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High levels of corporate stress, flawed remuneration policies, excessive reliance on takeovers, and lax financial discipline may indicate poor corporate culture – new report concludes

High levels of corporate stress, flawed remuneration policies, complex legal structures, a tendency for takeovers to proliferate, and lax financial discipline are all potential signs of a poor corporate culture, according to a report issued today by the International Corporate Governance Network (ICGN), ICSA: The Governance Institute, and the Institute of Business Ethics.

The report represents the conclusions of a workshop of senior regulators, company directors and executives and investors convened by the three organisations last December to explore ways of identifying early warning signs of a weak culture.

"We have observed a failure of culture not just in the banks, but in other recent corporate crises, including Tesco, Toshiba and VW. It is in everybody's interest to understand the warning signs and help companies develop a strong culture which reduces unnecessary risks," said Peter Montagnon, the report's author. Mr Montagnon is Associate Director of the IBE and Chair of the ICGN Business Ethics Committee.

The workshop found that a major source of corporate stress was when corporate leaderships imposed short-term targets which staff found difficult to meet. This could exacerbate a rift between staff and management. In such cases the board was often unable to get an accurate picture of what was going on.

The report concluded that good governance was critical, but there should be a broader definition of what this means. Governance was not just a matter of board processes, but should run through all areas of the company. More attention should be paid to the role of human resource departments which are often charged with the task of embedding culture, and to internal audit, which is well placed to detect when culture is slipping.

Finally transparency and openness matter. A good culture means being able to discuss difficult issues.

"Corporate culture is one of the least explored areas of corporate governance and yet it is pivotal to the ultimate success of companies. ICGN has made the 'soft' governance factors of culture, ethics and behaviour a key Policy Priority in 2015-16. By bringing companies, investors and regulators together, we aim to create a better understanding around how these factors can reduce risk leading to more stable and sustainable companies," said Kerrie Waring, Executive Director of ICGN.

Peter Swabey, Policy and Research Director at ICSA: The Governance Institute added that "The UK Corporate Governance Code has been a major success over the years since its introduction, but codes and regulation can only go so far. Much more important is the way in which people implement those codes and regulations, and this comes down to the culture of the organisation and the behaviours that this fosters in individual employees. We have been delighted to work this year with the Financial Reporting Council in their culture coalition project and with the IBE and ICGN on this very helpful analysis of some of the key indicators of poor corporate culture."

The report pointed to some measurable indicators of culture, including: staff turnover, customer satisfaction, health and safety record, public commitment to values by leadership, competition rules infringements, regulatory sanctions, qualified audit reports and speak-up or whistle-blowing statistics.

For enquiries, please contact:

ICGN, Elizabeth Thomas, (44) (0)20 7612 7096,elizabeth.thomas@icgn.org

IBE, Katherine Bradshaw, (44) (0)7771 517700, k.bradshaw@ibe.org.uk

ICSA, Peter Swabey, (44) (0)20 7612 7014, pswabey@icsa.org.uk

Note to editors

The report is the result of a workshop sponsored by the International Corporate Governance Network (ICGN), Institute of Business Ethics (IBE) and ICSA: The Governance Institute (ICSA)and held in London on December 17, 2015.

The meeting was chaired by Paul Coombes, Chairman of the Centre for Corporate Governance at the London Business School and attended by 20 senior regulators, corporate directors and executives and investors.

ICGN was founded 20 years ago and is an investor-led membership organisation of more than 670 individuals based in 47 countries from around the world. Our mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide. Our members represent institutional investors with global assets under management in excess of US$26 trillion. Accordingly, ICGN's members offer a source of practical knowledge and experience with regard to governance and investment issues. For more information on the ICGN, please visit www.icgn.org .

ICSA: The Governance Institute is the professional body for governance. We have members in all sectors and are required by our Royal Charter to lead 'effective governance and efficient administration of commerce, industry and public affairs'. With 125 years' experience, we work with regulators and policy makers to champion high standards of governance and provide qualifications, training and guidance.

Website: www.icsa.org.uk

The Institute of Business Ethics is a registered charity which promotes high standards of business practice based on ethical values.

We help organisations to strengthen their ethics culture through the sharing of knowledge and good practice. www.ibe.org.uk

A copy of the report is attached to this release.