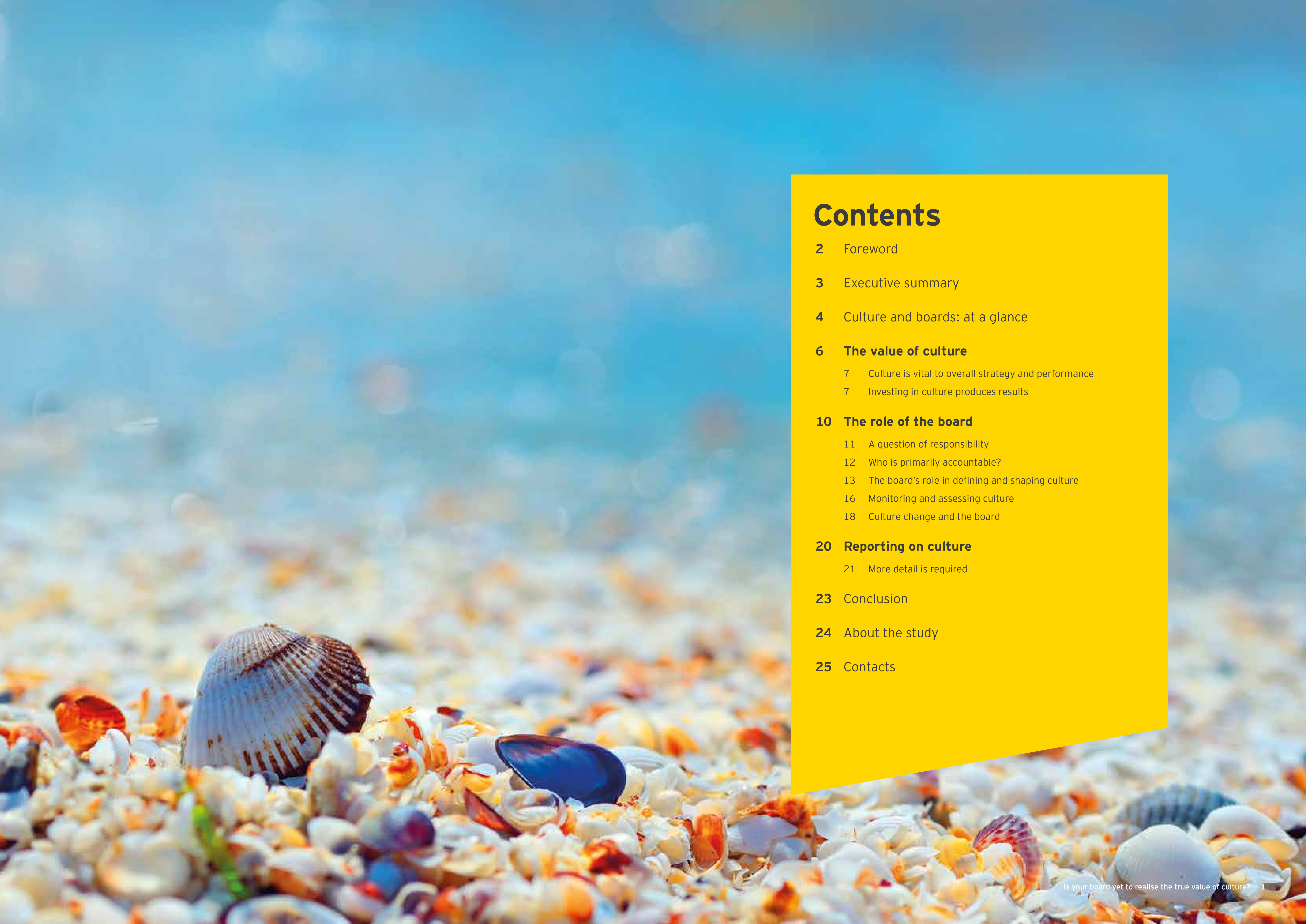
Building a better working world

Is your board yet to realise the true value of culture?

Discover the views of FTSE 350 board directors on understanding, shaping and reporting on culture.

The better the question. The better the answer. The better the world works.



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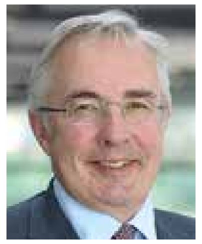


Hywel Ball
Managing Partner
for Assurance,
UK & Ireland and
Head of Audit, UK

Foreword

As regulatory requirements and media scrutiny increase, and with recent studies indicating that intangible assets can represent up to 80% of a company's value[1], the focus on culture has never been greater.

Culture is a key intangible asset, one that can help organisations reduce risk and deliver long-term, sustainable growth. For business leaders, regulators and investors, there is a significant need for confidence that organisational culture is fit for purpose.

We have chosen to run this survey of board members, as one of the board's key roles includes establishing and upholding corporate culture and values. We sought to better understand the views of board directors and how they approach, in particular, the monitoring of culture, culture change and external reporting on culture. The findings of this report highlight practical steps that boards can take to more effectively fulfil their responsibilities for understanding, shaping, monitoring and assuring culture — so as to fully capitalise on its true value and provide investors and all stakeholders with the confidence they need.

[1] For example, see *Annual Study of Intangible Asset Market Value 2015*, Ocean Tomo, March 2015, http://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study/

Executive summary

A strong, cohesive corporate culture is the foundation of many of the world's most successful companies. It defines the way they do business and helps them navigate a fast-changing business environment. Yet boards still struggle with the subject. Culture is hard to define, and difficult to measure and monitor.

How is culture managed? Who should be responsible for it within an organisation? How can culture be understood and shaped? And what benefits does this offer? We asked 100 board members of FTSE 350 companies for their views on corporate culture today and their answers reveal three key messages:

1 Culture is vital to overall strategy and performance.

The clear majority of our respondents (86%) view culture as very important or fundamental to their company's overall performance and strategy, backed up by 92% who say that investing in culture has improved their financial performance. Over half of the survey respondents estimate that investing in culture increased operating profits by 10% or more.

2 Boards still need to take more responsibility for defining, shaping and monitoring culture.

Despite its importance, only 19% of our board-level interviewees feel that primary accountability for culture sits with them. Over two-thirds (68%) do say that they "actively and regularly try to promote and control culture at board level" yet 51% think the board should take more responsibility for shaping and measuring culture and 47% say there is little or partial consensus at board level on what company culture should be.

The board could do more, but board members need a better understanding of company culture. The majority rely on anecdotal sources of information — performance appraisals (82%), interviews with current or exiting employees (78%), whistleblowers or other built-in "warning" systems (72%), surveys of customers (65%) and employees (64%), customer complaints (63%) and employee personality profiling (61%). These are useful but time consuming to pull together and they do not tell the whole story on culture.

This becomes even more problematic for those embarking on a culture change programme: only 45% of those we surveyed conducted a full assessment of their existing organisational culture beforehand. Those that did relied once again largely on employee survey information (42%), performance appraisals (21%), interviews with employees (16%) and internal focus groups (16%).

Boards need to seek new ways to understand cultures "on the ground", i.e., the values, behaviours and beliefs of local teams. They need to employ the right tools and methods to get a full picture of culture, and they need to talk to the right people, especially middle management.

3 Investors need more information on organisational culture to support long-term performance measurement.

The majority of companies that have initiated a culture change programme also report improved performance, with an estimated 10% or higher increase in operating profits as a result. That's the kind of improvement that makes shareholders and potential investors sit up and take notice. Yet our survey also found that 88% of organisations do not provide detailed information on culture in their public filings or annual reports, even though culture is increasingly a factor in investment decisions.

Armed with the right information sourced through an effective assessment programme, boards could do more to provide meaningful information on culture to both regulators and investors, ultimately increasing stakeholder confidence in culture as one of today's most important intangible assets.

EY on culture

"The culture that we foster in EY is critical to helping our people to develop, provide exceptional service quality for our clients and deliver on our overall purpose of building a better working world."

Steve Varley, Chairman and Managing Partner, UK & Ireland, EY

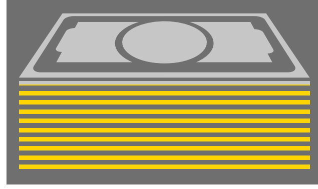
Culture and boards *at a glance*

1 Culture is vital to overall strategy and performance

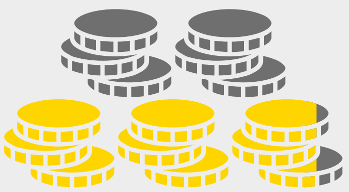
86%
of respondents say culture is **fundamental or very important**

See **page 6** for more information

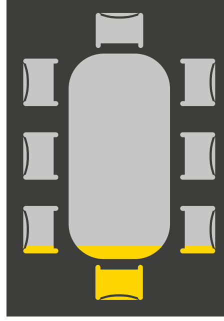
92%
say that investing in culture has **improved their financial performance**



55%
believe that investing in culture has **increased operating profits by 10% or more**



2 Boards still need to take more responsibility for culture



19%
say the **board is currently primarily accountable** for culture

See **page 10** for more information

47%
of respondents say there is **little or partial consensus at board level** on what company culture should be

51%
think the **board should take more responsibility** for shaping and measuring culture

3 Investors need more information on organisational culture

97%
of respondents say **culture is a focus** for shareholders and funders

See **page 20** for more information

83%
say shareholders **factor organisational culture** into their investment decisions

88%
of organisations are **not currently providing detailed information on culture** in their public filings/annual reports

EY on culture

Corporate culture encompasses a company's values and purpose, the beliefs, behaviour and attitudes of employees, and the way things are done and managed.

We believe these are shaped by four organisational pillars:

- *Political architecture* – where power lies and how it is used
- *Social architecture* – the values that govern relationships and the behaviours these drive
- *Performance architecture* – the way in which incentives and objectives drive behaviour
- *Operational architecture* – the organisational frameworks, systems and processes

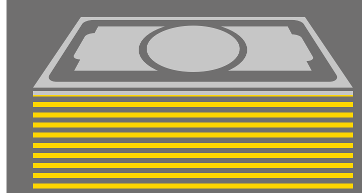
All large organisations will have local sub-cultures within teams and different locations that reflect local approaches to business and the style and beliefs of team managers.

The value of culture

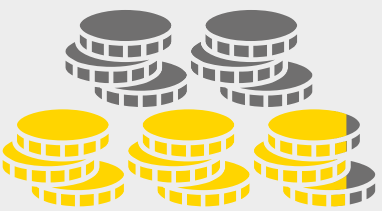
Corporate culture matters. It defines how an organisation is run. It influences employee behaviour and the choices employees make – from small, day-to-day decisions through to fundamental growth strategies. It influences how customers, suppliers, shareholders and other stakeholders interact with and view that organisation.

86%
of respondents say culture is **fundamental or very important**

92%
say that investing in culture has **improved their financial performance**



55%
believe that investing in culture has **increased operating profits by 10% or more**



Culture is vital to overall strategy and performance
Board members appreciate the importance of culture. As the CFO of a FTSE 100 travel and leisure company comments: "A good corporate culture, coupled with an environment that boosts morale and the interests of employees, can help achieve desired goals and results. Our board views culture as an extremely important aspect of our overall strategy and performance."

"Our company's culture is fundamental to its overall strategy and performance," adds an executive board member of ARM, a FTSE 100 technology, media and telecommunications company. "Our market approach, HR practices, internal functions and other strategies are all in line with our overall values and mission."

Investing in culture produces results
Our study's findings corroborate something that many have claimed, but few could demonstrate: investing in culture pays off.

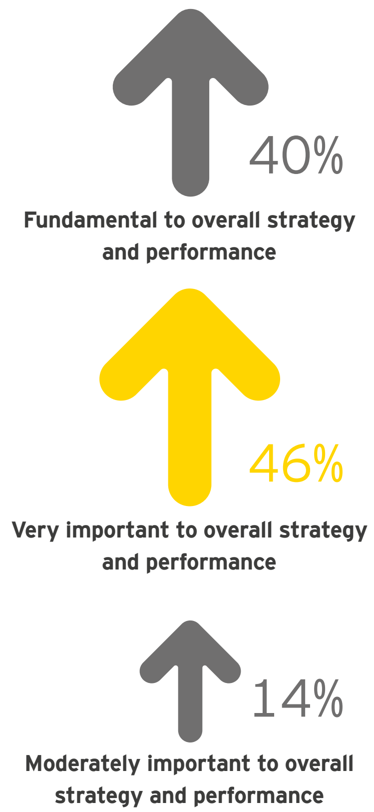
According to 92% of respondents, investing in culture improved their financial performance – more than half estimate the increase in operating profits to be 10% or more.

Beyond the obvious financial benefits, respondents point to other tangible and intangible gains from investing in corporate culture, across both "value-adding" and risk reduction outcomes. Reductions in breaches of organisational standards and improved employee performance are on top, with 26% saying they are the most important and 61% ranking them in the top three.

"Our teams have learned to work together and, by sharing insights, value creation in the form of tangible and intangible gains have been recorded," says the Non-Executive Director of a FTSE 250 retail company. "Intangible gains include a greater willingness to work together and tangible gains would be better outcomes and superior revenue results."

While investing in culture generates value, board members should gain a greater understanding of the range of benefits this could have in their organisation.
The overwhelming majority of respondents state that they achieved positive financial results after investing in culture, but our survey suggests they did not anticipate the

How important is culture in terms of your company's strategy and performance?



range and extent of the additional benefits they accrued. Some of these were unrelated to the issues the respondents set out to manage, but were nevertheless recognised as potential value-drivers in their business.

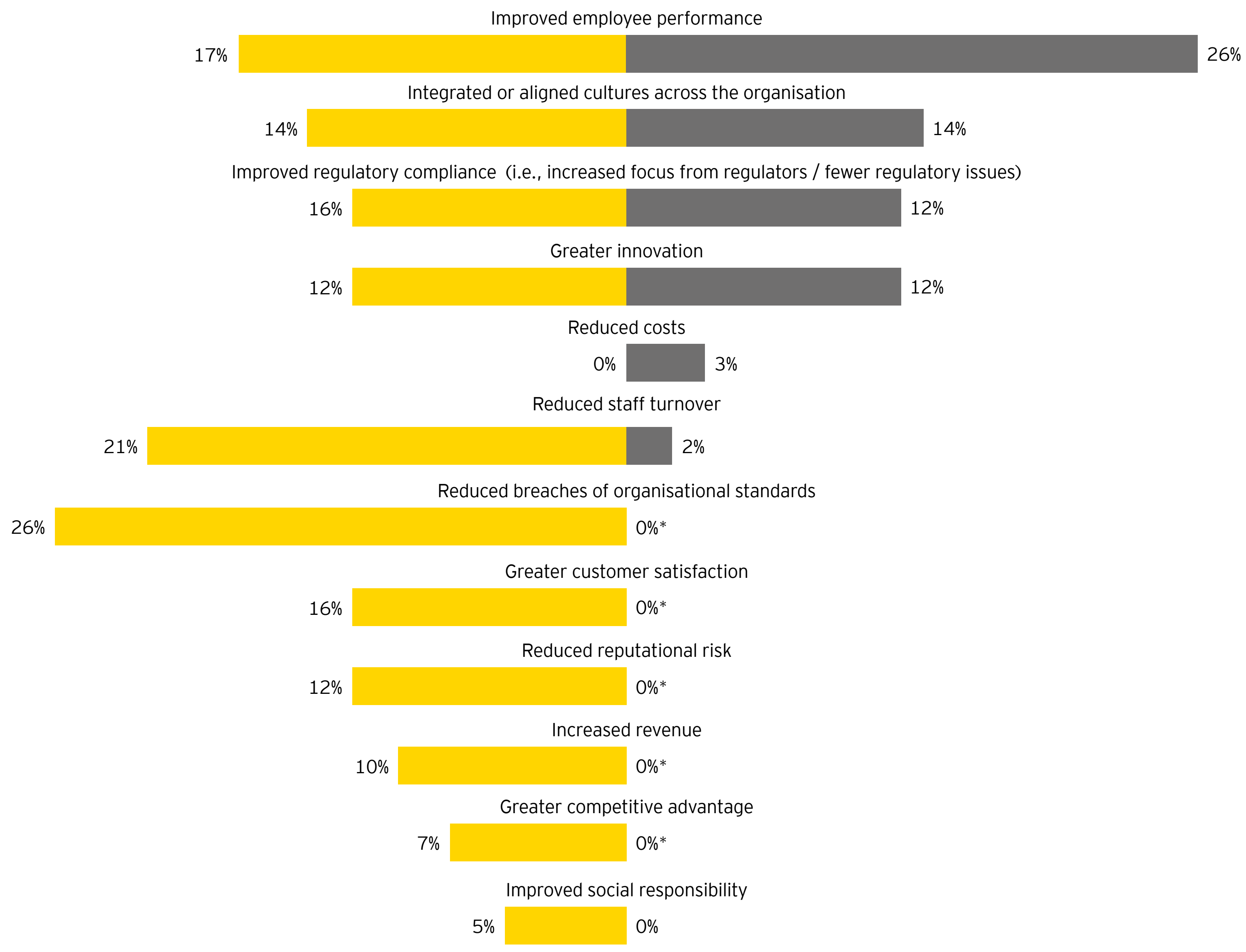
For example, even though respondents did not specify it as a driver for investing in culture, 32% cite fewer regulatory issues/legal actions as one of the top three benefits of their investment. Another unexpected benefit is customer satisfaction, highlighted as one of the top ways an investment in culture generates value but not mentioned in a separate question about drivers of culture change.

And while staff attraction/retention is highlighted as one of the most important reasons for culture change, lower staff turnover is one of the least notable benefits of investing in culture mentioned.

The lessons are clear: culture is important and generates value for organisations willing to invest in it, encompassing both improved performance and reduced risk. You may not always get what you expect, but that's not necessarily a bad thing.

Culture change: drivers versus value

What were the key drivers of your culture change initiative? What value was generated from your investment in culture?



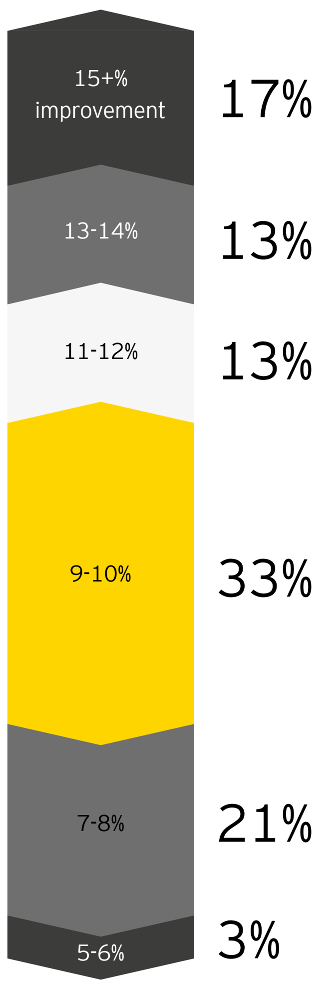
* Where 0%, this was not included as a response option for that question.

EY on drivers of culture change

"As EY considers the agenda for disruption and innovation in its own markets, and how that might change the type of people we need to recruit, we realise that our employee value proposition, including the culture in which our people work, will also need to change."

Maggie Stilwell, Managing Partner for Talent, UK & Ireland

How much has investing in culture improved your company's overall financial performance?



How much are companies investing in culture?

The amount invested in culture varies depending on the size and complexity of the organisation. While 27% of respondents have invested over £1m in culture, this rises to 48% among FTSE 100 companies, versus just 6% among FTSE 250 companies. The most common response (cited by 35% overall and by 56% of FTSE 250 companies) is between £100,000 and £500,000 – a relatively small sum considering the reported improvements to profitability.

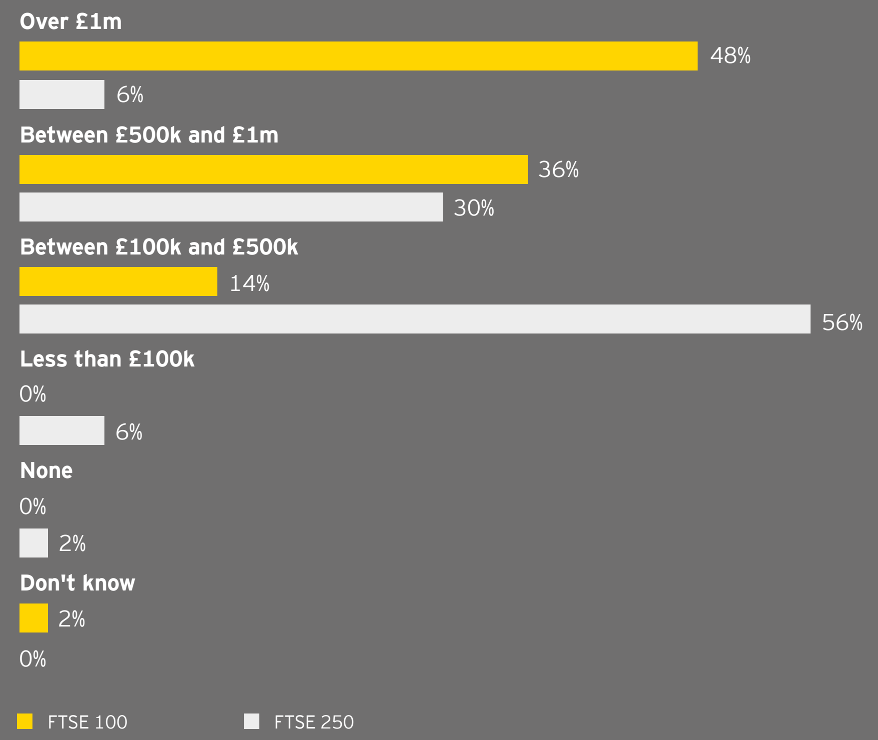
As the Non-Executive Director of a FTSE 100 retail company notes: "By investing in culture and focusing on togetherness through teamwork, our business outcomes have been enhanced and revenue gains have improved. The motivation of our leaders and the dedication of our staff have allowed us to exceed our goals."

EY on investing in culture

"Traditionally, organisations have invested relatively little in the key human dynamics of making change work – which is culture."

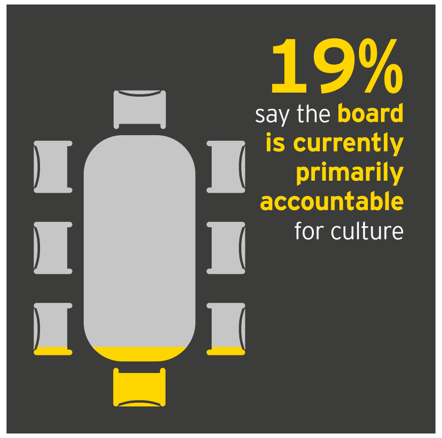
Chris Brown, Partner and Head of Business Assurance at EY

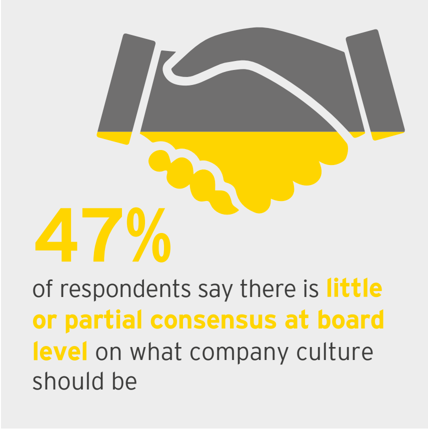
What level of investment has your organisation made in culture, if any, including any culture change programme(s) initiated?

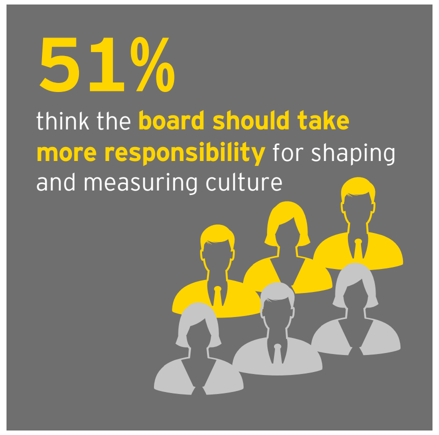


The role of the board

Boards still need to take more responsibility for defining, shaping and monitoring culture.







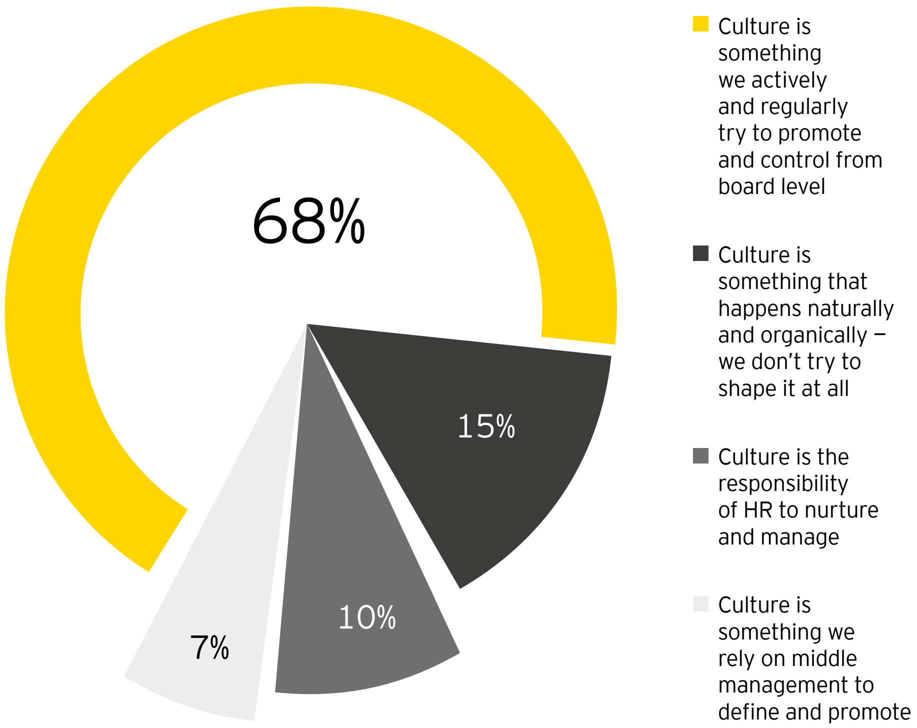
A question of responsibility

The vast majority of respondents believe that culture can be actively managed, but they have different views on how this can be achieved.

The majority of respondents say the board "actively and regularly tries to promote and control culture", with a small percentage leaving it to human resources or middle management and others preferring to let culture develop organically without trying to shape it at all.

Even though most respondents believe that culture is an important driver of performance and strategy, nearly a third do not believe that they, as board members, have a leading role to play in shaping or managing the culture of their organisations.

How would you describe the way your organisation approaches culture?



EY on the board's responsibilities

"The board role in culture begins with creating the vision for the desired culture within the organisation. Responsibility for bringing that vision to life and embedding it within operations falls to management but it circles back to the board to apply rigorous methods for the monitoring and oversight of culture."

Hywel Ball, Managing Partner for Assurance, UK & Ireland and Head of Audit, UK

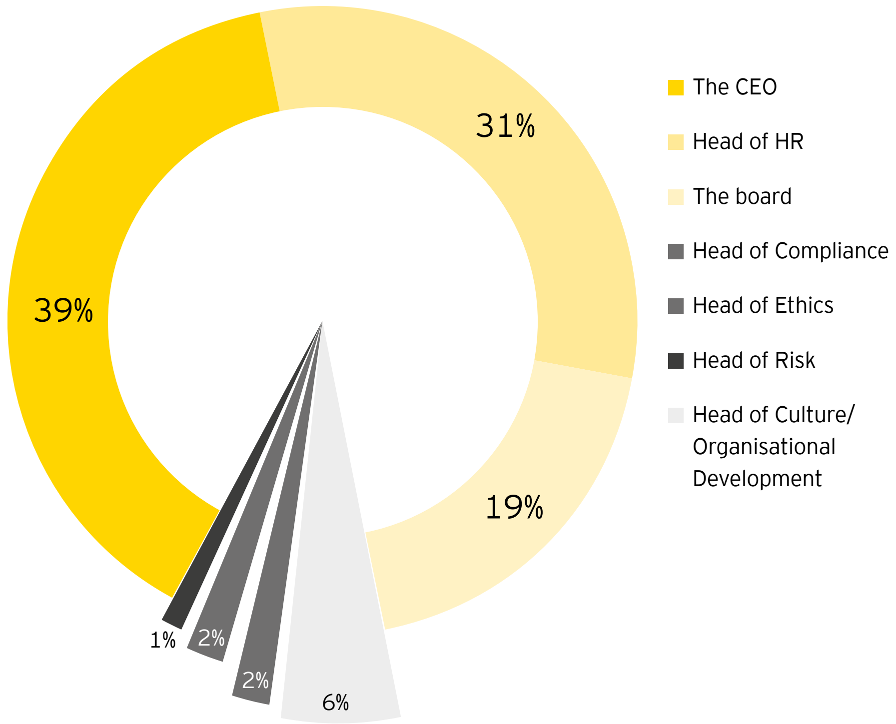
Who is primarily accountable?
Despite regulatory requirements for the board to set the right "tone from the top" and ensure that behaviours in the organisation are aligned to this, there is still uncertainty about who is primarily accountable for culture. Only 19% of respondents state that accountability for culture sits with the board.

This may be the result of a company's evolution. For example, entrepreneurs or company founders have a high degree of influence over how their small business is run and engage personally with employees. But as their companies grow, boards are formed and become removed, with formal processes and structures imposed to manage employees.

"The board gives responsibility [for culture] to the HR manager who makes sure it is enforced in the company," says a Non-Executive Director of a FTSE 100 financial services company. "When something does not go well, they hold the HR manager responsible."

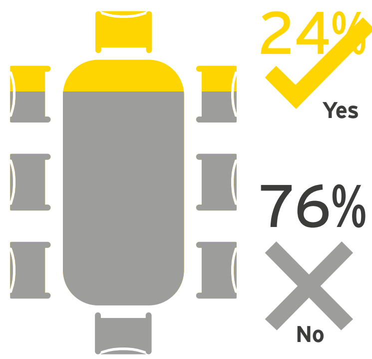
As Mary Jo White, Chair of the US Securities and Exchange Commission, said in a speech at Stanford University in 2014: "Ensuring the right 'tone at the top' for a company is a critical responsibility for each director and the board collectively… Deficient corporate cultures are often the cause of the most egregious securities law violations, and directors, both directly and through the oversight of senior management, play a key role in shaping the prevailing attitude and behaviors within a company."[2]

Who is primarily accountable for culture in your organisation?

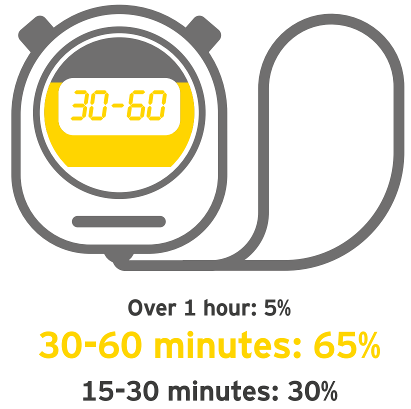


[2] *"A Few Things Directors Should Know About the SEC"*, speech by Mary Jo White, Stanford University, 23 June 2014, https://www.sec.gov/News/Speech/Detail/Speech/1370542148863

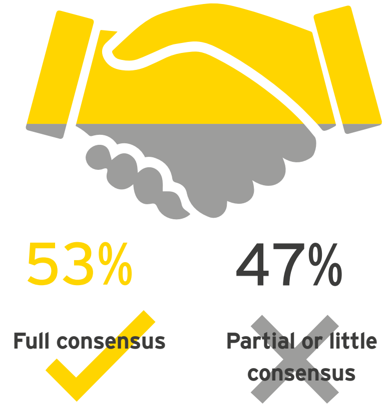
Is culture on the agenda at every board meeting?



When culture is discussed, on average how much time is spent discussing it?



How much consensus is there on culture among board members?



The board's role in defining and shaping culture
Our survey suggests there needs to be a shift in thinking, with over half of respondents arguing that the board should take on greater responsibility for shaping and measuring organisational culture.

This makes sense – a CEO may be driven by results and the Head of HR will focus on employee engagement, but it is the board that needs to keep a collective eye on the big picture, and this must include the oversight of culture.

The first challenge is getting the board to agree on what their company's culture should be: only 53% say there is full consensus on culture among board members, while 47% say that there is only partial or little consensus at board level.

"It's always a challenge to get every board member on the same page," agrees the CEO of a FTSE 100 pharmaceuticals & biotechnology company. "It's a little more difficult and sensitive when it comes to culture, which needs to be handled delicately. We have a good understanding, but sometimes we have to address various issues before we can reach a consensus."

"Leaders in an organisation need to be aligned in their values and purpose – not just in the way they communicate with stakeholders, but also in their daily work and, importantly, when they're under pressure," says Kevin Hills, Head of EY's Corporate Integrity practice. "In large organisations this presents a particular challenge, given the layers of leadership that can exist between the board and people making decisions on the front line. If they are aligned, they'll be sending consistent messages through the company. If they're not, it's confusing at best and, at worst, it can be divisive as people try to second-guess what is really being asked of them."

Culture is widely viewed as a driver for success, yet the majority point out that culture is not on the agenda at every board meeting. Should it be discussed more often?

"The HR manager keeps an eye on culture and how things are progressing and submits a report at every board meeting so the CEO can make decisions and bring in any required changes," explains the CEO of a FTSE 250 pharmaceuticals & biotechnology company. "The board makes sure what they want is implemented and followed, otherwise the consequences are quite dire."

The majority of respondents think culture is being discussed enough at board level. But how much is enough? When culture is a board meeting agenda item, our survey shows that a third spend an average of between 15 and 30 minutes discussing it, while two-thirds hit between 30 and 60 minutes. Is that enough to register, discuss, agree and resolve ongoing considerations and concerns around culture?

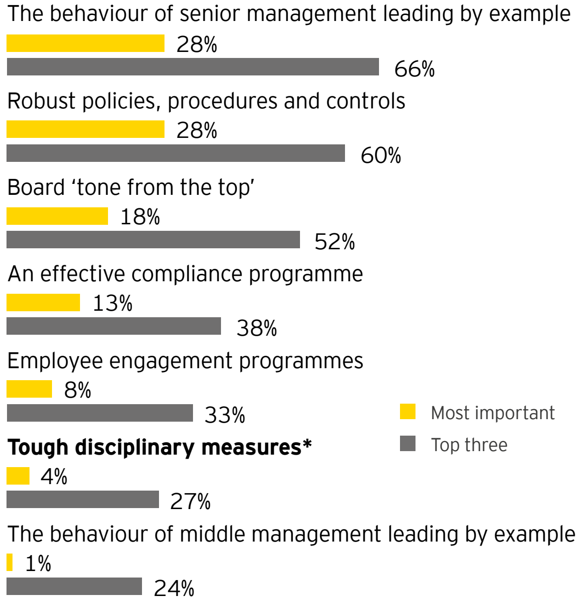
Regardless of whether board members feel they play an active part in shaping a company's culture, they do play an essential role in managing it: almost a third of respondents highlight the behaviour of senior management — "leading by example" — as the most effective way to manage culture, and the board's "tone from the top" also features strongly.

"The tone from the top is being implemented throughout the organisation effectively as board members have an articulated set of ethical values and principles, which are followed by every employee," says the CFO of a FTSE 100 energy & utilities company. "This also enhances the quality of decision making."

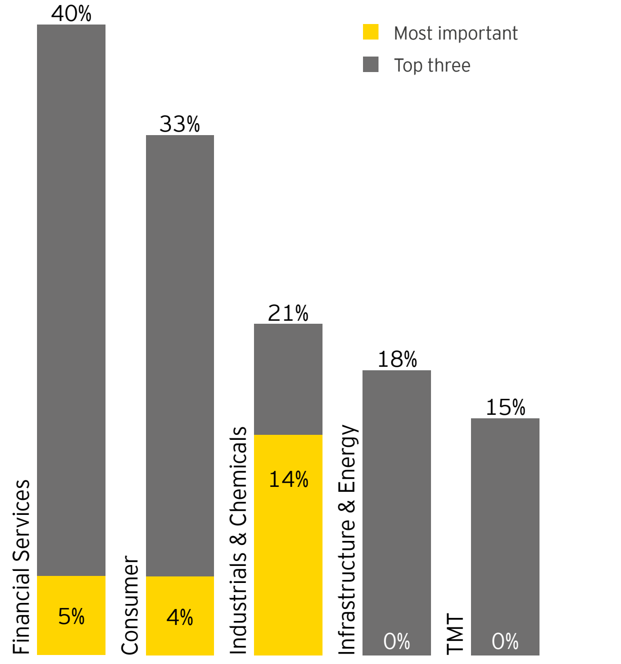
Robust policies, procedures and controls and effective compliance are also important according to our findings. And the board is ultimately responsible for ensuring that these are in place and enforced in appropriate ways.

Not every organisation responds to culture management strategies in the same way. For example, 14% of respondents operating in industrials and chemicals businesses identify tough discipline as the most effective method, with 21% placing it in the top three. Financial services and consumer businesses both also rank this method highly.

What are the most effective methods for managing culture?



✱ DATA SNAPSHOT: How do different sectors rate "tough disciplinary methods" when it comes to managing culture?



However, while performance management measures and operational frameworks are clearly important in defining the parameters within which teams and individuals should operate, culture is also shaped by political and social dynamics (i.e., the power structures and values that govern employee relationships). Even the most well-intentioned rules and performance management methods can be rendered less effective when political and social factors are inadequately understood.

Interestingly, board members at technology, media and telecommunications companies do not regard tough disciplinary methods as an effective way to manage culture — only 15% cite this in their top three.

EY on shaping culture

"People build controls to stop people doing the wrong thing. What they need to do is create an environment that makes it easier for people to do the right thing. That's how you build sustainable performance."

Kevin Hills, Head of EY's Corporate Integrity practice, UK

The importance of middle management

"Top down" approaches based on operational and performance mechanisms are clearly vital if companies are to foster a strong culture. But our findings suggest that many companies are overlooking the political and social aspects of managing culture. Just 1% rank the behaviour of middle management as the most effective tool for managing culture, with less than a quarter placing it in the top three.

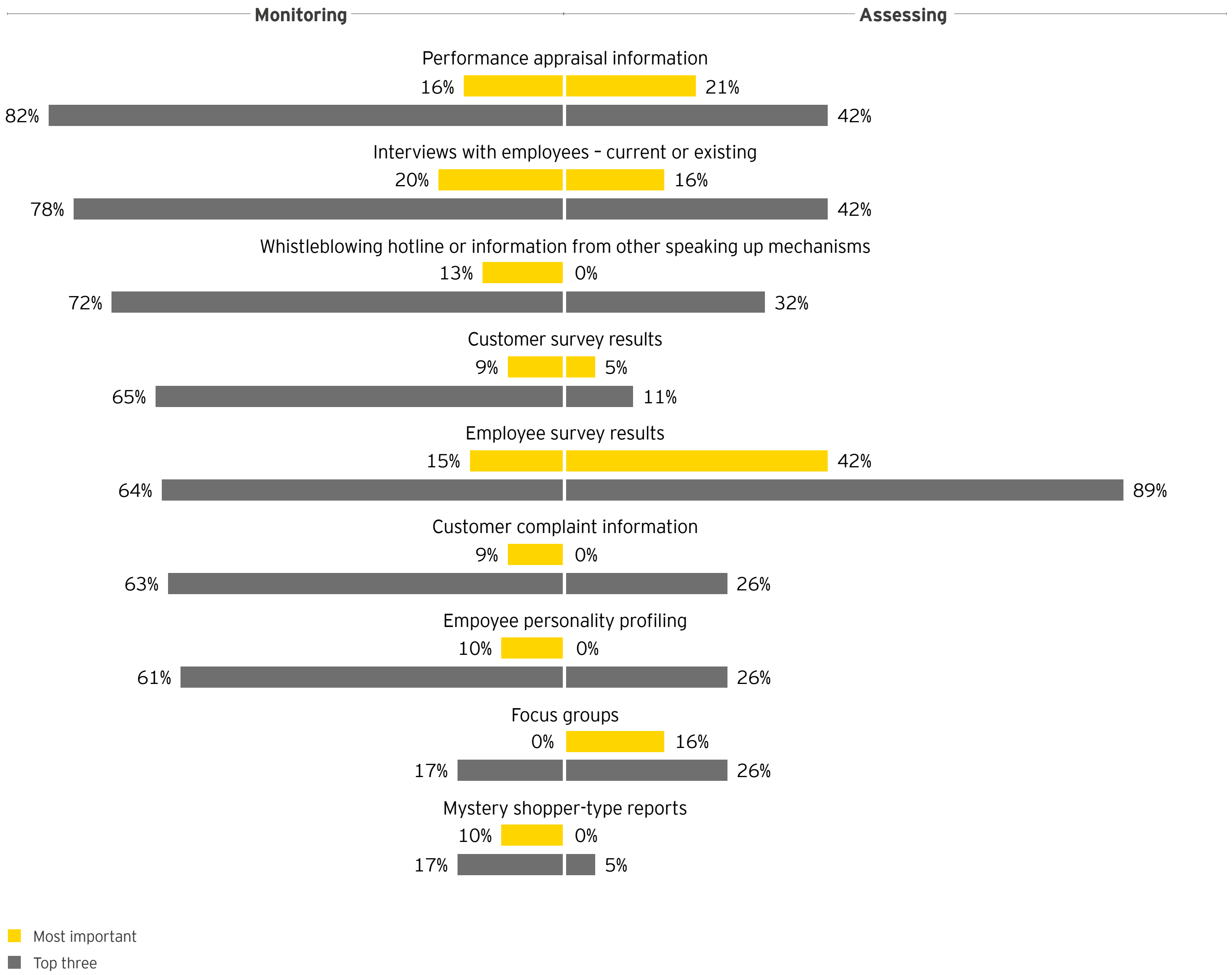
But middle management, given its proximity to the front line and influence over individual employees, greatly shapes the creation of local sub-cultures within an organisation. Their articulation of what the company stands for affects how employees treat each other, its customers and suppliers.

If the board wants to ensure that the company's vision and strategy are embraced by the people who are key to realising and carrying them out, they must also invest in a "bottom up" management of culture.

"Local leaders have a vital role to play in managing culture," says EY's Kevin Hills. "Boards need to connect with them, get them really believing in and living the big plans, the purpose, the values. That's the way a culture is activated throughout the organisation. That doesn't mean that everyone thinks in exactly the same way — you have to account for differences — but it does mean that the organisation will be better aligned in what it does and how it does it."

Monitoring and assessing culture

**What information do you currently use to monitor culture within your organisation?
And what information have you used when conducting a pre-culture change assessment?**



Monitoring and assessing culture
Managing culture is only part of the story; for many companies the challenge lies in how they monitor it. Most companies keep an eye on culture, but their methods tend to focus on anecdotal sources of information.

For example, sources highlighted by respondents include performance appraisals, interviews with current or exiting employees, whistleblowers or other built-in "warning" systems, surveys of customers and employees, customer complaints and employee personality profiling.

Employee surveys are the traditional proxy for understanding culture, so it's not surprising this appears in the top three. Given the employee-centric nature of culture, the results around performance appraisal and employee interviews are also obvious choices. These are all useful but take time to conduct and they do not tell the whole story on culture.

"While staff interviews, appraisals and surveys are widely used to assess culture, they do not give a 360-degree view," says EY's Hywel Ball. "Over the past few years, data extraction and analytics have developed to the point that they can add great insight on culture."

Companies turn to similar sources of information when embarking on a culture change programme, if they do an assessment at all – surprisingly only 45% did so. Among those that conducted an assessment, by far the most popular source was employee surveys. This ranks as most important for 42% of respondents in our survey and in the top three for 89%.

Performance appraisal information was also important, followed by interviews with employees and internal focus groups.

Harness technology to gain cultural insights

The explosion in Big Data and advances in data mining and analytics have resulted in innovation and greater objectivity when it comes to assessing culture. Applying these tools to culture results in more economical and far less time-consuming methods for delving even deeper below the company's surface than would have been possible even just a few years ago. Companies are now able to pull together rich information from internal and external sources, and analyse this in an integrated way.

EY on monitoring and assessing culture

"Technological advances have opened up many possibilities in monitoring and understanding an organisation's culture. Even just a few years ago, an in-depth assessment would have been time-consuming and costly. Now, you can do quite a lot of the work remotely, using analytics."

Kevin Hills, Head of EY's Corporate Integrity practice, UK

"We did a complete study of the situation," says the CFO of a FTSE 100 mobile telecommunications company. "We spoke to our employees, took surveys and looked at performance, and then came to a conclusion. After we assessed the data, we came up with rules."

Surprisingly few organisations appear to scan for risk factors when doing a pre-culture change assessment. For example, while customer complaint information is highlighted by 63% of respondents when it comes to monitoring culture, this drops to 26% in pre-culture change assessments.

Customer survey results – highlighted by 65% of those monitoring culture – are only mentioned by 11% of respondents conducting a culture change assessment. And whistleblowing records – another window on whether policies and procedures are being followed – are only mentioned by 32% of respondents as having been used in their pre-culture change assessment.

Applying a cultural lens to risk can provide valuable insight into how a company's stated values are cascading through the organisation as a whole – for good or bad – and where change may be needed.

Culture change and the board
Almost half of respondents say they have initiated a culture change programme in the past five years, often driven by the need to attract and retain talent or encourage higher performance.

The integration and alignment of cultures (possibly as a result of mergers and acquisitions, or a period of expansion) and increasing regulatory focus on culture are also significant drivers for cultural change (see chart, page 8).

Surprisingly, the desire to improve innovation is mentioned by only 12% as the most important factor — with the speed of change in today's technology-enabled world, should this rank higher?

Categorising the drivers for change as positive (i.e., create value) or negative (i.e., reduce risks) shows that three-quarters identify positive drivers for initiating culture change. This reflects a greater weighting at board level towards drivers such as employee retention and attraction, and improvement in employee performance. But the role that culture change can play in risk management should not be underestimated.

"If you can create an environment where people are aligned around the organisation's purpose and values, they are more likely to make the right choices when faced with a difficult decision, even if it may not always be the easy thing to do as targets may be missed," says EY's Kevin Hills. "If organisations get this right, they are adding a control on risk. But it also adds value because those decisions will be based around what the company stands for. Ultimately, that's brand-enhancing and creates a sustainable business because customers or suppliers know they will get what they expect."

When it comes to implementing change, respondents focus on additional policies, procedures and controls: this is cited as the top method by 18% of respondents and is in the top three for over half. This is followed by incentives, in the form of compensation and promotions.

EY on implementing culture change

"Much of what we do at EY to enable change starts with informing and upskilling our partners and directors. We then cascade messaging and learning down through the organisation. If our people look up and can't see particular implicit values or behaviour from leadership, yet there are explicit targets that seem contradictory, they will prioritise accordingly."

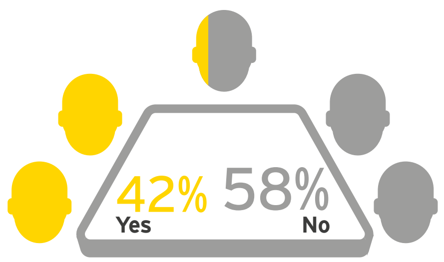
Maggie Stilwell, Managing Partner for Talent, UK & Ireland

Board-led initiatives including board communication with employees and other stakeholders and C-suite training, meanwhile, rank relatively low down the list.

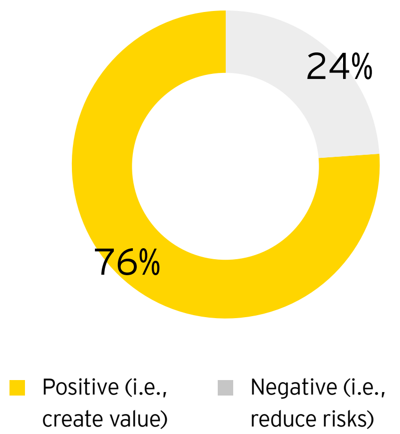
The results imply that companies are making mechanistic changes — new policies, sanctions or compensation arrangements — while failing to consider where senior management can have more influence over change. This seems misaligned with the responses from over half of respondents who argue that the board should take more responsibility for shaping and measuring culture.

Company culture is a reflection of its political and social aspects as well as its operational and performance frameworks. Companies tend to focus on front-line employees, but they should not ignore the role management plays in shaping and managing employee beliefs and behaviours. In particular, they should watch the influence that leaders have on often overlooked political and social dynamics.

Has your organisation initiated a culture change programme as part of a transformation or for any other reason in the past five years?



Were the key drivers for culture change positive or negative?



If companies are to make enduring changes to their culture — changes that all employees buy into — more consideration needs to be given to social and political drivers. Carrot and stick approaches only work so far; even the best incentive schemes can create unintended consequences in terms of how they drive behaviour.

Similarly, additional procedures and rules may be designed to prohibit unethical behaviour, but their effect can be limited when employees are under pressure to hit targets. And adding more compliance layers and policies can demoralise the workforce.

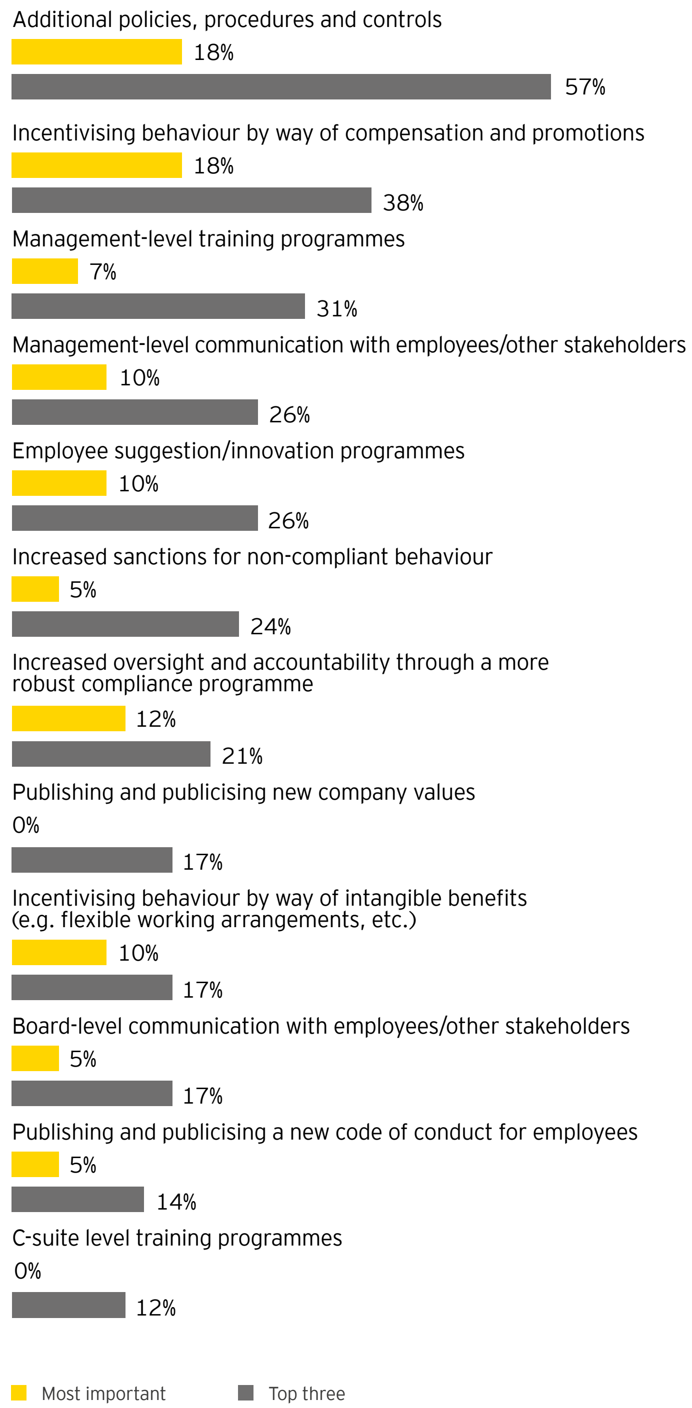
"People build controls to stop people doing the wrong thing, but these can have the unintended consequences of creating an environment in which employees believe that the right outcome is the one that satisfies the rulebook, reducing judgment and accountability," says EY's Kevin Hills. "What they need to do is create an environment that makes it easier for people to do the right thing. That's how you build sustainable performance."

None of the respondents rate "publishing and publicising company values" as the most important tool for effecting change. Yet values are at the heart of influencing behaviours, and represent an area where the board can have significant influence.

The mission and purpose of the organisation needs to be agreed by the board and clearly communicated to middle management, to ensure these values are clearly understood and lived locally. If employees experience and buy into the company values, they are far less likely to make decisions that misalign with those values, particularly when under pressure.

"Prior to forming our Corporate Integrity team, I spent 20 years undertaking forensic investigations and helping companies understand what had happened in their organisation," says EY's Kevin Hills. "In the vast majority of cases I found that those involved started with good intentions, but got into difficult situations and made poor decisions, rationalised in the belief that this was what the organisation's leaders wanted of them, with devastating consequences. Somewhere, the message from leadership had been confused, either because mechanisms suggested a particular course or because middle management had a different interpretation from leadership."

How did you implement cultural change in your organisation?

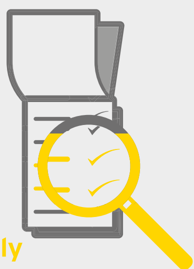


Reporting on culture

Investors need more information on organisational culture to support long-term performance measurement.

97% of respondents say **culture is a focus** for shareholders and funders

83% say shareholders **factor organisational culture** into their investment decisions



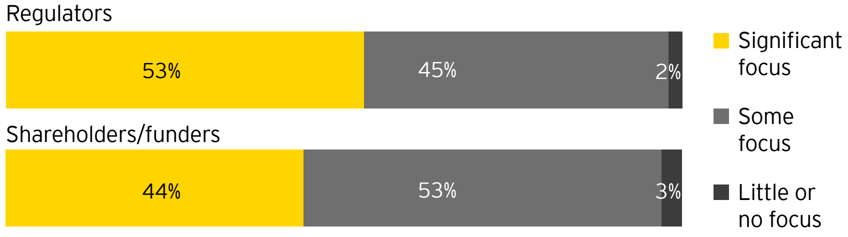
88% of organisations are **not currently providing detailed information on culture** in their public filings/annual reports

More detail is required
The importance of culture both in value creation and risk management is clearly recognised by respondents. The overwhelming majority say that culture is a focus for shareholders or funders, including almost half of respondents, who say it's significant. Similarly, almost all respondents say culture is a focus for regulators, with over half ranking it as significant.

Furthermore, the majority believe that shareholders factor organisational culture into their investment decisions, clearly demonstrating the links between culture, company value and attractiveness to investors.

Despite this, only 12% provide a detailed overview of their culture in their public filings or annual reports. Most (84%) only mention it in brief, while 4% don't mention it at all. This suggests that the vast majority of companies are not providing adequate detail about their organisational culture and the steps taken to manage it in order for shareholders to make accurate judgements. Shareholders and investors may seek information on organisations' cultures from other sources.

How much do you think shareholders, funders and regulators focus on culture?



Do you think shareholders factor culture into their investment decisions?

Do you mention culture in your organisation's public filings/annual reports?

As Loree Gourley, Director of Regulatory and Public Policy at EY points out: “At a recent EY ‘Dialogue with Investors’ event, we conducted an audience poll of the investors attending and found that 81% said they believe that companies do not provide information that allows investors to assess corporate culture, while 85% said they believe they have a role to play in the culture of companies in which they invest."[3]

In an environment where non-financial reporting is becoming increasingly important, companies need to provide more meaningful information on culture. A recent EY study[4] highlights that “the number of factors that investors evaluate is increasing as sources of value and risk under the umbrella of nonfinancial information are expanding”. For example, it points out that 79% of institutional investors now evaluate companies on their environmental and social disclosures.

Companies that do provide detailed information on their culture, including how it aligns with business strategy, are likely to have an advantage when it comes to attracting investment. And since shareholders and investors may be seeking proxy information on organisations’ cultures from other sources, they are also able to regain some control over how their corporate culture — and its value — is perceived.

Investors’ needs are also a consideration for the regulators. Based on evidence indicating that culture is often at the root of corporate scandals, the Financial Reporting Council launched its “Culture Project” in 2015 to understand how boards can shape, assess and embed culture and identify and promote good practice. This work will further explore the link between culture, good governance and effective stewardship.

EY on reporting on culture

“There is a great need for reporting on culture to provide the confidence that investors need — but currently no standardised way of doing this."

Hywel Ball, Managing Partner for Assurance, UK & Ireland and Head of Audit, UK

Conclusion

What can board members do to steer culture in the right direction and reap the long-term benefits that are on offer?

Most board members understand the importance of culture to their organisation’s performance and strategy, and that investment in culture can generate significant financial results. But many companies lack the tools and structure necessary for assessing and managing culture effectively, do not fully understand what drives culture and do not fully appreciate the breadth of the benefits of investing in culture.

If boards are to improve their understanding and ability to shape culture, and capitalise on its potential to drive long-term value, there are practical steps that they can take:

Make the board explicitly accountable for the oversight, shaping and monitoring of culture. The board is already accountable for all areas and functions of a business. Adding culture fully to the mix will allow for a company’s vision and values to be better disseminated throughout the company and business strategy. It also means that companies will need to invest in training and development of board members to ensure they understand how best to monitor and shape culture.

Make culture a priority at board meetings. Add culture to the board’s agenda more consistently and more frequently to establish greater consensus, so that clear messages can filter through to the rest of the business. This will help to change the way culture is perceived and will help to embed culture as integral to many of the issues discussed at board level.

Take time to understand the existing culture — through both risk and value lenses. Our results show that many still use time-consuming and one-dimensional tools to assess culture. Additionally, many companies did not always achieve what they set out to do via their culture change programmes — and this was often because they hadn’t taken the time to understand the existing culture and therefore the end outcomes. Invest in analytics tools to gain a deeper view of employee beliefs and sentiment, and where the potential for both risk reduction and value creation lies.

Use the power of local management to embed desired cultural attributes. Engage local management to ensure they understand, and create an environment that aligns to, the company’s purpose and values. Policies and procedures encourage certain behaviours and discourage others, but local leaders and managers have the power to influence and align the actions and decisions of those on the front line with the board’s view of how things should be done. Pay close attention to the social and political influences on culture.

Improve public reporting on culture. Shareholders, regulators and potential investors are looking for this information, but few companies currently report on their organisation’s culture in any detail. As such, investors are going in search of proxy information on culture, to help inform their investment decisions. Providing high quality data combined with qualitative information about the company’s values and how culture is incorporated into business strategy will help boards regain control over how their organisation’s culture is perceived — and could have a significant impact on the company’s attractiveness to investors and its relationship with regulators.

[3] Statistics from an audience poll of 21 investors at EY’s ‘Dialogue with Investors’ event held in November 2015.

[4] *Tomorrow’s Investment Rules 2.0: Emerging risk and stranded assets have investors looking for more from non-financial reporting*. October 2015, EY

About FT Remark

FT Remark
Research from the Financial Times Group

FT Remark produces bespoke research reports, surveying the thoughts and opinions of key audience segments and then using these to form the basis of multi-platform thought leadership campaigns. FT Remark research is carried out by Remark, part of the Mergermarket Group, and is distributed to the Financial Times audience via FT.com and FT Live events.

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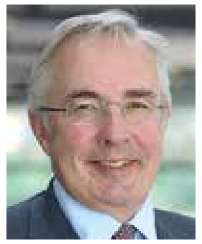
About the study

In H1 2016, FT Remark surveyed 100 board members at FTSE 350 companies across a wide range of sectors; 60 in executive and 40 in non-executive roles. Job titles include CEO, CFO, chairman and non-executive director. Fifty of those surveyed were from FTSE 100 companies.

The survey included a combination of qualitative and quantitative questions and all interviews were conducted over the telephone by appointment. Results were analysed and collated by FT Remark and all responses are anonymised and presented in aggregate.

Contacts

If you have any questions, please speak with your usual EY contact or get in touch with one of us:



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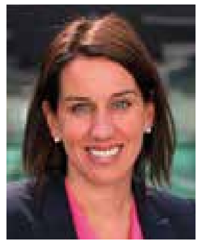

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