussions and their approach to disclosure.

It is encouraging to note that 82 percent of respondents said their boards monitored data related to culture, either directly or through a board committee such as an audit, risk, sustainability or ethics committee. This corresponds to Grant Thornton's separate finding that 53.5 percent of the FTSE 350 discuss some kind of measurement of their culture in their annual report, most commonly employee surveys or engagement.[5] Among the headline conclusions of the IBE survey are that the indicators monitored are dominated by employee data even though other indicators may shed important light on culture.

> *82 percent of respondents said their boards monitored data related to culture*

A few boards have developed a practice of looking at the indicators holistically, though they are still a small minority. Triangulation of various types of data might help companies to develop a better understanding of the overall culture of their organisation. If more than one warning light is flashing at once, it may help point up pockets of weakness in particular parts of a large organisation. Finally, it is striking that boards tend to ignore potentially important indicators, for example data revealed by exit interviews and social media. They also appear to pay relatively small regard to customer complaints, though this does vary from company to company and sector to sector.

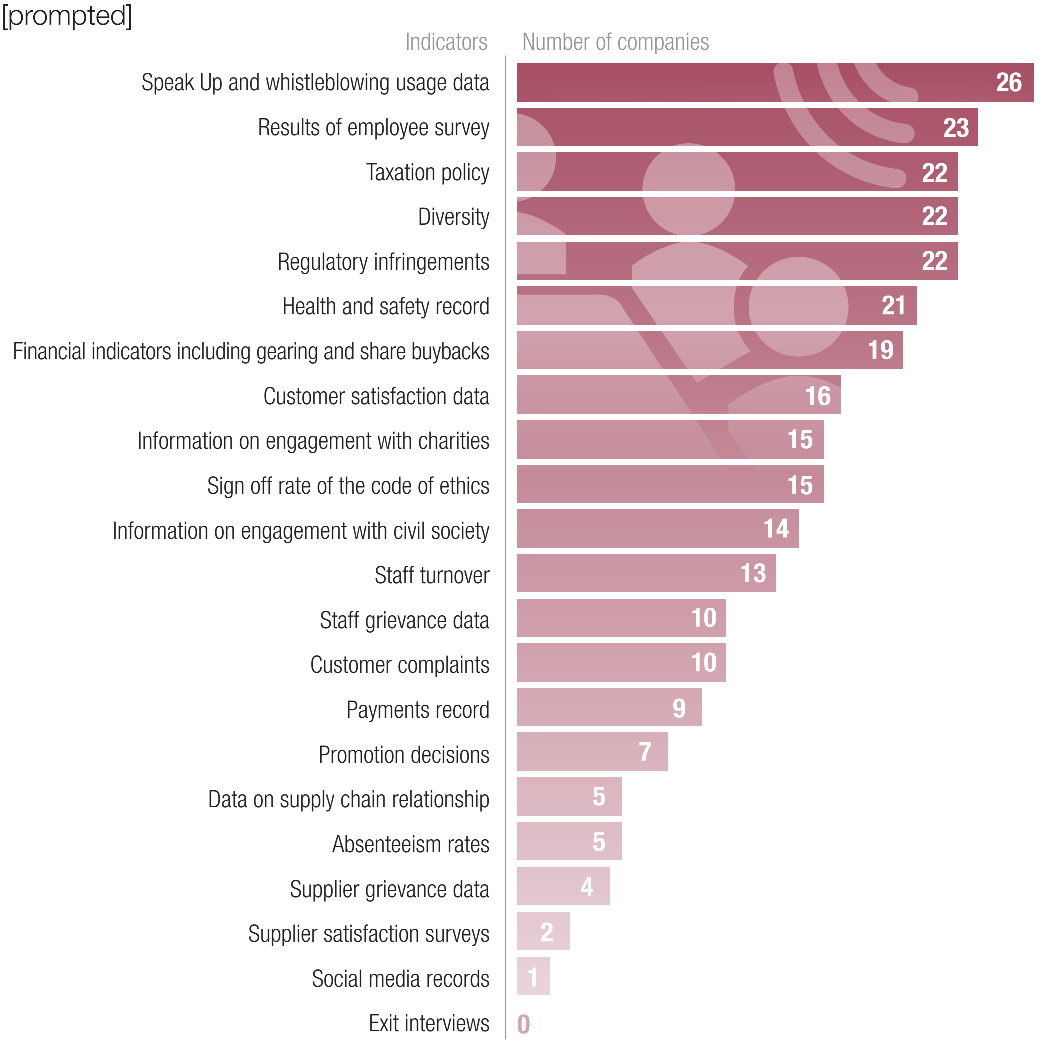
Most commonly watched indicators

The IBE identified a series of indicators that relate to aspects of organisational culture and surveyed companies about whether information on these indicators is communicated to the board. Figure 1 includes both the indicators communicated, at least initially, via a relevant committee as well as those that go straight to the board.

[5] Grant Thornton (2017) *Op cit*

Figure 1 Information communicated to the board

Are any of the following indicators included in your communications to the board? [prompted]



Source: IBE
Base: 26 respondents for all indicators except 'social media records' and 'financial indicators including gearing and share buybacks', for which the base is 25 respondents

At number one position is Speak Up and whistleblowing data, which is clearly important because it is a significant potential source of information about behaviour, culture and fraud. Boards perhaps are more used to looking at Speak Up because it has long been seen as an indication of risk.

Among the top five are two indicators – taxation policy and diversity – that reflect the preoccupations of the public but are also important indicators of culture.

Surprisingly low on the list come customer complaints, supply chain data including supply chain grievances, social media records and exit interviews. This does not mean that companies ignore customer complaints. In consumer-facing sectors the Net Promoter Score – established by identifying whether customers would recommend a company and subtracting the percentage of detractors (those who would not recommend) from the percentage of promoters (those who would) – is likely to be closely watched and, in some cases, is a criterion used to determine executive bonuses. Customer complaints are less likely to be relevant in some wholesale, commodity-based businesses.

Social media can also provide important information across the spectrum and it is surprising that it is ignored. It could be and often is monitored by the management to provide useful information about the company's reputation with its customers and suppliers, and also with the general public. It could also be used to confirm or challenge the results of the employee survey. Similarly exit interviews, if conducted properly, could be a valuable source of information. They are sometimes looked at by internal audit [6] alongside a range of other indicators of corporate culture.

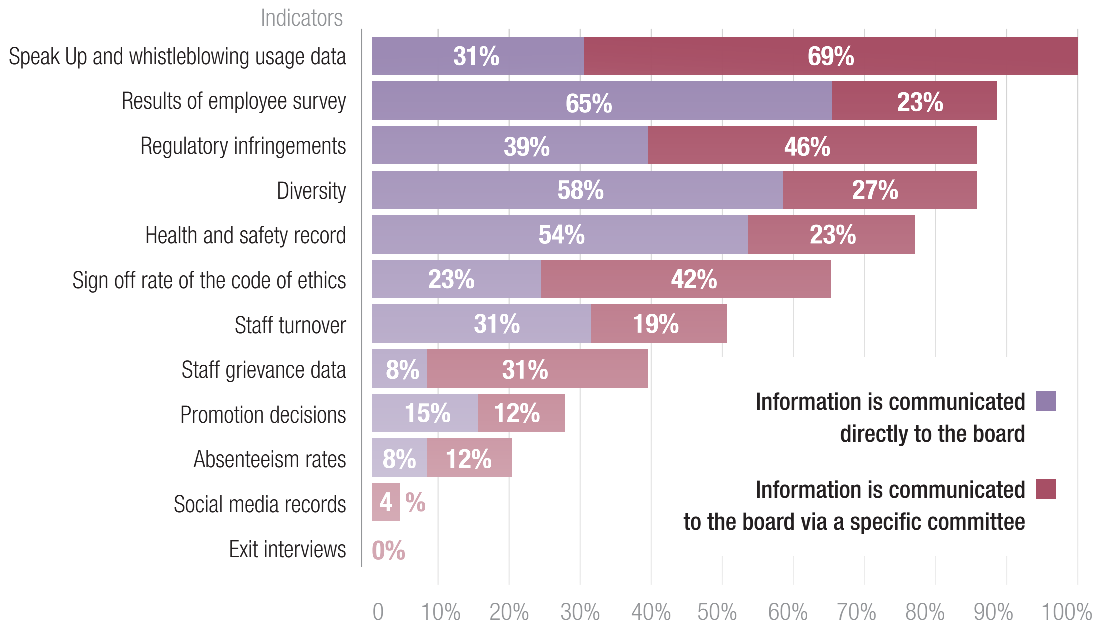
Perhaps unsurprisingly there is a heavy reliance on human resource data, as noted above. This raises some questions about the wisdom of relying too much on one information source. Boards must feel comfortable about the reliability and quality of the data they receive and be able to challenge it.

Employee issues

Over half of the respondents said their boards received direct information about the results of employee surveys and diversity as well as health and safety. Tracking of Speak Up and whistleblowing data is the largest single item reviewed by committees. Although some boards do look at this data, it is more common for it to be part of a committee agenda, perhaps because the figures are difficult to interpret without detailed analysis. Information on regulatory infringements is communicated to 46 percent of the boards via committees and to 39 percent directly.

Figure 2 Employee issues

Are any of the following indicators related to employees included in your communications to the board? [prompted]



Source: IBE
Base: 26 respondents for all indicators except 'social media records', for which the base is 25 respondents

6 See IBE (2015) *Checking Culture: a new role for internal audit*

Lower down the list come indicators like staff grievance data which is reviewed by about a third of the committees and only directly by eight percent of boards. By contrast, a greater proportion of boards (31 percent) receive information on staff turnover directly rather than via committees (19 percent). Already mentioned is the low score for exit interviews, although over half the companies said information was available to directors on request but not regularly communicated.

Generally low scores were received by absenteeism and promotion decisions, both of which are potentially important. A high or rising trend in absenteeism can indicate an unhappy workforce, which is therefore less likely to be productive. Promotion decisions matter because the type of employee who moves up the organisation sends an important signal to the rest of the workforce about the real, underlying values of the organisation. If a company persistently promotes employees who ignore or flout its code of ethics, then there is not much chance of the code being taken seriously by the workforce as a whole.

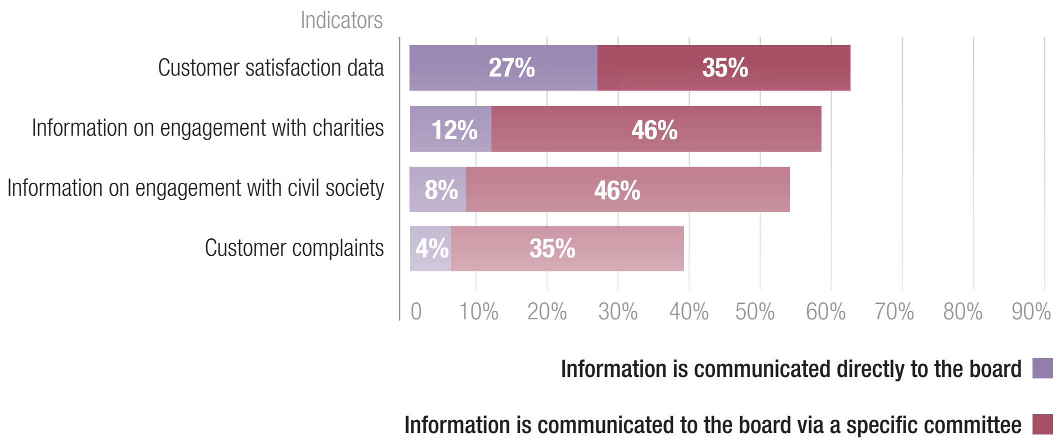
Customers and community

In contrast with the human resource-related data described above, boards appear to pay relatively scant attention to customer and community data. For example, two fifths of boards do not receive information on customer satisfaction. One reason for this may be that the indicator may be of more limited relevance than it seems at first sight. Whereas customer satisfaction is of critical importance to many consumer-facing companies, it is less relevant for those in a wholesale commodity business like mining. Nonetheless, the score appears low given the general emphasis on trust. This is further confirmed by the fact that only four percent of respondents said their board received direct information on customer complaints. The number of boards receiving this information via committees was the same as for customer satisfaction at 35 percent.

Once again, given the importance of trust, it is worth noting the low scores going to information on engagement with civil society and with charities.

Figure 3 Customers and community issues

Are any of the following indicators related to customers or the community included in your communications to the board? [prompted]



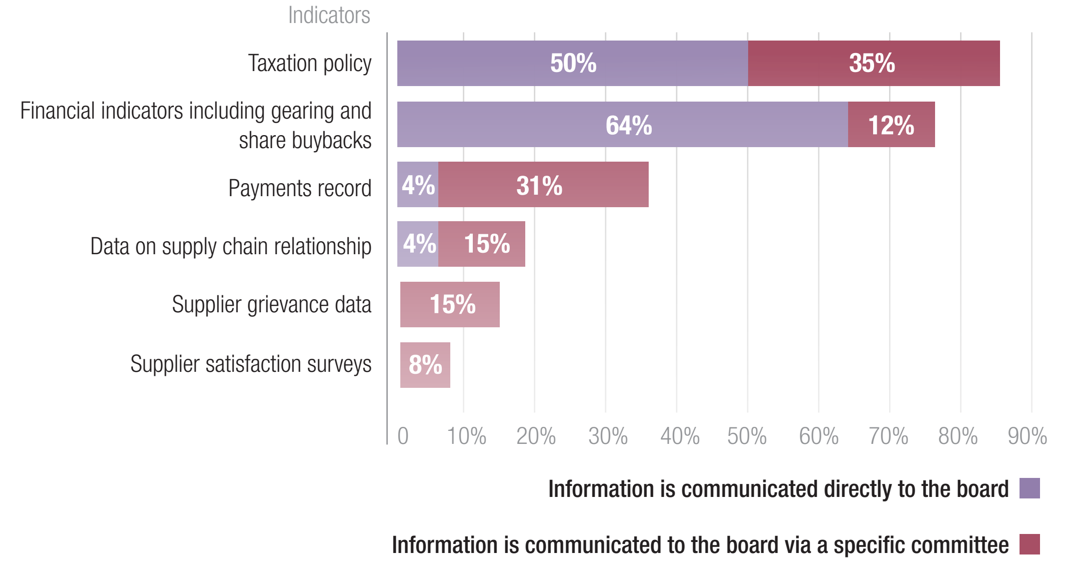
Source: IBE
Base: 26 respondents for all indicators

Financial indicators and suppliers

While most boards will consider focus on financials as core task, it is also the case that certain approaches to financial management can also be indicators of culture.[7] For example, a tendency to borrow one's way out of trouble or use share buybacks to artificially inflate the stated return on equity can both be indicators of a weak overall culture, especially when amber lights are flashing elsewhere. Not surprisingly, 64 percent of respondents said that their board received information directly on financial indicators relevant to culture such as gearing and share buybacks.

Figure 4 Investor and supplier issues

Are any of the following indicators related to investors or suppliers included in your communications to the board? [prompted]



Source: IBE
Base: 26 respondents for all indicators except 'financial indicators including gearing and share buybacks', for which the base is 25 respondents

It is clear that boards are concerned with taxation policy because this has emerged as an important reputation issue. Half the respondents said their boards received information directly on taxation policy while 35 percent said information was conveyed indirectly through a committee. This is encouraging but, as with other financial indicators, there must be a caveat that the IBE survey does not reveal the content of such discussions. Tax would be a routine matter for large company boards and also of many smaller ones. We do not know how many boards consciously discuss the ethical and reputational issues involved, though there is anecdotal evidence that an increasing number do.

By contrast, the supply chain receives significantly less focus with four percent or fewer companies communicating this data directly to the board. With the exception of supplier payment records (31 percent), supply chain issues are only communicated to a small minority of boards via committee, even though the information is available in a significantly larger number of cases.

[7] See IBE, International Corporate Governance Network and ICSA: The Governance Institute (2016) *Red Flags: identifying indicators of corporate culture*

Supplier payments record is a potentially important culture indicator. Though most companies have clear policies on the scheduling of payments to suppliers and government expectations in this area have tightened up in recent years,[8] fair treatment of suppliers is part of a positive culture and a habit of late payments can be a significant reputation issue as well as an indicator of financial stress. One would expect boards to want to assure themselves that the policies they have set are being complied with, especially when they are also setting targets for working capital. This is, in any case, a relatively easy task for internal audit. Over 40 percent of respondents said the information was available on request but not regularly communicated.

For many companies, the supply chain is a source of potential concern because of the reputational damage that can result from unacceptable behaviour such as the use of child labour, failure to meet product standards or bribery. The *Modern Slavery Act 2015* also requires companies to publish a statement on their supply chain policies. Companies therefore often go to some lengths to ensure that the behaviours in the supply chain are consistent with those they expect within their own organisations. So one might expect boards to be receiving more information than the survey results suggest.

Also, the mood in the supply chain can also be an indicator of culture in the main company as pressures and attitudes are passed on to suppliers. While companies are right to expect high standards and efficiency from their suppliers, excessive pressure on margins and late payments are also an indication of stress at the core. Driving suppliers hard can contribute to problems, as some food retailers found in connection with the horsemeat scandal of 2013. It is therefore useful to crosscheck the results of the employee survey with the mood in the supply chain. Something is likely to be wrong if employees appear to be happy but suppliers are not.

Frequency of reporting

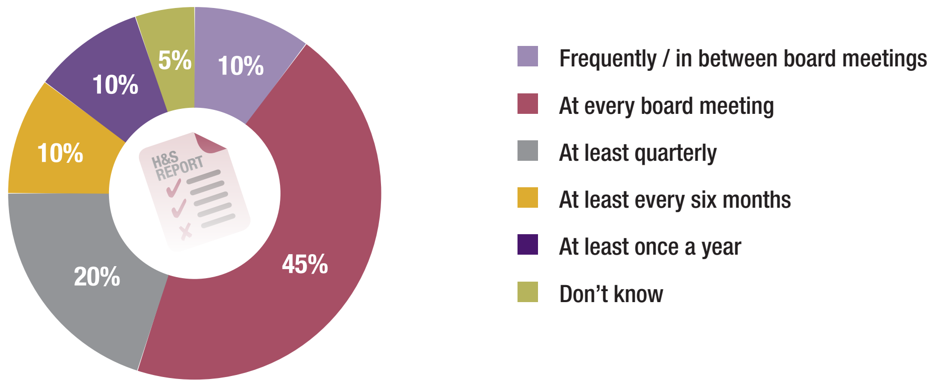
The frequency with which data is reported to boards provides an indication of how often it is discussed, though companies will vary as to how much attention they pay to the data they receive. Some items will be reported frequently because they are erratic but potentially important. Others may be reported regularly but treated as routine. Certain indicators may be reported on less frequently because they are part of an annual or even longer cycle. This might include staff surveys, which are more likely to be discussed in depth than regularly reported data that is used more as a means of keeping a finger on the corporate pulse. Nonetheless, very frequent reporting provides some indication of what boards regard as important, as is shown by the figures for health and safety in Figure 5. Of respondents who report this data to boards, three quarters do so at least quarterly, but included in that figure are a sizeable number (45 percent) who report at each board meeting and a further 10 percent who report frequently including in between board meetings.

A similarly high proportion of boards receive frequent reports on Speak Up and whistleblowing. Two thirds of respondents said boards received data at least every six months. This includes a significant number who received data every quarter (40 percent) and 16 percent who received data at every board meeting or more frequently.

[8] A statutory duty on larger companies to report on payment practices and performance was introduced by the Department for Business, Energy and Industrial Strategy (BEIS) from April 2017.

Figure 5 Frequency of reporting of health and safety records to the board

How often are health and safety records normally reported to the board? [prompted]



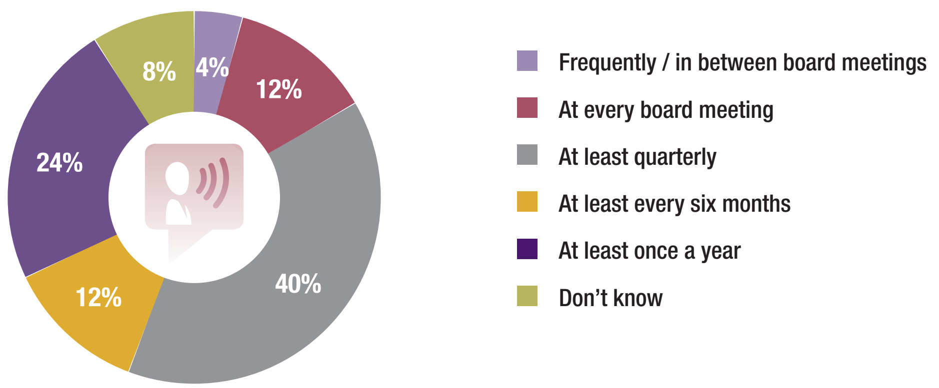
Source: IBE
Base: 20 respondents who answered that health and safety reports are communicated to the board

Boards also track staff grievances and regulatory infringements closely. Indeed, 24 percent of respondents who report to the board on the latter do so frequently including in between board meetings with a further 29 percent at each board meeting and 24 percent at least quarterly. A smaller number of companies report to boards on staff grievances, though those that do so report frequently with over half reporting every quarter or more often.

A slightly different pattern emerges for diversity and taxation policy, both of which are tracked closely, though reporting may be less frequent. Thus of respondents who report on diversity, 24 percent report every quarter or more frequently. Around 20 percent report every six months while nearly half report annually. On taxation policy, 50 percent of respondents report once a year, but a large number report more frequently including 17 percent every six months and a similar number quarterly or more frequently.

Figure 6 Frequency of reporting of Speak Up and whistleblowing usage data to the board

How often is Speak Up and whistleblowing usage data communicated to the board? [prompted]



Source: IBE
Base: 25 respondents who answered that Speak Up and whistleblowing usage data are communicated to the board

Unsurprisingly, the staff survey tends to be an annual event on the boardroom calendar with 57 percent of companies reporting to their boards once a year. However, around a quarter of companies report more frequently. This may suggest some follow-through discussions and may also reflect the apparently growing practice among larger companies of taking frequent 'pulse' surveys of employees to gauge the mood on specific issues. The rate of sign off by employees on the company's internal code of ethics or conduct is also an annual fixture. This is subject to reporting once a year by 75 percent of respondents.

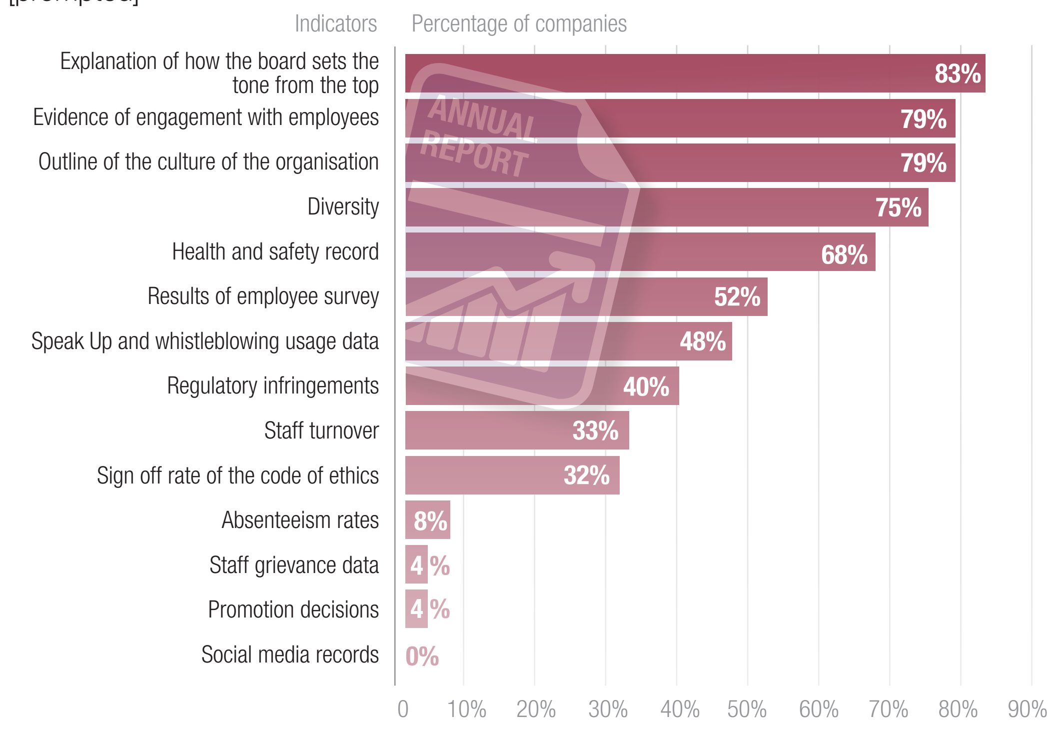
Finally, the survey showed that an overwhelming majority of respondents (92 percent) report on each particular issue separately, rather than as part of a tailored package of culture indicators. While this is natural insofar as a number of the indicators are relevant for reasons that go beyond any attempt to oversee culture, the risk is that the culture discussion can end up constrained by silos, making it harder for boards to join the dots. For that reason a number of companies are taking a dashboard approach, which is discussed in the next chapter.

External reporting

We asked companies about their approach to external reporting on culture. Here the focus was on the annual report as being the main vehicle for communication to shareholders and, increasingly, also to other stakeholders as a result of narrative reporting requirements introduced by the EU and UK authorities.

Figure 7 Employee information included in annual reports

Are any of the following indicators related to employees included in your annual report? [prompted]

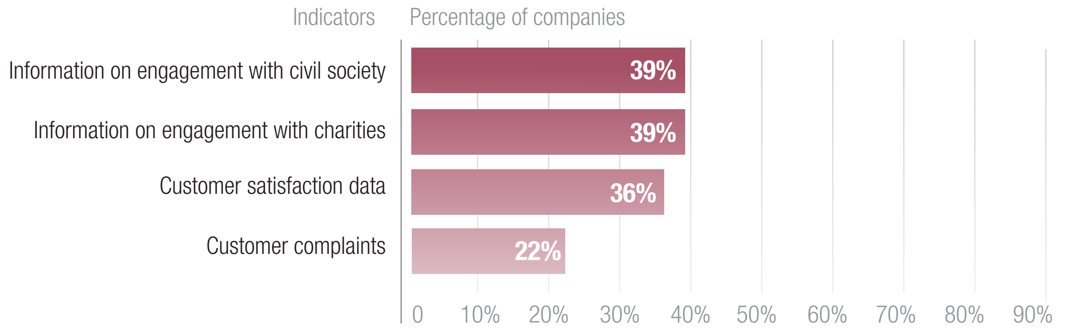


Source: IBE
Base: 24 respondents for all indicators, except Speak Up and whistleblowing usage data, sign off rate of the code of ethics, results of employee survey, health and safety record, regulatory infringements (for which the base is 25 respondents), and for staff grievance data (for which the base is 23 respondents)

Once again, the aim was to find out more about the central importance of culture indicators to companies. Many companies offer wide-ranging information in separate corporate responsibility or sustainability reports and this is undoubtedly of great value to the stakeholder community. Yet there is also a risk that, in hiving off potentially critical information into a separate document, boards are indicating that they regard culture indicators as being of lesser importance.

Figure 8 Customer and community information included in annual reports

Are any of the following indicators related to customers or community included in your annual report? [prompted]



Source: IBE
Base: 23 respondents for all indicators, except payments record and customer satisfaction data (for which the base is 22 respondents)

The question of external reporting is discussed in more detail in Chapter 4. Suffice it to be stated clearly here that it is not the IBE's intention to add to an already substantial burden of company reporting. It is more a question about whether what is reported is truly germane to the character of the business and the way in which the board exercises its stewardship role. At some stage it will be necessary to review the requirements around narrative reporting, scaling back those that are not necessary and introducing new indicators that have been found to be relevant. The IBE survey results are intended to stimulate debate rather than add to the load.

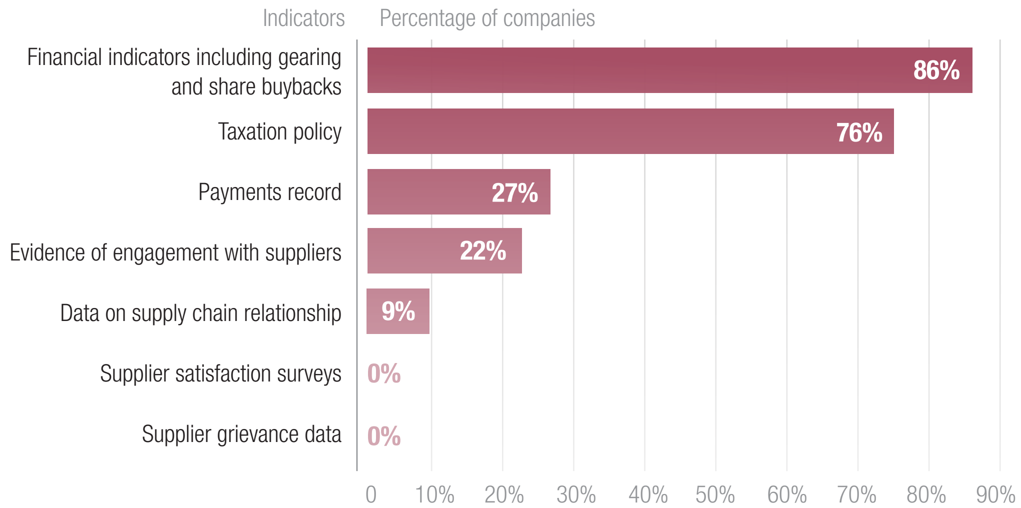
With that in mind, it is worth noting that current annual report disclosure tends to mirror the priorities set by the board agenda. Over 80 percent of respondents said their annual reports include a description of how the leadership sets the tone from the top. According to the 2017 Grant Thornton review of the annual reports of FTSE 350 companies, 56 percent of chairs include discussion of culture and values in their opening statements or in the introduction to their governance report.[9] At least three quarters of the IBE survey respondent companies report on the culture of the organisation, engagement with employees, taxation policy and diversity (now increasingly a legal and regulatory requirement). Around two thirds report on health and safety, a number which may seem low, but which also is less material in some sectors like financial services.

Much less frequent is reporting on staff turnover, absenteeism and social media. Just over half report on the employee survey results, while nearly 40 percent report on engagement with civil society and with charities. Reporting on supply chain engagement features in 22 percent of respondents, but only nine percent give detail of supply chain relationships. Only 22 percent report on customer complaints.

[9] Grant Thornton (2017) *Op cit*

Figure 9 Investor and supplier information included in annual reports

Are any of the following indicators related to investors or suppliers included in your annual report? [prompted]



Source: IBE
Base: 21 respondents for all indicators, except taxation policy (19 respondents) and financial indicators including gearing and share buybacks (20 respondents)

Summary

This chapter has presented the results of an IBE survey into the information boards currently receive, how they discuss it and how they report it. Boards do discuss culture and receive a lot of relevant information, but this is not necessarily presented systematically and, in many cases, is passed through a board committee. In particular:

- Speak Up and whistleblowing data are the data most commonly considered by boards followed by the results of the employee survey, taxation policy, diversity and regulatory infringements
- Boards pay relatively little attention to some issues that might provide important insights on culture, including customer complaints, supply chain data, social media records and exit interviews
- Two fifths of boards do not receive information on customer satisfaction, while only 20 percent of boards receive data on the supply chain relationship. A large part of this data, including that related to supplier grievances and supplier satisfaction, is passed through a committee
- Health and safety issues and Speak Up are the issues discussed most frequently by boards, although some indicators, like the employee survey, run on an annual cycle
- On external reporting, over 80 percent of respondents said their annual report included a description of how the leadership sets the tone from the top, but only about a third report on staff turnover and just 22 percent on customer complaints.

The Challenge for Boards

The IBE survey results discussed in the previous chapter suggest that boards are beginning to grapple with the issues around culture. However, interviews conducted for this Board Briefing with a range of directors and those that advise them, indicate that companies are at the start of what could still be a long journey. Also measurement remains a problem. The first part of this journey, however, must be about defining the board's expectations. A board that lacks a clear view of the values and purpose of the company for which it is responsible will have no benchmark against which to measure.

> *A board that lacks a clear view of the values and purpose of its company will have no benchmark against which to measure*

Purpose and values come first

The definition and promulgation of values and purpose is thus crucial. Moreover, the beliefs expressed by the company's leadership need to be credible. Employees of all ranks will make their own observations on whether management behaviour reflects the company's stated values. The example set by the management, and particularly the chief executive, speaks volumes. The same also holds true for the board at a collective and individual level. This does not remove the need for quantitative metrics, not least because boards have a responsibility to act when things are going awry and they need an evidence-base to do so. The expectations that arise from a given set of values will serve as a basis for judging where the company is on its journey and whether it is running hidden risks.

Values also matter because they shape the relationship between the company and society, from which it derives its licence to operate. This is an important part of corporate culture and of the boardroom brief. As long ago as 2002, Sir Adrian Cadbury, the great pioneer of corporate governance, alluded to this in his book *Corporate Governance and Chairmanship: a personal view*,[10] when he wrote:

> *"The influence of public opinion should not be underestimated, for it has been largely responsible for putting societal issues, such as the environment and human rights, on the governance agenda. The issue to keep in mind is that the nature of the boundaries within which companies operate is continually changing. The task for boards and their chairmen is to be alert to the implication of these changes and to foresee their direction."*

The current focus on corporate culture arises in large measure because of the failure of too many boards and corporate leaders to heed this wise and long-standing advice, but there is another element in play. The nature of activity within firms has changed as technology has become more sophisticated and the workforce more specialised. The software skills used by Volkswagen employees to deceive US and other regulators on emissions standards and the advanced mathematics deployed in the derivatives business of banks like UBS in the run up to the banking crisis are both examples of the complex skills and substantial power in the hands of ordinary employees.

[10] Sir Adrian Cadbury (2002) *Corporate Governance and Chairmanship: a personal view*

In both cases the boards were wrong-footed and it is easy to criticise them for this. Yet the bigger picture suggests that the odds may be stacked against directors. Technology is so complex and the operations of big companies so far-flung that the real knowledge, understanding and power may easily be concentrated at the operating level. One of the biggest risks facing boards – which may become even more acute in the era of artificial intelligence – is that they lose their ability to control the way a business functions or understand the underlying risks.

A determined focus on values and their impact on behaviour is a helpful antidote to this, even if it takes the task of governance in a new and different direction. It is not foolproof, but boards that can shape the behavioural responses of employees at every level will have less to fear from activities whose technical complexity eludes them. This requires directors to identify the key values that the board would like the company to have and then to reflect on the possible sources of feedback that will show the extent to which these values are found in practice. Shared values and an open culture bring peer pressure to behave in the desired way, limiting the scope for rogue employees to upset the apple cart. The board's oversight role may in turn require new data sets and a revised approach to those that already exist. The rest of this chapter looks at the information boards need on behaviour and how they should approach it.

Standardised indicators versus a bespoke approach

One of the nightmares facing directors is information overload. Boards already complain that agendas are too long and that they are obliged to check and monitor so much data that they have no time for bigger strategic questions. There is a real risk that they will drown in a whole new flood of data around culture. For this reason, a number of boards prefer a dashboard approach which is tailored to the company's own situation and needs. It seems reasonably clear that health and safety will play a bigger role in mining than in financial services, where conduct risk may loom much larger. Both are important but the proportion and emphasis depends heavily on sector.

Thus a dashboard approach may comprise a limited number of indicators that can be tracked closely and are chosen to reflect the company's values, business model and key stakeholder relationships. Since culture is a key determinant of corporate reputation, companies may find it helpful to consider what is important to their key stakeholders when setting criteria for assessing culture.

> *Companies may find it helpful to consider what is important to their key stakeholders when setting criteria for assessing culture*

The dashboard approach makes the task of monitoring culture both more manageable and relevant to the perceived situation of the company. A traffic light system should give early warning and enable pre-emptive action to be taken. The big proviso, however, is that the indicators that make up the dashboard are relevant, consistent and reliable. They must not be massaged lower down in the company, for example by a human resources team anxious to assure the board that everything is all right.

Some argue, however, that the dashboard approach leaves too much room for error. The indicators may be wrong. Important issues can be missed and a traffic light system seems rather crude for companies with tens or even hundreds of thousands of employees. Also, there is a desire in the stakeholder community for a level of standardisation that allows comparison between companies and sectors. For example, the UK pressure group ShareAction has been developing a survey of companies aimed at producing consistent data on human capital.[11] This is an area where it rightly perceives that disclosure is limited.

Over time most companies will probably adopt a blend of the dashboard approach and disclosure of some universal indicators. Even these, however, will require careful judgement. For example, there is not much sense in simply asking how much a company spends on training in the context of its approach to human capital management. The key issue is whether the money is well spent and the outcomes are those which were intended.

Sensible to look forward

One suggestion raised by interviewees was that the best indicators for a dashboard approach are those that look forward rather than backwards – leading rather than lagging indicators. These sharpen the board's understanding of risk. Most companies rightly report fatalities and explain how closely the board investigates them. This is important for risk mitigation, shows solidarity with employees and their families, and also provides evidence of the company's determination to deal with problems that have arisen. Boards also need to look not just at what has already happened, but also at what may happen next. A better indicator of future risk is the incidence of 'near miss' events that might have caused serious injury or death but did not. These are important even if no harm was done because they say more about what might happen. Similarly, critical equipment failure is a forward-looking indicator. Put crudely, repeated failure may reveal that, although the pipeline has not exploded yet, there is a high risk that it will at some stage. Looking at predictive indicators can help boards and management take pre-emptive action.

Note that boards will be relying on honest and accurate information with both these indicators. This requires a culture of openness in which people feel able to speak up about their concerns and a management that does not spend its time seeking to cover up. Speak Up arrangements are critical to a strong corporate culture, and more detail will be given on this in the next chapter.

Another indicator which may be predictive is capacity use. A plant whose output oscillates wildly with a mean somewhat below capacity may provide a sign that it is being poorly managed. The trend may reflect substandard equipment maintenance, poor labour relations or an uneven supply chain. Though the raw numbers describe operational outcomes and seem somewhat removed from what is normally considered 'culture', what drives the numbers is behavioural and relevant as long as the number is looked at in the right way. It does not help much to know average capacity use. Much more revealing is how steadily the plant is running. This is not to say that boards should look at capacity use in the specific context of a culture audit, but it does suggest that when boards are looking at capacity use, it can help to bear in mind some of the conclusions about culture that might follow.

[11] ShareAction (3 July 2017) *$7.9 trillion investor coalition pushes companies for disclosure on global workforces*

Joining up the dots

No single indicator will tell a board definitively about the culture over which it presides. It is important, therefore, not to treat indicators in isolation but to look for links, sometimes in areas that do not obviously seem to connect. On the one hand, this may enable a board to tell whether the information being fed in through a key indicator, such as the employee survey, is reliable. On the other, a series of alarm bells ringing at the same time in different parts of the enterprise may reveal a serious flaw in the overall culture and therefore in the attitude of the executive leadership.

To take the first example, the results of the employee survey may look good. If, however, customer complaints have been rising and there is a high level of dissatisfaction in the supply chain, this may indicate that the survey is unreliable. Employees may have been unwilling to say what they are really thinking in their survey answers, possibly because they feel intimidated by an overbearing management. Then the board must look at the survey to see whether the right questions have been asked and whether the anonymity of respondents is properly protected. They need to ask some pointed questions about why both suppliers and customers are unhappy while employees seem content.

> *Boards should select indicators from different parts of the business and look for patterns that might be a sign of concern*

Morale in the supply chain may indeed be a general indicator of similar issues within the company. This is a reminder that there is a better chance that problems will be revealed if the indicator net is cast widely. Typically, companies look at their supply chains from the perspective of managing the risk to their own reputation if a supplier behaves badly. In fact, suppliers are well placed to rate corporate culture.

Driven by the need to protect their margins, large food retailers have sometimes felt impelled to squeeze their suppliers. Their large buying power frequently enables them to do this in a way which can be abusive and will set up problems for the future. No-one is suggesting that suppliers should have a cushy ride, but unfair pressure might lead them to take short cuts and is potentially an important danger sign. Suppliers also have a perspective on what is going on elsewhere in their sector. They know very well who is stepping out of line and ratcheting up the pressure too far.

It follows that boards should select indicators from different parts of the business and look for patterns that might be a sign of concern. In the financial area, compliance with the policy on payment terms is one indicator. Another is whether the company is systematically availing itself of opportunities under accounting standards to flatter its profits. In the operational sphere, failure to deliver reports on time and a hostile response to internal audit findings are negative signs. A high or rising incidence of health and safety incidents, regulatory actions and customer complaints should also raise concerns. Staff turnover and absenteeism are indicators from the human resource sphere. Social media sites such as Glassdoor (see Box 1) – through which employees and ex-employees communicate their own, sometimes unpleasant experiences – are a vital source of unvarnished information.

Drawing on a wide-ranging set of indicators also means that not all the information comes to the board from one source. Ethics and compliance, internal audit and human resources all have their part to play. Whereas one of these groups might seek to massage the data, it is less likely that all of them will do so at once.

Box 1 Glassdoor – www.glassdoor.co.uk

Glassdoor is a website that attracts comments from individuals and is increasingly consulted by jobseekers as well as investors looking for indicators of a company's reputation. Listed below are some comments by subscribers to its website.

The site thus provides potentially useful signals about reputation both for executive management and for boards, for whom it could be a source of direct information not intermediated by management.

Positive comments:

- **Facebook.** *"The work culture focuses on transparency from leaders, making an impact at your work and being a force of good in the world."*
- **Bain & Company.** *"High impact client work, very smart people, great culture and benefits."*
- **Google.** *"Awesome culture, awesome benefits, awesome total compensation."*

At the other end of the spectrum, the financial news and opinion website 24/7 Wall Street analyses data and reviews from Glassdoor each year to identify the worst US companies to work for. The following provide anonymous examples from the 2017 analysis:

- **Customer support for large companies.** While this company likely aims to provide its customers – large companies – with optimal service, its employees are left to deal with those companies' customers. The challenge of patiently and courteously providing helpful service for often irate customers – a challenge this company's employees experience in large doses daily – could help explain the high level of dissatisfaction.
- **Food company.** Only 27 percent of employees say they would recommend the job to a friend. Common complaints include mentions of long hours, high turnover, a hostile environment, and poor management.
- **Car rental.** Two out of every three employees say they would not recommend a job at the company to a friend. Common complaints submitted by employees include poor, inconsistent hours or being required to work late. Employees also commonly cite low pay and inattentive, unavailable management as issues.
- **Department stores.** Employees, feeling insecure in their jobs and seeing little future prospects have not been happy and low employee morale certainly has not helped the company. Low pay, poor work-life balance, and excessive pressure to sell credit cards are among the most common complaints among former and current employees.

Source: Drawn from the IBE contribution to Financial Reporting Council (2016) *Corporate Culture and the Role of Boards: report of observations* with examples updated in 2018

A Napoleonic versus a federal system

Not surprisingly, the challenge of getting to grips with culture is greatest in the largest companies. A series of KPIs consolidated to group level will not necessarily tell the board much. Yet the definition and promulgation of values has to start from the top and spread out from the centre to every part of the enterprise. If this does not happen then a company may find itself with several different cultures, none of which it can control.

For boards this raises two questions. First, does the company have systems in place, such as a network of ethics ambassadors, to spread the values out throughout the organisation and ensure group-wide consistency? If so, is there a system in place for measuring its effectiveness? Second, how far are the group-wide KPIs subject to analysis at divisional or subsidiary level? Some companies go further, involving their main board directors in local business risk or audit committees so that they get a first-hand view of what is going on. Others rely more on group internal audit.

Summary

This chapter has argued that:

- There can be no effective oversight of corporate culture unless boards have first set and promulgated a statement of values and purpose against which culture can be measured
- Boards are rightly worried about being drowned in information. They can tailor information flows to suit their particular needs. Critical ones might be based on the expectations of key stakeholders (groups which the company cannot afford to alienate)
- KPIs need to cover a wide range of data including human resources, commercial, operational and financial information, so that the board can clearly see where patterns are emerging and check one indicator against another
- Companies need a variety of sources for the KPIs. Human resources, ethics and compliance and internal audit all need to be involved
- Large groups face a particular challenge because group-wide KPIs will not differentiate between what is happening in different parts of the business. Group boards need to be able to disaggregate data sufficiently in order to know where there are pockets of poor culture that might cause a risk to the whole concern.

Getting the Right Information

This chapter will look in detail at some of the indicators of culture, the information boards need and the questions they should ask. As a general point, directors can tell a lot from the way their papers are presented. There is a significant difference between papers that are dry and informal and papers that show the executive is engaged. A real sense of ownership by the executive – manifested by a personal approach to presenting the papers – is a sign of a positive culture. If the executive is distant from the board, it is likely to be distant from employees and other stakeholders as well.

A second point is that monitoring culture frequently involves oversight of processes. For example, boards need to know if their Speak Up or whistleblowing arrangements are fit for purpose and whether they are operating in the intended way. This involves a qualitative judgement as well as a selection of quantitative indicators. Directors need periodically to gain some first-hand experience as part of their site visits and other familiarisation exercises. Without that, it is very difficult to judge the data the board receives.

> *Monitoring culture frequently involves oversight of processes*

Internal audit can play a highly useful role in providing intelligence as to how well key processes are working and of the reliability of the systems that generate information about culture. This will help the board with its understanding of KPIs – for example the number of calls to a Speak Up line, the response rate to employee surveys and staff turnover rates.

Internal audit can also draw the board's attention to pockets of weak culture in a large business with many divisions and with operations in many locations. The ability to do this is critical given the possibility of serious hidden risk.

The examples set out below are not exhaustive, but they illustrate in their different ways the complexity of many of the indicators of culture and the type of questions that boards need to ask. The challenge is to make what is inherently subjective as objective as possible, while accepting that there is almost always a need for qualitative judgement.

Health and safety

For many companies, health and safety is a critical indicator. The leadership wants to protect its employees from harm and the reputational damage of not looking after them can be very great, even more so where customers run the risk of harm. Besides, a caring attitude is critical to a good culture. Health and safety is less important in some sectors, for example in the financial sector where employees may not be much exposed to physical risk. In this sector the focus may be on conduct risk, but health and safety still cannot be neglected. The incidence of mental health problems, work-related stress or even suicide in high-pressure financial firms needs to be watched.

In sectors such as mining and construction where health and safety is naturally a high priority, boards will make a point of addressing the issue prominently at meetings, often as an opening item. The discussion needs to do more than chart the number of incidents. The issue is not just about what has happened but why, and whether sufficient safeguards are in place. Questions around this include:

- Is the board informed of all fatalities and is each one investigated at board level?
- Is the board informed of all incidents that might have led to fatality and/or serious injury? How does the board respond when confronted by a negative trend?
- Does the board monitor the company's performance compared with its peers, bearing in mind potential differences in the calculation of data? [12]
- Does internal audit monitor the reporting of incidents to ensure that they are timely and complete?
- Do directors and senior managers set an example by visibly conforming to safety standards, for example, by wearing hard hats when 'on site'?
- Does the senior management monitor breaches of health and safety procedures? How are they dealt with?
- Are the board monitoring the trend of instances and responding accordingly?

There is no easy answer to the last question. The risk of bearing down too hard on breaches is that employees will start to cover up mistakes, making reporting ineffective. The risk of not reacting is that employees will feel that health and safety procedures are not important. Boards have to strike the right balance, bearing in mind that a 'no blame' culture can be helpful for those who do acknowledge mistakes. Most airlines operate such a system because it is critical for them to detect and eliminate accident risk wherever they can. They cannot afford cover-ups.

There is a connection here with Speak Up and whistleblowing. Ideally, employees should feel confident enough to raise health and safety issues they have encountered in the workplace. If this is not the case, employees need access to Speak Up arrangements they can trust.

Employee surveys

Employee surveys are one of the most widely used indicators. Yet their value may be limited if they are not used carefully. The characteristics of a good survey include:

- An independent approach to setting the questions so they cannot easily be 'gamed' to provide the desired answer. This might include periodic use of an external provider to reinforce confidence in the process. Employees often respond differently if they know that responses are to an independent organisation
- Effective safeguards that will give employees the confidence to respond honestly
- A link between the questions and the organisation's values as well as the inclusion of questions relating to ethical behaviour
- Consistency that enables trends to be discerned

[12] UK companies report on health and safety according to Incidence Rates (including RIDDOR rates) and/or Frequency Rates. This means that data is not necessarily comparable between different companies or sectors. The UK Health and Safety Executive (HSE) provides full explanations of each type of metric at www.hse.gov.uk.

- Commitment by company leadership, including evidence of responding to issues raised by employees. This helps to convince employees that the survey is taken seriously
- Reliable analysis, which demonstrates that data has not been massaged by those with a vested interest in providing a favourable result
- Breakdown of results, which enables directors to see where any particular problems have arisen and whether there is a serious gap between an optimistic management view and scepticism in the broader employee base.

The questions in the survey are critical. Ethics officers sometimes say they find it difficult to get ethical questions into a crowded survey. Yet this type of question is important. One particular question can give valuable insight: does the respondent believe his or her line manager complies with the company's code of ethics and what is the evidence for this response? A significant number of negative answers suggests a serious problem, especially when the management says it believes that there is no gap between its expectations and reality.

Even a well-constructed survey, however, is only conducted periodically and will only give a lagged response to changes in morale. Some companies nowadays undertake more frequent 'pulse' surveys on specific issues as they arise. This gives a more timely view of employee opinion, but is at the cost of the consistency that enables the board to discern key trends.

One board adviser suggested a more radical approach. Every couple of months, 20 percent of employees should be asked two questions. First, how happy are you? Second, if you had five minutes with the chief executive, what would you say about opportunities and risk for your personal job and in the business generally? This would give a rolling view of morale. [13] In analysing the results of the employee survey, it is useful to triangulate the message with other data. In the human resources sphere, other indicators may include staff turnover, exit interviews and absenteeism rates. As has been noted in the previous chapter, measures of customer satisfaction [14] and the mood of suppliers are also important.

Speak Up arrangements

Reliable Speak Up arrangements [15] are an important support for a board and senior management. However, it is not always easy to tell whether the arrangements are effective. In terms of raw data, the numbers of calls to the system may fluctuate for a number of reasons. Increased anxiety by employees that they may face reprisals for speaking up will cause the volume of calls to fall, but the same effect might be felt as a result of a more open culture in which employees did not feel the need to call the hotline. Alternatively, the volume of calls may fluctuate in line with employee familiarity with and confidence in the process.

As with most indicators of culture, it is important to look behind the figures. Key questions for boards relate to how Speak Up arrangements are organised and managed, as well as the use being made of them.

[13] IBE interview with Jennifer Sundberg, Co Chief Executive, Board Intelligence in 2017.
[14] See The Institute of Customer Service (2017) *UK Customer Satisfaction Index: the state of customer satisfaction in the UK*
[15] See IBE (2017) *Encouraging a Speak Up Culture*

To be effective, Speak Up arrangements must:

- Provide confidence to the employee that their identity will be protected
- Ensure that those who speak up are listened to and as far as possible are informed of action taken as a result of their initiative
- Ensure that employees who speak up are protected against reprisals.

Quite often problems arise because the arrangements are poorly organised. The need for the identity of callers to be protected may be best achieved by using an external provider. Boards also need to check whether systems are actually in place to protect callers from reprisals. Though this is often stated policy, there are also many cases where formal arrangements for protecting callers do not exist. More generally companies will benefit from training for middle management, which should help them address concerns when they are initially raised. If a complaint is made, it may be easier for an untrained line manager to sweep it under the carpet rather than ensure it is acted on.

When dealing with Speak Up calls, companies tend to operate a triage system whereby calls that are more personnel-focused are directed to human resources while calls that may point up serious malpractice are escalated to senior management or even the board. The latter are usually quite rare, but may be critical in terms of the company's prospects if, for example, they reveal the existence of fraud. This does not mean that the former type of call is unimportant. Where a lot of calls are coming from a particular department or division, this suggests it would be worth taking a closer look at the underlying cause. The complaints could indicate poor management and localised unhappiness, which could have firm-wide consequences.

Codes of ethics

Companies are increasingly introducing codes of ethics or conduct, which set out what they expect of their employees.[16] These are designed to help them make appropriate decisions when confronted with a choice and to be aware of what is expected of them. If they follow the code, they should not suffer recrimination when something goes wrong.

The importance of codes is increasingly recognised by regulators and standard setters. They are recommended under both the Dutch and the New Zealand governance codes. Many companies say they are useful, but it can be hard for boards to judge whether they are effective. Having a code, however carefully designed, will make little difference if employees are scarcely aware of its existence or no effort is made to keep it alive.

Boards need to understand how to implement and embed a code. Some questions include:

- How frequently are employees asked to confirm that they have read the code and are aware of its contents?
- How frequently are employees trained in the code and its expectations? Does the senior management receive such training? Does the board receive it? Training the board provides a good example to employees and keeps board members in touch

[16] See IBE (2016) *Codes of Business Ethics: a guide to developing and implementing an effective code*

- Is compliance with the code a part of each employee's annual appraisal? Is promotion of the code a part of each manager's and line manager's annual appraisal? This can reveal how well knowledge of the code is cascading down and which managers are failing to deliver
- Is there a question on the code in the employee survey (see section above)?
- How many employees have been disciplined or fired for non-compliance with the code?

Note that the answer to the last point needs careful interpretation. No disciplinary action at all is scarcely credible for a large group. A lot suggests the code is not working properly.

Staff turnover rates

Staff turnover rates have attracted increasing attention in recent years. Academic authors such as Alex Edmans of the London Business School [17] have shown how a happy workforce can produce higher financial returns over time. Shareholders have also become interested, both as part of their quest for sustainable long-term returns and because of the reputational damage – and therefore loss of value – that can accrue to companies where staff are poorly treated. For example, Sports Direct shares fell from a peak of 788.5 pence in May 2014 to 257.6 pence in July 2016 following media coverage of how the company treated its workforce. This creates a natural interest in indicators such as staff turnover. In 2015, the Pensions and Lifetime Savings Association (PLSA – formerly the National Association of Pension Funds) and the Investment Association (IA) published research showing how little information about staff turnover is publicly available.[18]

Once again, however, the raw data may not mean very much. In some companies, especially those employing large quantities of unskilled labour, a high staff turnover may be normal and expected. There may also be specific reasons why large numbers of employees may be leaving, for example a restructuring or decision to outsource. Data on staff turnover is useful but needs to be seen in context. It also helps to triangulate it with other data, such as:

- Comments on social media sites such as Glassdoor
- Absenteeism rates
- Exit interviews
- Grievances and disputes leading to tribunals
- Industrial disputes.

Some work here could usefully be performed by internal audit.[19] There are mixed views on the value of exit interviews, for example, and much depends on the way in which they are conducted. Some companies find them useful, even though the survey data suggests that boards do not currently pay much attention to them.

Finally, a particular risk arises when a company decides to outsource activities or employ a lot of casual labour or people on zero-hours contracts. Boards need to monitor this closely because of the reputational damage that can arise when workers are felt to be have been treated unfairly.

[17] See European Corporate Governance Institute (2014) *Employee Satisfaction, Labour Market Flexibility and Stock Returns around the World*

[18] PLSA and IA (2015) *Where is the Workforce in Corporate Reporting?*

[19] See IBE (2015) *Checking Culture: a new role for Internal Audit*

There are no easy answers here. As mentioned above, exit interviews may not tell a good story if they are poorly conducted or the records are inadequate. Glassdoor looks like a good source, and indeed it often can be, but it is also true that those who post opinions on its website may also be likely to bear a grudge. It cannot automatically be taken as representative, but can still be an important indicator of trends.

Stakeholder engagement

The need for boards to take stakeholders into account has received added focus under UK Government governance reforms that include its announcement that it would publish regulations in 2018 requiring boards to disclose how they have responded to Section 172 of the *Companies Act 2006*. Section 172 requires directors to take account of stakeholders when making decisions. Additionally, the proposed 2017 revisions to the *UK Corporate Governance Code* [20] call on boards to explain how they engage with stakeholders.

However, this also requires a careful balance and the board needs to be clear about the purpose of its engagement. Good relations with stakeholders are important if the company is to preserve and strengthen its social licence to operate. In many companies, however, the executive, rather than the board, has the primary responsibility for maintaining contact with most stakeholders [21] such as: employees and their representatives, non-governmental organisations, regulators, customers and suppliers. The board needs to be clear about the particular concerns of these groups, but it cannot embark on an intensive engagement programme of its own. To do so would undercut the executive. Also, the board needs to strike a balance between the need to acquire first-hand knowledge of stakeholder concerns and the requirement to maintain a certain distance, which enables it to challenge the executive.

Boards therefore need to understand which stakeholders matter most to the company and need to be familiar with stakeholder concerns and expectations. Also, they need to ensure that the executive maintains appropriate contact with these stakeholders through open dialogue. This allows the company to both learn and make itself understood.

“ *Boards need to understand which stakeholders matter most to the company and need to be familiar with stakeholder concerns and expectations*

In terms of raw data, it helps for boards to know that the executive is engaging with a range of stakeholders, and also to have some broad idea of content. Quite often, the chief executive will include a list of significant meetings in his or her regular report to the board. This can be a starting point for discussion. Yet lists of who the company has talked to are easy to ignore in a busy meeting and reveal little about the quality of the dialogue. Directors need to probe, especially when the stakeholder is significant. For example, the chair of a regulated company may wish to meet his or her counterpart at the regulator to ensure that the two sides are working together well at the executive level. The board can then help to iron out problems in the relationship. This is different from running a parallel engagement.

20 FRC (2017) *Op cit*

21 Boards do need to maintain direct relations with shareholders because these are the people that appoint them.

It also follows from Section 172 that the impact on stakeholders should be part of all major board decisions. Boards should insist that all board proposals contain an analysis of stakeholder impact.[22]

Customer satisfaction

Customer satisfaction is critical to corporate survival. A company that consistently disappoints its customers is unlikely to receive repeat business and, unless it is a monopoly, will almost certainly start to lose market share.

The Institute of Customer Service (ICS) has established a clear connection between customer satisfaction and financial performance. Its 2017 index [23] shows, for example, that Aldi has overtaken M&S and Waitrose to become the highest performing supermarket for customer satisfaction, whilst also making the largest gains in sales and market share. In the banking sector, the highest scoring banks (Nationwide, TSB, Santander, Halifax and Natwest) added a net 20,016 current accounts, while the lowest scoring banks saw an average net loss of 9,017 accounts.

It follows that boards have a strong interest in customer satisfaction, which is also part of the culture picture. The ICS has found that employee engagement is critical to customer satisfaction. Just 11 percent of customers would repurchase from an organisation following a bad experience with an employee, while 43 percent of customers would also actively warn others against using the organisation. For every one point increase in employee engagement, customer satisfaction rises by 0.41 points.[24]

Box 2 Disengaged workforce push customers away

> *"Call centre staff are least engaged with retail and office staff the most 'passively engaged'. Business leaders will be concerned to learn that just 21 percent of 18-24 year olds consider themselves engaged in their role. 37 percent say they will look for a new job within the next year."*
>
> Source: Institute of Customer Services (2016) *Op cit*

Among the possible indicators for customer satisfaction are:

- Net Promoter Scores, which are popular with consumer-facing companies. These measure how likely a customer would be to recommend the company or its products to friends and family
- Customer survey data
- Call centre records on resolving customer queries
- Complaints, including the success with which they were resolved
- Market share.

22 See IBE (2016) *Stakeholder Engagement: values, business culture and society*

23 ICS (2017) *Op cit*

24 ICS (21 November 2016) *Disengaged workforce push customers away*

Many of these indicators apply more easily to consumer-facing companies than to those in other industries. It is not clear, for example, how the end consumer derives satisfaction from a cargo of iron-ore. Other measures like reliability may be appropriate here.

Summary

A range of indicators can help to assess the culture that exists within firms, though there is no single indicator that can be a reliable measure on its own. A combination of measures – captured on a consistent basis and tracked over time – can provide a good indication of the direction of travel. They can also act as a signpost to the board of emerging issues within their organisations. Directors need quantitative data but they must:

- Look beyond the raw figures to understand the underlying message
- Compare the results with other indicators to see whether they confirm the picture.

> *The board needs to get out and about within the company to test how culture is being embedded further down the organisation*

Evaluating culture involves monitoring process as well as data. Executives may report on the number of calls to the Speak Up line and even what the main points of concern are, but the board needs to know about how the arrangements operate. For example, what steps have been taken to publicise the line and how are those that do report concerns protected from retaliation?

Both quantitative data and process are factual and capable of being audited, though boards need to exercise judgement at every stage along the way. An important part of board oversight of culture, however, involves assessment from first-hand observation. The demeanour of the chief executive, the degree to which he or she embodies the desired values, and the way in which the management engages with the board, speaks volumes. Equally, the board needs to get out and about within the company to test how culture is being embedded further down the organisation.

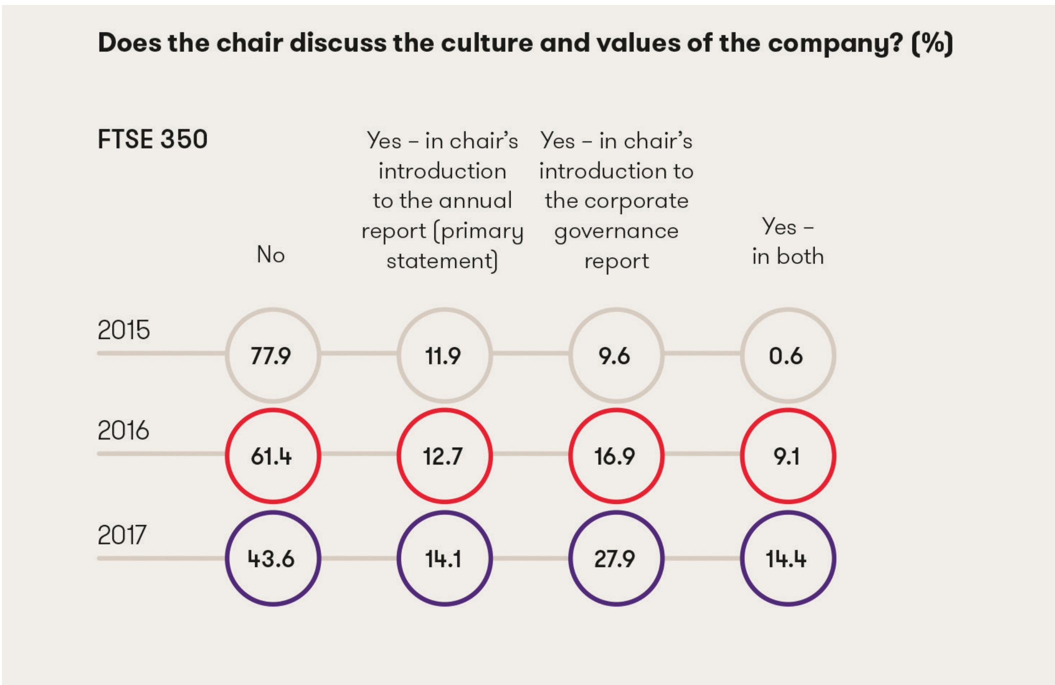
4

Reporting: Do you Really Mean It?

This Board Briefing has argued that boards have a critical role in defining the right culture for their company and in assuring themselves that the culture they have got is the one they actually want. However, their stewardship role also requires them to explain how they fulfil their responsibility as owners of the corporate culture.

This is a daunting task for several reasons. First, there is still no agreement on how to measure culture and therefore on the data that needs to be put in the public domain. Second, where companies are using a dashboard approach, they will naturally want to focus on the information that reflects the way they are running the company. This may bring them into conflict with those stakeholders who believe that all companies should publish certain types of information in a standard format, regardless of its relevance. Third, most companies are deeply, and understandably, averse to adding yet more content to annual reports that are already long.

Figure 10 Chairs pick up the baton



Source: Grant Thornton (2017) *Op cit*

Eventually a new approach to narrative reporting may enable data to be presented differently. Some data may be made easily accessible on the company's website or in corporate responsibility or sustainability reports, while the annual report focuses on the most material issues. This is less a question of adding a section on culture, but more of using the existing structure of the annual report to convey key messages. This includes information about how the culture is developed, how the company seeks to embed the desired behaviours and how it seeks to develop robust relationships with stakeholders.

Relevant sections include the chair and chief executive's statements at the front of the report, the strategic report and the sections on risk, governance and sustainability,[25] as well as the remuneration report. These are all interconnected – almost all sections of the report may be relevant or reveal something about the culture within the business. For example, care taken to present complex financial information in a clear and accessible way will immediately convey a sense that the company is open and transparent.

Box 3 Reporting on corporate culture – BAE Systems

"As part of this year's Board evaluation, we have asked Board members to reflect on the questions asked in the FRC's report concerning corporate culture and provide their thoughts on what they see within BAE Systems. In 2017, we will be using the output from this to guide the Board in its further consideration of this important governance matter."

Sir Roger Carr, Chairman, BAE Systems

Source: BAE Systems (2016) *Annual Report 2016*

The key word is 'authenticity'. Reports will always fail to convince if they are written and laid out by public relations specialists, fail to acknowledge challenge and focus only on the good news. Reports are likely to be taken more seriously if the culture elements are built into the various sections, any failure to meet expectations is acknowledged and remedial action is promised. The starting point is the affirmation from the very top that culture matters. This is why the personal statements from the chair and chief executive are so important.

The introductory part of the report needs to do three things – all of them essentially already contained in the expectations of the strategic report – in order to convince with regard to authenticity:

- Describe the firm's values and affirm the commitment of the leadership to uphold them
- Describe the firm's purpose and explain how it is consistent with its values. Note that purpose is different from business model and vision. Purpose, in its broadest sense is 'what we are here for'.[26] The business model explains how the company earns its profit while vision represents its targets or ambition. Both business model and vision have to be consistent with purpose and values for subsequent statements on culture to be credible
- Convincingly describe the steps the leadership has taken to ensure that the company's values are embedded and respected throughout the business. This might include reference in the governance report to how the board seeks to monitor culture. As well as using a basket of indicators, this could include specific references – for example to board participation in training in the code of ethics, to steps taken by the board to ascertain the views of employees or to how the board makes itself familiar with the expectations of stakeholders. Above all, the governance report needs to show how the board has reflected the values of the company in taking key decisions.

[25] One debate is over the degree to which issues relating to culture should be covered in the sustainability report rather than the annual report. Using the sustainability report may help reduce the length of the annual report but, insofar as understanding a firm's culture is essential to understanding its financial and business prospects, the key information needs to be in the annual report.

[26] For example, DP World, the Dubai-based port operator, describes its purpose as to be *"a leading enabler of global trade and an integral part of the supply chain"*.

Figure 11 What companies report

What metrics are used by the organisation to measure and monitor culture, as outlined in the annual report?

	Percentage of companies with culture-related metrics (N=144)	Percentage of total FTSE 350 (N=305)
Employee survey or engagement	53.5	25.2
Health and safety	32.6	15.4
Employee matters*	18.2	8.9
Other	16.0	7.5
Customer satisfaction	8.3	3.9
Employee training	6.9	3.3
Diversity	5.6	2.6
Third party award	2.1	1.0
CSR	2.1	1.0
Culture audit	1.4	0.7

*This includes promotion, recruitment, retention, turnover, absenteeism and/or churn rates

Source: Grant Thornton (2017) *Op cit*

Section 172

Section 172 of the *Companies Act 2006* has come under the spotlight following the debate on corporate culture.[27] It calls on directors to act in the interests of members of the company – which means the broad corpus of shareholders – but, at the same time, to have regard to the effect of their decisions on key stakeholders, including the long-term impact of their decisions and the need to maintain high standards of business behaviour. It needs to be read in conjunction with Section 414A, which states that the Strategic Report aims to show how the board has delivered its obligations under Section 172.

In its 2017 response to the Green Paper consultation on corporate governance,[28] the UK Government said it would impose regulations requiring companies to make a statement of how they have addressed the expectations of directors set out in Section 172. At the time of writing, these regulations have not yet been published. However, board awareness of Section 172 has anecdotally already increased substantially as a result of the Green Paper consultation.

27 See Appendix 2 for the full text of Section 172.

28 BEIS (2017) *Op cit*

The wording of Section 172 remains controversial because some find it strikes an uneasy balance between the duty of directors to shareholders and their obligations towards broader stakeholders. Indeed, for some commentators, Section 172 lacks meaning because it maintains the principle of shareholder primacy, while only requiring directors to 'have regard' to stakeholder interests. It is thus impossible to enforce because boards can always maintain they have 'had regard to' these various issues while deciding eventually to carry on as they were. Yet Section 172 does provide boards with a framework for decision-making. This is an opportunity for them to decide how they measure their own performance and to demonstrate how they seek to maintain high standards of business behaviour and how they take account of stakeholders in making decisions. All of these set a useful context for the more detailed reporting of various aspects of corporate culture elsewhere in the report.

In its response to the Green Paper, the IBE suggested that the chair should make a statement each year on how he or she had organised the board to respond to Section 172 including its relevance to:

- Setting objectives for directors individually
- Setting priorities for the board as a whole
- Decision-making
- Skills development and board evaluation.

There is a need for granularity in these statements, which might otherwise become standardised boiler-plate that is written by lawyers. A personal statement by the chair is always likely to be more authentic than a general statement by the company or its board. The statement should include specific reference to how Section 172 was taken into account in key decisions during the year, such as: acquisitions, major new investments and restructuring.

Specific reporting

It is clear that indicators of culture require context. They will also usually require some level of analysis and commentary. Boards have to decide how much factual material to reveal when some of the material put before them is, of its nature, confidential. An important element of the specific reporting is therefore about the process they have undertaken to establish and analyse the facts, as well as affirming that the board has drawn appropriate conclusions.

For example, while boards cannot be expected to reveal the content of calls to the company's Speak Up or whistleblowing line, they can say something about the number of calls received, the number that were acted upon, trends and the general areas of concern. It is also important to provide some reassurance about the way the Speak Up policy operates. Most boards have a very clear rule that those who speak up should not face retaliation. Very few boards, however, can confirm that this policy is followed through, explain how it works and comment on their own effort as a board to monitor the implementation of this rule.

Box 4 Embedding the Code of Conduct – BP

BP's *Sustainability Report 2016* reports on how the code is embedded and includes the following information:

- Each year employees and board members certify that they understand the code, have abided by their responsibilities and reported any breaches of which they were aware
- Employees are trained in applying the code in their daily work in a format that is tailored to reflect local conditions
- Ethics and compliance weeks were held in various locations including Angola, India and Indonesia with senior leaders participating
- BP dismissed 109 employees for non-conformity with the code or unethical behaviour in 2016, compared with 132 the previous year.

Source: BP (2016) *Sustainability Report 2016*

Similarly, while boards may not be in a position to publicly reveal the nature of workplace incidents that may be potentially fatal or lead to serious injury, they can confirm that these are systematically monitored. They can also give some quantitative details and explain what action the board has taken to ensure that preventative and/or remedial action has been taken. In short, when making public disclosures, boards need to show that they are on top of the situation. This does not necessarily mean that the whole board discusses minutiae. It might mean that a committee is in place that is mandated to undertake systematic oversight on behalf of the board. In that case, the disclosures might usefully be carried in the committee's report.

Most of the KPIs with a bearing on culture need explaining. The raw data for staff turnover means little without context, for example. As noted above, most indicators need to be seen in the context of others. Staff turnover numbers mean more when they are seen in the context of employee satisfaction. Where there is a staff problem, then boards should talk about how they are ensuring that it is addressed. Boards need to disclose the steps they take to stay in touch with employee morale. Rolls-Royce, for example, held an employee annual meeting in 2017 that was overseen by one of its independent directors.[29] By contrast, it is not clear whether the Ryanair board knew or asked about the low morale among its pilots, whose exodus to other airlines contributed to significant operating difficulties in the autumn of 2017.

Box 5 Gender pay gap reporting – Landsec

Landsec's *Annual Report 2017* complies with the new reporting requirements on the gender pay gap, but offers additional analysis showing the underlying issue has less to do with a significant pay differential between male and female employees of the same rank, and more to do with the under-representation of women in higher-paying roles. The company has reached the Hampton-Alexander Review target of 33 percent female representation in the Executive committee and the level below, but wants to go further.

»

[29] The Guardian (12 March 2017) *Rolls-Royce calls its first staff AGM*

Box 5 Gender pay gap reporting – Landsec *continued*

> *"Encouraging more females into senior roles has become a key priority for us, which is why we have committed to a specific target of improving our female representation at Leader level (broadly the lower end of upper quartile) from 20 percent to 30 percent by 2020. This is underpinned by some specific initiatives such as the female mentoring programme and a new set of industry wide guidelines which we have developed in collaboration with our peers."*
>
> Source: Landsec (2017) *Annual Report 2017*

Finally, boards need to consider which indicators are relevant to an understanding of the firm's culture and ensure they publish a range of them. Broadly speaking, a culture will be positive if there is good morale in all three of the workforce, customers and suppliers. It is particularly striking that, according to the IBE survey, relatively few companies report on customer satisfaction.

Assurance

One of the perennial questions around non-financial reporting is the level of assurance that shareholders and other stakeholders should expect. Some argue that figures contained in KPIs will not be trusted unless there is independent assurance.

Conventional assurance can only go so far, however, since a description of a company's culture will have an element of judgement and numbers have to be explained. Reporting is more authentic when it is based on the information the board and management itself uses to consider culture. The issue then becomes whether the board has taken steps to ensure that the information it is itself receiving is accurate. Key to this is the role and mandate of the internal auditor, which needs to be explained. Stakeholders are likely to appreciate a report that is based on information used by the board itself and that the board itself has taken steps to verify. It should also include the board's conclusions on that information.

"Reporting is more authentic when it is based on the information the board and management itself uses to consider culture

Summary

This chapter has argued that:

- What companies report on culture will carry little weight if it is not seen to be authentic. This means establishing a proper context and avoiding public relations spin
- A key determinant of authenticity is a personal statement by the chair and/or the chief executive at the start of the report setting out the company's core values and their commitment to them
- A statement of how the chair has taken account of Section 172 of the *Companies Act 2006* in organising the board and is approach to decision-making will underpin more specific reporting on culture
- Companies will use a number of indicators to test corporate culture. To be useful, these need to be presented in a way that shows their relevance and explains the underlying meaning behind the figures and the conclusion the board has drawn from them
- Boards need to consider which indicators are important. A striking example of where more data may be needed is customer satisfaction
- Stakeholders may look for assurance on KPIs that companies present, but a critical issue relates to the steps that boards have taken to ensure that the information they receive is accurate. The role of internal audit is very important and boards may need to explain how it works in their company.

“ *What companies report on culture will carry little weight if it is not seen to be authentic*

Conclusion

The level and direction of debate over the last couple of years leaves little doubt that culture matters to companies. The way employees behave and the way the company relates to the outside world can have a profound bearing on its reputation and thus on its franchise.

> *It is important that consideration of the various indicators of culture be joined up*

Also, in an increasingly complex world, boards will struggle to oversee everything that happens within their organisation. This is especially the case with large companies. Technological applications will mean there will be processes that they will find difficult to understand. Power will not necessarily sit comfortably at the top of an organisation but may be concentrated in the engine room, where relatively junior employees are employing highly skilled technology to drive the business forward. The board cannot anticipate all the decisions they will make in the course of their work, but it can do much to shape the culture that drives those decisions.

This is why board focus on culture and behaviour has become so much more important. However, this still poses some big challenges in terms of information flow, analysis and reporting. One way forward might eventually be for regulators to lay down a standard set of indicators that boards should both consider and publish. However, despite the demands for standardisation and comparability in reporting, we should be wary of trying to produce a definitive list prematurely. Another approach, which seems more suited to the present level of governance evolution, is for companies to work out the indicators that matter to them, inform themselves and use these as the basis for narrative reporting about culture. This still requires the selection of indicators to broaden out. The IBE survey evidence presented here suggests that, while boards are driven very much by indicators that matter to the public like diversity and taxation policy, many show a striking lack of curiosity towards other indicators that also have an important bearing on culture. These neglected indicators include customer complaints, staff turnover, supplier issues and social media impact.

It is important that consideration of the various indicators of culture be joined up. When alarm signals are ringing in several different places at once, there really is a problem. In each case, it is also necessary to ask questions about what the figures really mean. Beyond that, some indicators of culture are about processes. Does the company have an effective Speak Up or whistleblowing policy which is trusted by the employees? Can the board confirm that it spends time looking at how the process is working? Another need is to focus on indicators that are forward looking. Potentially serious incidents matter as much, if not more, to the understanding of health and safety, than the number of fatalities even if no-one was actually hurt.

The increased focus on Section 172 of the *Companies Act 2006* and the forthcoming disclosure requirement provides a great opportunity for boards to develop their thinking and practice. This includes looking at the role of relevant committees. Companies will be judged on whether their reporting is deemed to be authentic. A personal commitment of both the chair and the chief executive matters enormously to this, but so do the board's approach to oversight and the way it reports.

Appendix 1
Survey Methodology

To inform the publication, the IBE surveyed 28 large companies, through an online questionnaire. The survey findings were not formally tested for statistical significance due to the sample size. However, the response rate is sufficient to draw general conclusions and evaluate trends.

Observations are based on the number of respondents answering each question and not the number of total respondents, since respondents were allowed to skip questions and therefore not all respondents answered all questions.

2017 IBE Survey on Indicators of Corporate Culture Survey questionnaire

A. ABOUT YOU

1. Please could you provide us with details about yourself. Responses to this question will be used for monitoring purposes only, and will not be used to attribute subsequent answers.

   Name: Company: Job title:

2. Does your board receive any monitoring or reporting on the culture of your organisation? [Yes/No/Don't know]

3. Do you have a committee that deals systematically with issues related to culture and values? [We have a board-level committee/We have a committee at sub-board level/ We have a dedicated committee]

   If so, what is the committee called?

B. INDICATORS USED: the following questions refer to the indicators your organisation uses to measure corporate culture and how they are communicated to the board.

The indicators listed in the following questions are: Speak Up and whistleblowing usage data; sign off rate of the code of ethics; results of employee survey; health and safety records; staff turnover; staff grievance data; regulatory infringements; social media records; diversity; exit interviews; absenteeism rates; promotion decisions; customer complaints; payment records; customer satisfaction data; information on engagement with charities; information on engagement with civil society; taxation policy; financial indicators including gearing and share buybacks; supplier grievance data; supplier satisfaction survey; data on supply chain relationship.

For the sake of clarity, they were grouped per stakeholder.

4. Are any of the following indicators related to EMPLOYEES included in your communications to the board? (tick all that apply) [Information is communicated directly to the board/Information is communicated to the board via a specific committee/Information is available on request but not regularly communicated/ Information is not available or not collected by the organisation/Don't know]

5. Are any of the following indicators related to CUSTOMERS or the COMMUNITY included in your communications to the board? (tick all that apply) [Information is communicated directly to the board/Information is communicated to the board via a specific committee/Information is available on request but not regularly communicated/Information is not available or not collected by the organisation/Don't know]
6. Are any of the following indicators related to INVESTORS or SUPPLIERS included in your communications to the board? (tick all that apply) [Information is communicated directly to the board/Information is communicated to the board via a specific committee/Information is available on request but not regularly communicated/Information is not available or not collected by the organisation/Don't know]

C. FREQUENCY OF REPORTING: this question relates to the frequency of reporting to the board.

7. Of the issues related to EMPLOYEES which are reported regularly to the board, please state whether they are normally reported: [Frequently or in between board meetings/At every board meeting/At least quarterly/At least every six months/At least once a year/Less often than once a year/Don't know]
8. Of the issues related to CUSTOMERS or the COMMUNITY which are reported regularly to the board, please state whether they are normally reported: [Frequently or in between board meetings/At every board meeting/At least quarterly/At least every six months/At least once a year/Less often than once a year/Don't know]
9. Of the issues related to INVESTORS or SUPPLIERS which are reported regularly to the board, please state whether they are normally reported: [Frequently or in between board meetings/At every board meeting/At least quarterly/At least every six months/At least once a year/Less often than once a year/Don't know]

D. REPORTING MECHANISMS: the following questions refer to how indicators of corporate culture are reported to external stakeholders.

The indicators listed in the following questions are: outline of the culture of the organisation; explanation of how the board sets the tone from the top; evidence of engagement with employees; Speak Up and whistleblowing usage data; sign off rate of the code of ethics; results of employee survey; health and safety records; staff turnover; staff grievance data; regulatory infringements; social media records; diversity; exit interviews; absenteeism rates; promotion decisions; customer complaints; payment records; customer satisfaction data; information on engagement with charities; information on engagement with civil society; taxation policy; financial indicators including gearing and share buybacks; supplier grievance data; supplier satisfaction survey; data on supply chain relationship; evidence of engagement with suppliers.

For the sake of clarity, they were grouped per stakeholder.

10. Are any of the following indicators related to EMPLOYEES included in your annual report or elsewhere? (tick all that apply) [Annual report/Separate CSR report/Elsewhere/Not reported]
11. Are any of the following indicators related to CUSTOMERS or the COMMUNITY included in your annual report or elsewhere? (tick all that apply) [Annual report/Separate CSR report/Elsewhere/Not reported]

12. Are any of the following indicators related to INVESTORS or SUPPLIERS included in your annual report or elsewhere? (tick all that apply) [Annual report/Separate CSR report/Elsewhere/Not reported]
13. When reporting to the board, are all indicators included in one report, or are they delivered in separate documents? [All in the same report/Presented in separate documents/Other (please specify)]
14. In what section(s) of your annual report are these issues covered (e.g. risk section, CSR section …)? Please name all relevant sections.

E. CONCLUSION

15. Is there anything else you would like to add?

Appendix 2
Section 172 of the *Companies Act 2006*

The following is an extract from Section 172:

Duty to promote the success of the company

(1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to –

(a) The likely consequences of any decision in the long term

(b) The interests of the company's employees

(c) The need to foster the company's business relationships with suppliers, customers and others

(d) The impact of the company's operations on the community and the environment

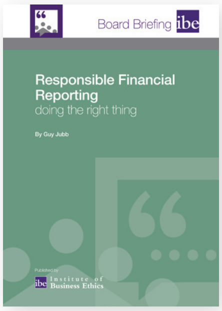
(e) The desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly as between members of the company

Related IBE Publications

IBE publications provide thought leadership and practical guidance to those involved in developing and promoting business ethics, including senior business people, corporate governance professionals and ethics and compliance practitioners.

Some recent publications related to this topic which you might be interested in include:

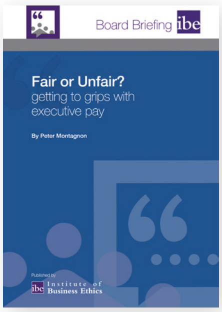


Responsible Financial Reporting: doing the right thing

Guy Jubb

Responsible financial reporting lies at the heart of responsible capitalism and, in today's world, it is more than ever up to directors and, in particular, independent non-executive directors to ensure they do the right thing as a board when it comes to making choices about how to present profits and other key financial data. Yet this is more than just a question of conforming to the rules laid down by standard setters. Most accounting involves judgment and all judgment contains an ethical dimension.

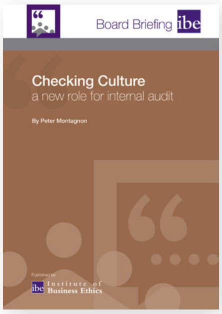
In this Board Briefing, Guy Jubb, who has spent several decades looking at company accounts from the perspective of an investor, examines the challenges and pitfalls and presents the elements of responsible financial reporting.



Fair or Unfair? getting to grips with executive pay

Peter Montagnon

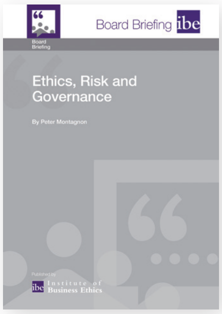
Executive remuneration is an important driver of behaviour and therefore of the way values are perceived throughout a company. However, current approaches to the way pay is set are very complicated and tough for boards to manage. There is a widespread view that the present system in the UK does not deliver the right incentives, and may even be fundamentally broken. This Board Briefing looks at the difficult and complex task of the remuneration committee. It explores seven ethical challenges facing these committees, with fairness and simplicity as the two themes running throughout. It aims to help in identifying and addressing the ethical issues, and also offers some pointers for reform.



Checking Culture: a new role for internal audit

Peter Montagnon

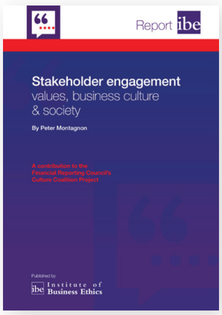
Boards are increasingly concerned to embed a sound corporate culture. However the corporate leadership team need to know whether the culture they want is the one they have actually got. Internal audit can help through its work on assurance. This IBE Board Briefing, the second in the series, draws on the experience of those involved at a senior level in a range of organisations. Audit committee chairs, heads of internal audit and heads of ethics and compliance, give practical advice and explain in their own words how to approach the challenge of checking culture.



Ethics, Risk and Governance

Peter Montagnon

Setting the right values and culture is integral to a company's success and its ability to generate value over the longer term. The challenge for business is how to develop and embed real values. This requires leadership and is a core task for boards. Many boards acknowledge the importance of a healthy corporate culture, both because of the role this plays in mitigating risk and because of the value to their franchise of a sound reputation. This IBE Board Briefing sets out why directors need to be actively involved in setting and maintaining a company's ethical values and suggests some ways to approach it. It aims to help directors define their contribution to the maintenance of sound values and culture.



Stakeholder Engagement: values, business culture and society

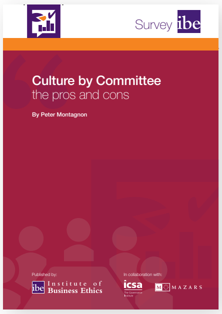
Peter Montagnon

Companies do not exist in isolation. They depend on society for their franchise. So they need to maintain relationships of trust with a range of stakeholders, including not just shareholders who provide their capital, but also customers, suppliers, employees, regulators, non-governmental organisations, the media and policy-makers.

In order to foster trust, external engagement should always be driven by ethical values. A considered approach to engagement, with a range of external stakeholders is a core task for boards and management.

Stakeholder Engagement: values, business culture and society analyses corporate relationships with a wide range of stakeholders and includes case studies from companies exemplifying some of the challenges and complexities of business' relationships with stakeholders.

The report forms the IBE's contribution to the Financial Reporting Council's Culture Coalition.

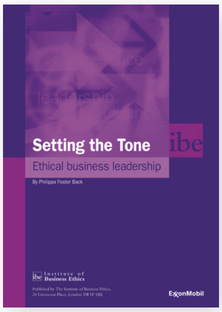


Culture by Committee: the pros and cons

Peter Montagnon

Shifting perceptions of risk have increasingly encouraged companies to form special board committees to deal with broad questions of corporate responsibility, sustainability and ethics. This IBE Survey Report looks at the nature and role of these board committees, and also at the way companies that choose not to have such committees handle this growing range of non-financial risks.

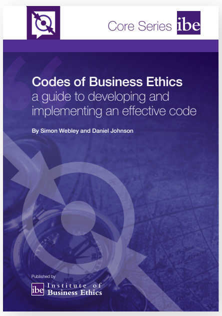
This survey report is intended to benchmark what is happening in the UK, providing a valuable insight into how companies are approaching the task, and helping companies decide on the right approach for them in an increasingly complex world. This survey was prepared in collaboration with ICSA: The Governance Institute and Mazars.



Report: Setting the Tone: ethical business leadership

Philippa Foster Back CBE

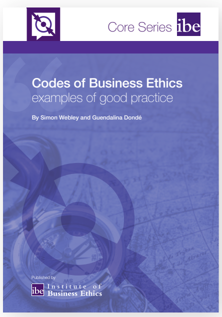
Leadership is essential to business ethics, as ethical qualities are essential to good leadership. This report demonstrates that business leaders should consider ethical competence as a core part of their business acumen and provides guidance to those wishing to build a culture of trust and accountability and strengthen the ethical aspirations of their organisation. It includes interviews with business leaders offering practical insights into ethical leadership issues.



Codes of Business Ethics: a guide to developing and implementing an effective code

Simon Webley and Daniel Johnson

New guidance from the IBE on how to develop and implement an effective code of ethics. This Core IBE Report addresses many of the questions that arise when organisations wish to provide support and guidance to staff in ethical decision-making. It is intended to apply to organisations of any size, regardless of the sector in which they operate and will assist those charged with implementing or updating their organisation's code of ethics. Codes of Business Ethics follows the IBE 9–Step Model and shares examples of good practice.



Codes of Business Ethics: examples of good practice

Simon Webley and Guendalina Dondé

This companion publication to Codes of Business Ethics: a guide to developing and implementing an effective code draws on the wording of a number of current corporate codes which address the most common concerns encountered in doing business today. There are potentially 108 issues which codes of ethics can cover. These include new issues, such as personal relationships at work; treating customers fairly; social media; protection of the company's brand; risk management and prioritising ethics over profits which did not exist when the guidance was last updated in 2003.

Other IBE Resources

Investing in Integrity Charter Mark

Is there a way to prove a company's integrity? The IBE has developed a charter mark in association with Chartered Institute of Securities and Investment (CISI) to help businesses and organisations know if their ethics programme is embedded throughout their organisation.

The **Investing in Integrity** (IiI) charter mark gives an assurance of trustworthiness to clients, customers, investors and other stakeholders doing business with the organisation. The real strength of the IiI framework is that it tests an organisation's ethical conduct against its statements of values to ensure those values are properly embedded. It can help them identify whether or not the company is truly living up to its values, from the boardroom to the shop floor.

The testing uses a self assessment management questionnaire and third party audit by IiI partner, **GoodCorporation**, whose methodology has been adapted for the IiI chartermark.

To find out more visit **www.investinginintegrity.org.uk**

Say No Toolkit

The IBE Say No Toolkit is a decision making tool to help organisations encourage employees to make the right decision in difficult situations. The Say No Toolkit delivers immediate guidance to employees on a wide range of common business issues, especially those that could lead to accusations of bribery.

Employees tap through a series of questions about the situation they face and the tool will provide the right decision to take: Say No, Say Yes or Ask. The answer also makes it clear why it is important to make that decision so your employees can have the confidence and the knowledge to respond correctly.

Organisations can use both the IBE Say No Toolkit App and website for free. The App can be downloaded on to any smartphone/tablet.

You can start using it for free now. Simply go to www.saynotoolkit.net

The Say No Toolkit can be customised and branded to suit your organisations needs and detailed procedures. For more information email info@ibe.org.uk or call the IBE office on +44 20 7798 6040.

For details of all IBE publications and resources visit our website www.ibe.org.uk

Culture Indicators
understanding corporate behaviour

IBE Board Briefings aim to support board members and those who advise them by drawing their attention to and suggesting ways to approach particular ethical issues.

While boards are increasingly focused on corporate culture, they often struggle to understand the forces that drive behaviour in their business. Most directors agree that culture cannot easily be measured. However, boards can and do have access to a range of information that will shed light on the drivers of behaviour within their organisation and help them to shape it. This Board Briefing sets out to help them through its examination of a range of relevant indicators and how to interpret them.

The Board Briefing includes the results of an IBE survey into the information boards currently receive, how they consider it and how they report on culture to the outside world. This is followed by analysis drawn from a series of interviews with directors and those that advise them. A positive finding is that boards do discuss culture and receive a lot of relevant information. Yet the survey also suggests that boards appear to pay relatively little attention to some issues that might provide important insights.

ibe Institute of Business Ethics

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