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I cover corporate leadership, the boardroom and corporate governance full bio →

U.K. Regulator Gets Serious On Company Culture And Role Of Boards

It has been a ‘slow burn’ since the 2008 financial crisis, but there has been an increasing regulatory focus on company culture. In October 2014 William C.Dudley, President and CEO of the Federal Reserve Bank of New York, made an important speech about it, around the financial services industry.

Today the U.K.’s Financial Reporting Council (FRC), the independent regulator responsible for promoting high quality corporate governance and reporting to foster investment, shows its intent by publishing a report around what U.K. listed businesses are doing to understand culture, and calling attention to the need for boardrooms to pay attention to its importance.

In 2014 Mr Dudley said: “culture may be hard to see, but you can feel it….culture exists within every firm whether it is recognized or ignored, whether it is nurtured or neglected, and whether it is embraced or disavowed.” Today, with the FRC study, we are getting closer to the ‘nitty-gritty’ on company culture – it is a reflection of the values and purpose of every business.

The report is the culmination of the FRC’s Culture Coalition, a collaboration with a number of leading organizations that have produced their own findings, as well as interviews with more than 250 chairmen, CEOs and leading industry experts, from the U.K.’s largest companies. Long-term value is its guide, and the focus is the importance of company culture to that goal. The FRC report looks at how corporate cultures are being defined, embedded and monitored.

Sir Winfried Bischoff, chairman of the Financial Reporting Council (FRC) and pictured here in 2002 when chairman Citigroup Inc. Europe speaks at a banking conference in Frankfurt, Germany Photographer: Axel Seidemann/Bloomberg News.

"A healthy corporate culture leads to long-term success by both protecting and generating value in the U.K. economy. It is therefore important to have a consistent and constant focus on culture, rather than wait for a crisis. A strong culture will endure in times of stress and change. Through our research, it has become clear that establishing the company's overall purpose is crucial in supporting and embedding the correct values, attitudes and behaviors" said Sir Winfried Bischoff, Chairman of the FRC.

When the report was first mooted, he cannot possibly have imagined that today the U.K. would be facing the aftermath of an EU referendum vote for Brexit. Sir Win also has a history of personal knowledge of the past workings of the financial services industry.

It is worth noting that this report has been notably collaborative in both its conception, and its delivery. The traditional 'silo-ed' approach of the financial services industry appears to have been rejected by this regulator. The FRC has also recently spoken out on the workings of audit – despite the fact that many of its critics believe it is too well staffed by accountants from the Big Four firms to have any objectivity.

In this report, the FRC is unequivocal: "It is the board's role to determine the purpose of the company and ensure that the company's values, strategy and business model are aligned to it. Directors should not wait for a crisis before they focus on company culture."

"Leaders, in particular the chief executive, must embody the desired culture, embedding this at all levels and in every aspect of the business. Boards have a responsibility to act where leaders do not deliver" it adds.

Importantly, it states: "Openness and accountability matter at every level. Good governance means a focus on how this takes place throughout the company and those who act on its behalf. It should be demonstrated in the way the company conducts business and engages with and reports to stakeholders."

Ah, 'stakeholders' – it is the definition of whom they constitute for business that is behind so much of the change of thinking around long-term value creation.

And then there's that critical issue of 'incentives' in listed businesses (otherwise known as 'pay). "The performance management and reward system should support and encourage behaviors consistent with the company's purpose, values, strategy and business model. The board is responsible for explaining this alignment clearly to shareholders, employees and other stakeholders" says the FRC in its report.

The implications of both the 'alignment' and its 'explanation' are ever more critical, in today's social and economic climate – both in the U.K. and beyond.

The publication of this FRC report is the beginning of a debate in the U.K. at an even more important time for the investment climate, following that referendum vote. It has been quickly supplemented by information from a variety of other sources.

They include a report from the Institute of Business Ethics (IBE)*: Stakeholder engagement: values, businesses culture and society,* which contains a series of case studies detailing how companies such as TalkTalk, Unilever, BAE Systems and L'Oreal have brought ethical values to bear in dealing with stakeholders.

The IBE report also has an interview with Frances O'Grady, the first female General Secretary of the Trades Union Congress. If the U.K.'s new Prime Minister, Theresa May, is true to her words, expect to be hearing more from Ms O'Grady soon.

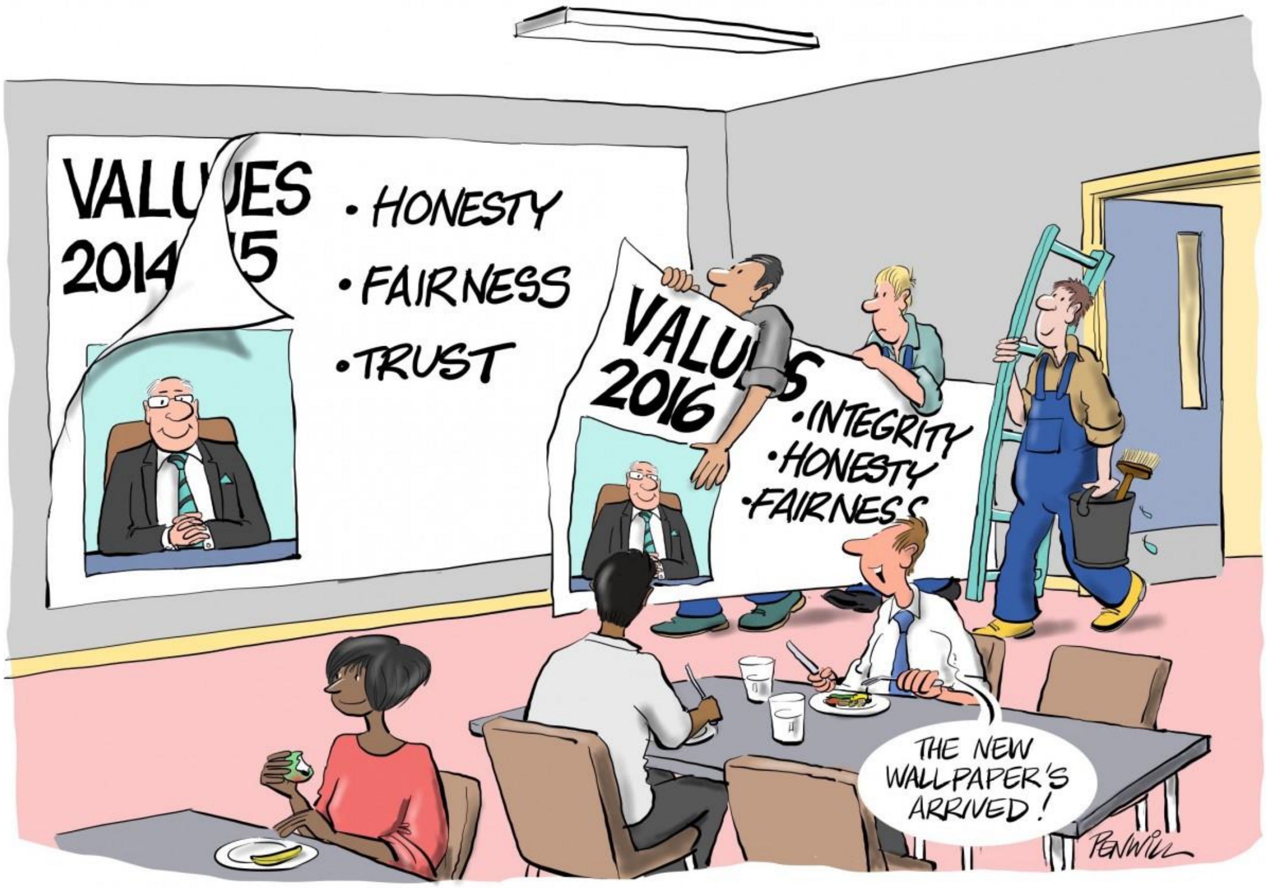
Meanwhile, a U.K perspective with more on this debate: "Nearly one in three (31%) of boards across the public and private sectors have not established or articulated what sort of corporate culture they want and only around a third (36%) assess the extent to which values are manifested in the behavior of all staff within the organization" says research by the Chartered Institute of Internal Auditors , also undertaken as part of the FRC initiative.

Ironically, financial services firms may be well ahead of the pack of listed businesses when it comes to establishing a definition (of sorts) on 'culture.'

Mercer's latest Global Financial Services Executive Compensation Snapshot Survey found that "most financial services companies are taking significant steps towards fostering a sound risk culture among their staff." Of the companies surveyed, 62% have carried out initiatives to penalize misconduct and non-compliance to a ‘great degree’, 60% can show evidence of setting the right tone at the top and 58% are communicating clear (risk) culture objectives, the consultancy said.

Independent Audit, also carrying out research as part of the FRC ‘culture’ project, has a report out too. They know my penchant for using cartoons to say quickly (and sometimes brutally) what words spend a long time getting around to doing, as some time ago I established a #CorpGov cartoon tradition on Sundays on Twitter – do look out for it, and join in.

The cartoon below is reproduced with thanks to Independent Audit. Speaking from this side of the pond, the real debate on corporate culture, I sense, is just beginning to get real.



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