Corporate Culture
A thought piece on reporting
Corporate culture is a key theme this year and it is quickly gaining momentum.

This is Black Sun’s first thought piece looking at how corporate culture is currently reported on by the FTSE 100, and how we recommend companies report on this very important topic in future.

If you would like to understand more about how to report on corporate culture, trends in corporate reporting more generally or how you compare to the FTSE 100, contact us today. We would be delighted to help you on your corporate reporting journey.

We hope you find this research a useful and insightful contribution to the reporting debate.
Culture is often referred to as the climate and practices that organisations develop around their handling of people or the adopted values and beliefs of the organisation. It is created by our interactions with others and shaped by leadership behaviour and a set of structures, routines, rules, and norms that guide and constrain behaviour.

While the tone from the top of the organisation sets the destination of travel in terms of aligning culture and values with corporate philosophy, incorporating this into practice is a constant journey that requires employee buy-in in order to produce good culture as opposed to purely compliance.

In the 2014 UK Corporate Governance Code the Financial Reporting Council (FRC) emphasised the key role of the board in establishing the culture, values and ethics of the company. In particular, the importance of the board in setting the correct ‘tone from the top’ and leading by example to ensure that good standards of behaviour permeate throughout all levels of the organisation.

The argument being that there are strong links between governance and establishing a culture that supports long-term success and prevents misconduct and unethical practices. The number of scandals we have seen in the last year alone tells us that the issue of corporate culture and the conduct and practice that derives from it should be at the top of the agenda for any board going forward.

Indeed, the FRC has recently launched a market-led initiative to gather insight into corporate culture and the role of boards; to understand how boards can shape, embed and assess culture, and to identify and promote good practice.

The FRC’s four key themes:
• Delivering sustainable success – the role of the board
• People issues
• Embedding and assurance
• Stakeholder issues

Together these themes form the basis for discussion in four work streams to be pursued in partnership with the Chartered Institute of Management Accountants (CIMA), the City Values Forum, the Chartered Institute of Personnel and Development (CIPD), the Institute of Business Ethics (IBE) and the Chartered Institute of Internal Auditors (IIA).

The FRC is planning to publish a report of their observations and activity in June 2016. This, they hope, will identify good practice examples and include resources to help boards across a range of sectors take action on culture.

Reporting against the themes
As a provider of strategic corporate reporting consultancy we take a particular interest in how the elements of these themes are portrayed in terms of reporting. In the following, we will describe our interpretation of how these themes can be identified as data points in annual reports at present, but also how we imagine increased reporting in this area could look like going forward. None of these indicators in isolation reveal much about a company’s culture but held together they form an insightful narrative on a company’s commitment to culture and its ability to implement measure and evaluate it.

We base these observations on our extensive research into annual reports which span over ten years in the annually published research report called “The Complete 100”. “The Complete 100” identifies trends and best practices in corporate reporting, analysing every FTSE 100 annual report in order to assess how companies are responding to the changing corporate reporting landscape. The data used for the purpose of this publication is from the 2015 reporting season. A comprehensive data set beyond the individual data points discussed is available on request.

WHAT IS CULTURE?

Culture is often referred to as the climate and practices that organisations develop around their handling of people or the adopted values and beliefs of the organisation. It is created by our interactions with others and shaped by leadership behaviour and a set of structures, routines, rules, and norms that guide and constrain behaviour.

While the tone from the top of the organisation sets the destination of travel in terms of aligning culture and values with corporate philosophy, incorporating this into practice is a constant journey that requires employee buy-in in order to produce good culture as opposed to purely compliance.
FTSE 100 INDICATORS OF COMMITMENT

Indicators of Commitment

One of the FRC’s key themes is the board’s role in delivering sustainable success. The scope of this theme revolves around “the tone from the top” and how the board can influence the culture of a company. In particular, it looks at ways of setting and aligning values and culture with key decisions, practices and processes as well as ensuring a healthy culture in times of stress.

In terms of reporting, we would categorise data points that fall into our interpretation of this theme as “indicators of commitment”. The “tone from the top” from our perspective is the commitments made by board and management in corporate reporting, which refers to the set of values or corporate culture the board wishes the company to follow. These commitments can be either direct or indirect.

The data points which indicate direct commitment include, amongst other, whether the Chairman talks about the company’s culture, ethics and behaviours, whether companies have clearly defined their values and whether there is a discussion about the risk appetite of the company. Other times, commitments are more indirect and simply indicate culture rather than literally discussing it. Data points which indicate indirect commitment include whether the company states the level of female representation the board wishes to achieve or whether the company has a board-level sustainability committee.

Often what is not discussed reveals the most about a company’s culture. For example, 76% of all FTSE 100 companies do not discuss their contribution to society through paying corporate tax, which sends a clear signal in terms of how these companies view themselves and the value they create in relation to wider society.

Reporting on culture going forward
Our data points set out to assess change on a year-on-year basis and are thus not exhaustive in terms of identifying culture indicators specifically. With the increased focus on corporate culture, we would expect reporting on this topic to increase substantially. The following are data points we hope to be able to capture in the future:

- Disclosure of clear definition of values and purpose
- Disclosure of reference to ethics, integrity and morals
- Chairman provides clear commentary and commitments for the organisation in terms of culture, values and behaviours
- Chief Executive mirrors these commitments from an operational perspective
- In case of a major breach of ethics and integrity during the year, the chairman provides a comprehensive overview of how the issue has been addressed and the wider implications for the company culture going forward
- Chief Executive mirrors these comments and implications from an operational perspective
- Disclosure of a clear statement on risk appetite
The FRC’s second theme is people issues. The focus here is on alignment between values and policies, practices and processes. In particular, it looks at mechanisms which can be employed to aid the integration of healthy values such as training, financial and other rewards and incentives, performance measures as well as encouraging and capturing the employee voice.

In terms of reporting, we would categorise data points that fall into our interpretation of this theme as “indicators of implementation”. We categorise them as indicators of implementation as they all, in one way or another, tackle how employees (people) implement the decisions that are a product of the individual company’s culture. In particular, many of these relate to connectivity as we would argue that it is not possible to link aspects of the business without implementing them first. Examples of these types of implementation indicators include evidence of a detailed link between company performance and remuneration, a clear link between KPIs and strategy or whether resources and relationships/capitals are linked to business model and strategy.

Other indicators of implementation include examples where companies have identified a clear ownership of a process (i.e., individuals who are responsible for specific risks/risk groups) or appear to be directly describing an integration process. These include data points such as “does the company state how succession planning is being completed?” or “do they confirm they have carried out a robust assessment of principal risks including those threatening business model, future performance, solvency or liquidity?”

Finally, there are data points which speak indirectly to the culture of the company and how this is implemented such as whether a company, which has stated that it is non-compliant with one or more of the recommendations of the Corporate Governance Code, has cared to provide a high quality clear rationale, specific to the company, justifying the non-compliance. Failure to do so speaks volumes in terms of the culture of the organisation and the way it views itself in relation to its shareholders.

Reporting on culture going forward

- Disclosure of processes to ensure appropriate values, ethics, integrity and morals are being embedded
- Disclosure of HR policies and performance appraisals, training and rewards aligned with corporate culture
- Disclosure on succession and diversity planning
- Disclosure of a clear link between values, purpose and strategy
- Disclosure of a clear link between remuneration and KPIs
- Disclosure of a clear link between company performance and remuneration
- Disclosure of a clear link between relationships/capitals and business model and strategy
- Disclosure of a clear ownership of risk and targets
- Disclosure of principal risk assessments
- Balanced view of achievements and progress as well as failures and lack of progress
- Disclosure of a high quality rationale for non-compliance with the Corporate Governance Code

<table>
<thead>
<tr>
<th>Indicator</th>
<th>FTSE 100 Indicator of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report on employee related priorities</td>
<td>20%</td>
</tr>
<tr>
<td>Clearly link KPIs to strategic priorities</td>
<td>55%</td>
</tr>
<tr>
<td>Demonstrate a clear link between strategy and risk</td>
<td>41%</td>
</tr>
<tr>
<td>Identify a link between remuneration and non-financial KPIs</td>
<td>46%</td>
</tr>
<tr>
<td>Report strategic priorities or objectives</td>
<td>56%</td>
</tr>
<tr>
<td>Provide no link between KPIs and strategy</td>
<td>75%</td>
</tr>
<tr>
<td>Demonstrate a clear link between remuneration and KPIs</td>
<td>55%</td>
</tr>
<tr>
<td>Balanced view of achievements and progress as well as failures and lack of progress</td>
<td>65%</td>
</tr>
<tr>
<td>Disclosure of a high quality rationale for non-compliance with the Corporate Governance Code</td>
<td>46%</td>
</tr>
</tbody>
</table>
Another FRC theme is embedding and assurance. The focus of this theme is on internal and external audit, risk management, measurement and indicators as well as reporting and transparency on cultural indicators. In particular it looks at ways of assessing and measuring the progress of integration of healthy culture into company practices and providing an early warning system for cultural misalignment.

In terms of reporting we would categorise data points that fall into our interpretation of this theme as “measuring indicators”. We categorise them as such because they focus on setting targets, measuring progress, and generally collecting data which held together form a picture of the companies’ culture in terms of preparedness, management processes and control mechanisms. The saying goes; what gets measured gets managed.

Indicators in our data set focus primarily on targets and objectives identified for the board, for the operation side of the business, for performance, for sustainability and for risk management. These include data points such as “are future priorities identified for the board?” and “are targets set for long-term business objectives?” However, of equal importance is the nature of these targets. In particular whether long-term targets as well as shorter-term term targets have been disclosed and whether some of these are quantitative as well as qualitative. Together this demonstrates integrated thinking and long-term planning and preparedness. Finally, reporting back on progress against previous targets is crucial in terms of communicating how companies manages these processes and provides a strong element of accountability. It can also help shape how companies think in terms of creating value and allows them to make more informed decisions.

Reporting on culture going forward
- Disclosure of targets and progress on processes to ensure appropriate values, ethics, integrity and morals are being embedded
- Disclosure of the work of the board and board committees during the year as well as targets for the coming year
- Disclosure of the number of calls to the whistleblowing line actioned on and number of issues resolved
- Disclosure of the number of breaches of the Code of Conduct and number of issues resolved
- Disclosure of the number of stakeholder engagements as well as targets stemming from these and progress against them
- Disclosure of targets linked to strategy
- Disclosure of targets linked to risk

Indicators of Measurement

<table>
<thead>
<tr>
<th>FTSE 100 INDICATORS OF MEASUREMENT</th>
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<tbody>
<tr>
<td>Report on actions and achievements of their board</td>
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<tr>
<td>Outline priorities or targets for the year ahead for the board committees</td>
</tr>
<tr>
<td>Report on actions and achievements of their board committees</td>
</tr>
<tr>
<td>Outline priorities or targets for the year ahead for committees</td>
</tr>
<tr>
<td>Set long-term business objectives or targets (beyond one year)</td>
</tr>
<tr>
<td>Quantify these long-term objectives or targets</td>
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</tbody>
</table>
The last FRC theme is stakeholder issues. The scope of this theme is the relationship with customers and suppliers, the impact on the community and environment and the role of shareholders. Specifically, how to strike the right balance between the competing priorities of stakeholders, and how to address gaps between company values and stakeholders’ experience and perception of these.

In terms of reporting we would categorise data points that fall into our interpretation of this theme as “evaluation indicators”. These include data points such as “is there disclosure of feedback resulting from the engagement process with stakeholders?” and “is there disclosure of the process undertaken to determine material issues for the business as a whole.”

These data points focus on disclosure of evaluating processes in place, providing opportunity for feedback from stakeholders and corresponding actions by the companies in reaction to stakeholder feedback. Together these indicate the companies’ culture in terms of the degree to which they value stakeholder feedback and engagement and the degree to which they are willing to integrate feedback into processes and make changes.

Finally, the disclosure of process evaluation indicates the companies’ culture, willingness, and not least ability, in terms of reflecting on the quality and resulting outcome of a process once in place. This is one of the themes for which we have been able to identify the fewest cultural indicators. Presumably as a consequence of companies’ unwillingness to discuss negative evaluation outcomes, or to publicly prioritise one stakeholder over another.

Reporting on culture going forward

• Disclosure of the nature of stakeholder engagements during the year as well as resulting action points, if any
• Disclosure of any assessment undertaken to assess stakeholders and their impact on the business
• Disclosure of evaluation process and actionable outcomes of any processes to ensure appropriate values, ethics, integrity and morals are being embedded
• Disclosure of employee engagement process and outcomes
• Disclosure of any evaluation process that lead to substantial changes in procedures and assessment, such as substantial change in terms of the risk assessment procedure or risk regime.
• Disclosure of the process undertaken to determine material issues for the business as a whole
• Disclosure of the process undertaken to determine financial and non-financial material issues and how these feed into company strategy
• Disclosure of the annual evaluation of the board, board committees and board members

Indicators of Evaluation

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<th>FTSE 100 Indicators of Evaluation</th>
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<tbody>
<tr>
<td>Include a discussion on engaging with their shareholders</td>
<td>79</td>
</tr>
<tr>
<td>Discuss engagement with a wider group of stakeholders</td>
<td>17</td>
</tr>
<tr>
<td>Include a discussion on feedback resulting from stakeholder engagement</td>
<td>29</td>
</tr>
<tr>
<td>Provide detail on how they responded to that feedback</td>
<td>22</td>
</tr>
<tr>
<td>Identify material non-financial issues</td>
<td>32</td>
</tr>
<tr>
<td>Identify material issues for the business as a whole</td>
<td>12</td>
</tr>
</tbody>
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The big question is: what will be expected of companies going forward? The short answer is we don’t know. The current UK Corporate Governance framework is without doubt one of the most progressive and also internationally we are seeing substantial progress in terms of disclosure with some notable examples of best practice. Not least the emergence of the <IR> framework which has proven to aid companies in understanding how they create value and the connections between resources and relationships that contribute to their short, medium and long term success.

However, we do know that the topic of corporate culture is gaining momentum and a paradigm shift could be on the horizon. There is growing recognition that value creation should be the primary objective of any business entity and it is becoming more apparent that the most successful organisations understand that the purpose of any business is to create value for its customers, employees and shareholders.

If you haven’t already done so, we suggest you take a hard look at your company’s corporate culture and how it is defined and the ways it is embedded, measured and evaluated. As for reporting on corporate culture, we can help you!

Upcoming research
Culture is an elusive concept. What we can read about it in annual reports is an essential part of the story—how culture is defined by a company’s leadership, how it is embedded in the organisation through an array of visible structures, rules and norms, and ultimately how all these things are being measured.

However, a large part of culture drivers and outcomes remain invisible to the human eye. They are the internalised values and beliefs of a company’s employees; the corporate purpose and values as they are understood, felt and experienced by people themselves.

Whilst this is much more intangible, we think there is value for companies in getting a sense of these rarely asked questions: do our people even know what our culture, purpose and values are? Do they consider these as a true reflection of our company’s identity? Are observed behaviours consistent with these? Are there any unspoken rules that get in the way?

We will uncover these questions in our next piece of research, where we will get answers from the people who are the most directly affected by culture issues: employees themselves. In doing this, we will identify gaps that may happen in the ‘transmission’ of culture, and propose solutions for better culture embedding.

Our Approach

Stakeholder communications are a two-way street. In order to build engagement, organisations first need to get a clear picture of their stakeholder environment.

We help organisations gain an understanding of their world to better engage with it.

Successful organisations are those able to quickly adapt to changes in their environment, and make themselves relevant to a wide range of stakeholders.

We help organisations align themselves with their environment.

At the core of stakeholder engagement is the idea of creating a mutually beneficial relationship between an organisation and external parties.

We help organisations define that ‘win-win’ territory and bring it to life through the right content and channels.
Black Sun Stakeholder Communications

Explore the scope of our stakeholder communications offer, the services we provide and the value that we can add by visiting our website: www.blacksunplc.com
Alternatively contact Sarah Myles at smyles@blacksunplc.com Telephone +44 (0) 207 736 0011

CORPORATE REPORTING
We can help you fulfil your reporting requirements, strengthen the impact of your reporting and ensure you exceed best practice.
Our solutions:
• Benchmark audits against best practice framework and regulatory guidance
• Editorial and content development
• Articulation of culture through your reporting
• Integrated Reporting <IR> consultancy

REPUTATION
We can help you better understand your stakeholder needs and expectations. Aligning your business to fulfil these expectations. Creating engagement programmes that deliver benefits to all parties.
Our solutions:
• Stakeholder mapping
• Stakeholder consultations
• Reputation measurement
• Purpose, vision, values
• Engagement strategies and campaigns

EMPLOYEE ENGAGEMENT
We can help create powerful programmes to recognise positive employee behaviours - top down and peer to peer.
Our solutions:
• Employee strategy and engagement
• Change management communication
• Employee loyalty
• Ethics and compliance communication
• Campaign implementation

INVESTOR ENGAGEMENT
We can help you improve the way you engage with current and potential investors by leveraging our best-in-class digital solutions and expert investor relations knowledge.
Our solutions:
• IR websites, apps and social media strategy
• Presentation best practice and production
• Collateral consistency audits and benchmarking
• IPO preparedness

SUSTAINABILITY REPORTING
We can help you communicate with your stakeholders on material issues alongside formal progress reporting
Our solutions:
• Materiality guidance
• GRI G4 Mapping
• Framework guidance
• Aligning reporting with Sustainability indices
• Targeted stakeholder communication

DIGITAL COMMUNICATIONS
We can help you communicate more effectively online, and more consistently with your other channels
Our solutions:
• Corporate websites
• Online reporting and interactive publishing
• Social media and mobile strategy and delivery
• Extranets
• Intranets

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