Creating Positive Culture

Opportunities and Challenges

'A strong risk culture is crucial for integrating risk into day-to-day decision-making across an organisation to support its objectives. At this time of the pandemic, we must also consider the work environment. It's all very well to say you have an open-door policy, but that's a bit difficult when people can't see your physical door! The sharing of success stories in improving culture, as this publication of the FRC does, and the role-modelling of desired behaviours can help build success.'

Julia Graham, CEO, Association for Insurance and Risk Managers

'The Chartered Governance Institute UK & Ireland is delighted to have supported the FRC in this piece of work. Company culture is one of the critical elements of delivering a strategy or achieving a purpose that aligns with its values. Direction and leadership on culture need to come from the board, as required by Principle B of the Code, with the active support of the company secretary, who is in a unique position in relation to culture, having an interface with the board and line of sight into corporate culture in practice. The board must also ensure that the leadership take the appropriate lead on the core behaviours of the organisation. The culture set by the board determines how empowered employees are to do the right thing.'

Peter Swabey FCG, Policy & Research Director, The Chartered Governance Institute UK & Ireland

'Recent corporate failures continue to negatively affect business trust, making strong corporate governance and stewardship a central concern for management accountants and their organisations. While profitability is fundamental to any long-term business strategy, businesses must ensure that they have an effective organisational culture, strong governance and leadership to be successful and create long-term value. We must rethink how we look at organisational purpose to foster a strong business culture, encourage positive behaviours and promote accountability. Leaders should carefully assess what this looks like and how it is measured.'

Andrew Harding, FCMA, CGMA, Chief Executive Management Accounting, AICPA & CIMA

'Organisations have progressed significantly with the framing of culture: joining the dots between their vision, purpose, strategy, brand, values and behaviours, and how these are embedded into the experiences of their people, customers, partners and suppliers. It is also great to see that of equal importance is the recognition that measuring, embedding and evolving culture is a never-ending process. As culture runs deeper than you think, it requires sustained effort by leadership and management to create the environment, intentions and investment to drive the right day-to-day actions and behaviours.'

Niall Cluley, Managing Director, Dragonfish Consulting

We would like to thank all those who held roundtables to support this project:

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1   Foreword

Sir Jonathan Thompson
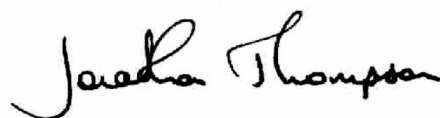Chief Executive Officer,
Financial Reporting Council

The FRC has been considering company culture for some years, starting with the publication of our report, Corporate Culture and the Role of Boards (2016). Since then, we have issued a revised UK Corporate Governance Code and Guidance on Board Effectiveness. These send a clear message that good governance is aligned to a positive corporate culture, and we have seen much more constructive engagement in the culture discussion as a result.

This report is an important next step. It demonstrates that by recognising the relationship between culture, purpose, values and strategy companies can strengthen their business models, better manage resources and be more equipped to face future challenges. We now have an opportunity to move the debate on and build on the changes that companies have already made.

This report draws on the experiences and views of leading companies and showcases some of the actions they are taking to better communicate their culture as well as link it to their strategic objectives. As a regulator, we believe that emphasising the importance of culture will lead to more open and insightful reporting, and improved access to capital and talent, boosting competitiveness and improving companies' ability to achieve sustainable success over the long term.

The pandemic has challenged the resilience and agility of some companies, with many having to swiftly adapt their strategy, business model and their ways of working. As a result, we have also seen changes in stakeholder and investor priorities, with a strong emphasis on the importance of environmental, social and governance (ESG) matters, particularly for the workforce and stakeholders. Areas such as wellbeing, flexible working and working constructively with stakeholders are now seen as more important than ever.

The proposed reform package from Government's consultation in the BEIS White Paper, Restoring Trust in Audit and Corporate Governance, is a vital next step in the process of reform, ensuring that all stakeholders have trust in the quality of corporate governance, reporting and audit.

2   Executive Summary

When the UK Corporate Governance Code (the Code) was reviewed and updated in 2018, directors were urged to ensure that the culture of their companies promoted integrity and openness, valued diversity and was responsive to the views of shareholders and other stakeholders. In addition, legislation was introduced to require companies to explain how they have engaged with stakeholders more widely via s.172 reporting.

This report aims to promote good practice and positive working culture in companies, bringing together a wide range of views from board directors, leaders, senior individuals from across different functions and workforce representatives. In this research, we were keen to explore how companies frame this culture, how they assess, monitor, embed and assure it, and what enablers and barriers they encounter.

This research was conducted to follow up on the FRC's Corporate Culture and the Role of Boards report (2016 Report), in line with our commitment to continue to work with our partners to encourage debate on culture, and to identify and share good practice. The key findings set out below recognise that positive culture should be attained through honest conversations and by building trust, which will support companies in achieving success over time.

Leadership should come from the top, through actions and attitudes, but the workforce must feel engaged and able to contribute. The board should ensure that the organisation's culture is aligned with purpose, values and strategy. The CEO plays an essential role in driving and embedding culture throughout the company. When managers are empowered and supported, they are critical to achieving culture change.

While companies are now collecting a vast amount of culture-related data and information, in many cases the benefits that can be gained from joining up across different functions are not being effectively utilised. For example, by encouraging greater cooperation and communication between HR, internal audit, ethics & compliance and risk functions, companies may be able to better assess, monitor and embed their culture. Timely implementation of any follow-up action points and regular assurance are equally important.

Creating a positive culture should improve performance. Trust, empathy and psychological safety are crucial to foster positive culture. Everyone should be encouraged to speak up, share concerns and have candid conversations. However, the key challenge for companies and their boards is to acknowledge that culture requires patience, openness and commitment to continuous development through any future changes to senior personnel.

One way to assess how companies are changing their culture is to look at reporting. The FRC's Review of Corporate Governance Reporting found that there was room for improvement in both the way that companies promote culture and how it is assessed. We intend to continue monitoring corporate disclosures in this area and build on this report by making available additional information and guidance for companies.

3   Methodology

This research was primarily based on a series of roundtables conducted in conjunction with a number of supporting organisations, including: Association for Insurance and Risk Managers (Airmic); The Chartered Governance Institute (CGI); The Association of International Certified Professional Accountants (AICPA & CIMA); The Chartered Institute of Personnel and Development (CIPD); The Institute of Business Ethics (IBE); The Chartered Institute of Internal Auditors (IIA); and The Trade Union Congress (TUC). We also collected views through a questionnaire which was circulate by The Investor Forum among their members, and a series of one-to-one interviews with board directors, conducted in confidence, to ensure independence from the FRC, by a culture consultancy - Dragonfish.

All together we have engaged over 134 entities and included views of 140 professionals involved in:

- company boards (Chairs, CEOs and NEDs)

- secretariat (Company Secretaries and Governance Officers)

- ethics & compliance

- human resource

- internal audit

- management accounting

- risk management

- investing

- and the workforce – through their union leaders

The findings were organised into key themes and practical examples, which will inform our future work. While there is no 'one-size-fits-all' when it comes to organisational culture, companies can learn from each other by exchanging ideas and examples of not only what went well, but also what posed a challenge in pursuing a culture change.

Fostering a healthy culture is beneficial to all companies, regardless of their ownership structure. The benefits of good corporate culture go beyond premium listed companies, and as such, our findings can also be applied more widely. This report will principally be applicable to companies but a wide range of stakeholders, including workers and investors, should also find it of interest.
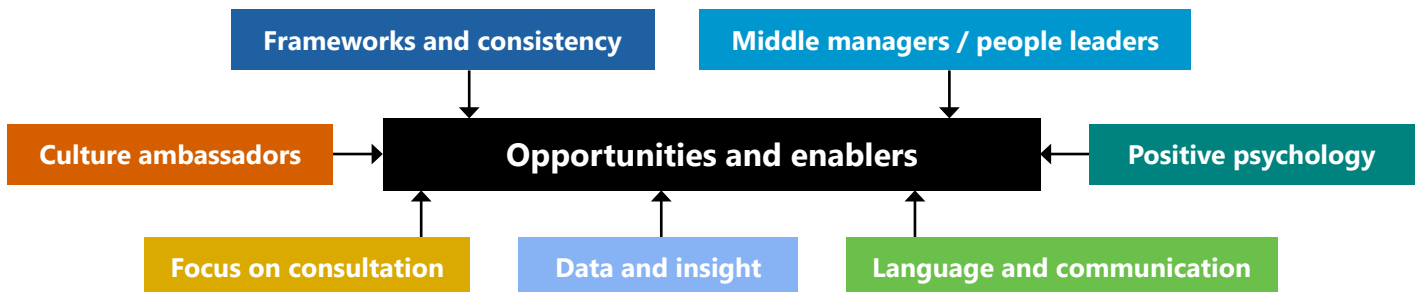
134
engaged entities

24
in-depth interviews

13
roundtables

8
supporting organisations

4 Key Findings

4a Opportunities and enablers

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│ Frameworks and consistency  │         │ Middle managers / people    │
│                             │         │          leaders            │
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┌──────────────────┐     ┌──────────────────────────────┐     ┌──────────────────┐
│Culture ambassadors│───►│   Opportunities and enablers  │◄───│Positive psychology│
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   ┌──────────────────┐  ┌──────────────┐  ┌──────────────────────────┐
   │Focus on consultation│ │Data and insight│ │Language and communication│
   └──────────────────┘  └──────────────┘  └──────────────────────────┘
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Frameworks and consistency

- show how all the elements of an organisation's culture (vision, purpose, mission, values, goals etc) fit and work together
- enable boards, leaders, middle managers and teams to understand the role they play
- act as a lens through which decisions are made and actions taken

Middle managers / people leaders

- drive change on a daily basis, given their focus on task, delivery and targets
- without enabling middle management, culture initiative is likely to fail
- can become a barrier if their targets are not aligned with company culture

Positive psychology

- nurtures workers' mindset and facilitates engagement/consultations
- creates safe environment for workers to raise their concerns and share ideas
- enables challenging discussions on the company's current and desired culture

Language and communication

- help to create common narrative
- when constant and consistent they enable embedding a shift in culture
- clarity and relatability are key

Data and insight

- enable boards and leaders to assess and monitor culture
- there is no one single measure or one single point of truth
- hard data should be supplemented with anecdotal evidence to put culture into context

Focus on consultation

- leads to more meaningful engagement
- more impactful in embedding culture change than a top-down approach
- it should be all encompassing, across multiple countries, departments and teams

Culture ambassadors

- support conversations about culture, helping to channel them down and across
- 'eyes and ears' of an organisation, reporting back strengths, weaknesses and the impact culture is having on daily operations
- should be drawn from across the organisation to represent diverse voices

4b Challenges and barriers
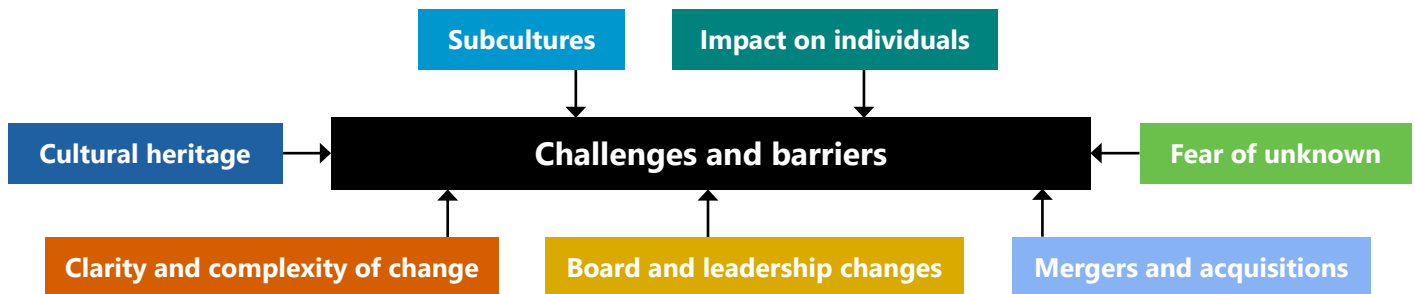
Cultural heritage

- entrenched behaviours and a strong culture, more likely for mature companies, with a long history, make it harder to navigate culture change, even with new leadership
- work with the existing culture, navigating the change subtly, to be more impactful
- focus on multiple small interventions; time and effort need investment

Subcultures

- for global companies, local cultures and customs may conflict with their organisational values, leading to undesirable behaviours and business ethics practices
- need to consistently communicate and interpret culture blueprint in a way that can be executed locally while still being a part of a common culture standard
- values that give flexibility to act upon them in slightly different ways are the key to connection

Impact on individuals

- what is important to people will differ between groups (age, gender, nationality etc)
- understand how the changes will impact different people and their roles
- demonstrate the benefits of change and address people's concerns; past and current experiences have a role to play

Fear of unknown

- most people feel more comfortable with the familiar
- try to truly understand conversations and behaviours in the organisation by creating an environment where people can freely speak up and feel empowered
- be prepared to be challenged and face difficult situations

Mergers and acquisitions

- culture misalignment between merging entities can be one of the main obstacles to overcome and could lead to no deal
- build culture audit into your standard due diligence process
- engage beyond the boardroom, reaching to middle managers and workers

Board and leadership changes

- a change at the top can lead to the change of an agenda/strategy
- continuity and transitioning are important to maintaining culture during times of change, including a robust code of conduct
- can become an enabler if the job description has built in cultural objectives in the process of succession planning

Clarity and complexity of change

- a cultural misalignment between outsourcing and hiring companies, leading to a different treatment of workers, including pay structure and performance assessment
- be clear on the culture workers should follow

5   The 2016 Report

The 2016 Report took a holistic view of corporate culture, outlining how greater consideration should be given to leadership, incentives and roles played by different stakeholders, for example. It also encourages organisations to act on their culture proactively - through regular assessment and monitoring.

This report builds on the seven key findings of the 2016 Report, by adding additional themes and broadening the scope. Most of the findings in the 2016 Report have been reaffirmed in this research, which would suggest that they reflect the most important attributes of what it takes to create a healthy corporate culture.

The following themes from the 2016 Report are referenced and linked throughout this report using the corresponding icons.

Corporate Culture	
	1. Demonstrate leadership: 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.
	2. Recognise the value of culture: A healthy corporate culture is a valuable asset, a source of competitive advantage and vital to the creation and protection of long-term value. 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.
	3. Be open & accountable: 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. This involves respecting a wide range of stakeholder interests.
	4. Assess, measure & engage: Indicators and measures used should be aligned to desired outcomes and material to the business. The board has a responsibility to understand behaviour throughout the company and to challenge where they find misalignment with values or need better information. Boards should devote sufficient resource to evaluating culture and consider how they report on it.
	5. Embed & integrate: The values of the company need to inform the behaviours that are expected of all employees and suppliers. Human resources, internal audit, ethics, compliance and risk functions should be empowered and resourced to embed values and assess culture effectively. Their voice in the boardroom should be strengthened
	6. Align values & incentives: The performance management and reward system should support and encourage behaviours 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.
	7. Exercise stewardship: Effective stewardship should include engagement about culture and encourage better reporting. Investors should challenge themselves about the behaviours they are encouraging in companies and to reflect on their own culture.

6   Framing Culture

As a Regulator we want to see high performing companies that are purpose driven and foster the conditions that create value for society, where the quality of relationships is important to the board and essential for success.

> *'Boards don't create cultures - the people in the organisation and communities in which they work do. Boards are responsible for identifying the values of an organisation and it is important to relate them to how their people and communities are thinking, feeling and being influenced.'* **David Nish, AC Chair, Vodafone Group Plc**

While we recognise the ongoing debate on the definition of culture, for the purpose of this report we will follow the definition in the FRC's 2016 report: *'Culture in a corporate context can be defined as a combination of the values, attitudes and behaviours manifested by a company in its operations and relations with its stakeholders.'*

The context in which culture is discussed is more important than its definition. Culture is often perceived as an umbrella term that encompasses, among other things, organisational purpose, values, ethics, beliefs, principles, philosophy, attitudes and behaviours, with a direct impact on an organisation's approach to how and where people work, its stakeholder relations, strategy and business model.

> *'You know a classic definition is: "It's the way we do things around here." There are much more complicated definitions of culture, but at the very heart of it is: how do people in the organisation feel about each other and feel about the organisation? What are they proud of? In a time of adversity, there's a real test of what the culture of an organisation is about. Do people look out for each other or not?'* **Robert Halton, Chief People Officer, Burges Salmon LLP**

This report emphasises the importance of creating a 'positive' working culture – one based on transparency, trust, respect and inclusion. A positive working culture can lead to organisational resilience and superior performance, while 'negative' or 'toxic' cultures may lead to internal problems, failure to attract and retain the best talent and reduced investment.

Leadership and management styles that encourage teamwork and open and honest engagement are vital. Actions that can be taken include having a sense of purpose, providing social interaction, putting things into perspective and celebrating success. To improve culture, leadership must also demonstrate long-term commitment as well as promoting and displaying attitudes and behaviours that support a positive culture. This should be underpinned by the introduction of new policies and practices that are often reviewed to make sure they remain relevant as both society and the workforce change.

The CIPD states that at the heart of positive workplace cultures there are a number of core areas of people management and development. These include:

- Investment in training and development to ensure workers have the skills to do their jobs competently and are legally compliant and can progress to reach their potential

- Policies that support employees' health and wellbeing such as proactive wellbeing programmes, effective absence management systems and early access to occupational health for workers who have health problems

- Policies and benefits that support people's work-life balance and ability to manage caring responsibilities through flexible and hybrid working arrangements

- Effective mechanisms for providing both direct and indirect employee voice

'If an employer doesn't have a positive culture that only causes negative experience, leading to more workforce sicknesses, grievances and lack of motivation.' **Ruth Hydon, Regional Officer, Unite**

Recognise the value of culture

Setting or framing a positive culture is more complex in those instances where the workforce is employed by one organisation but are outsourced to do their job at another place of work, for example catering staff. If the two organisations approach their culture differently, this may lead to the employee feeling confused which framework to follow, unsure how to raise concerns and feeling undervalued with no sense of belonging. To prevent such situations, companies should be clear about their expectations from all workers and address any potential disparities as early as possible.

6a Making culture change a success

Achieving culture change is complex and difficult but is not insurmountable. Boards drive culture but only through effective stakeholder engagement, based on a two-way dialogue, and clearly setting out the objectives of the change, achieving the goal should be possible without necessarily overhauling the structure of the company.

One leader explained that culture change needs patience; it is a long journey of constant and consistent practices, while another one believes that deliverables can change, metrics can change, but everything that enables the deliverables will likely not change. This recognises the importance of clear values and behaviours in enabling performance.

'My golden rule is that culture is always more important than structure. We sometimes in boards and management have a tendency to reorganise and restructure to meet specific challenges. But it's often more effective to talk to people and engage them in a conversation instead of changing the whole structure of the organisation, which usually solves problems you set out to solve, but causes other problems.' **Leif Johannson, Chair, AstraZeneca PLC**

Culture change can be achieved by:

- working within the existing culture, particularly where there is a strong culture stemming from the company's heritage

- nudging and evolving culture rather than going for wholesale change

- getting the language and communication right – there should be consistency in messaging and signalling, including active role modelling

- engaging people in the change so they feel like they are a part of this process – consulted, not directed

- tapping into emotions, values and ambitions to embed the changes more impactfully

'To achieve a successful culture change programme, you need people above and around to model desired behaviours.' **Deborah O'Riordan, Practice Leader - Risk Solutions, QBE Insurance Group Limited**

Culture change can be driven by business priorities and the opportunities that this presents. For example, as part of a strategy review and business reorganisation, one company took this opportunity to align their values and behaviours with the new structure and placed increased focus on their stakeholders, with the company's culture firmly set around this.

'We can't talk about culture change, we as leaders have to look at ourselves, we have to be self-critical and work on ourselves (including me),and be conscious about the culture and where we want to take it.' **Jakob Stausholm, CEO, Rio Tinto Plc**

'You need to make a heart-brain connection to achieve a cultural shift because people tend to change their behaviour based on emotions rather cold hard-headed logic.' **Sandro Boeri, Head of Staff Development and Culture Assessments, Deutsche Bank AG**

'Willingness to be vulnerable and courageous in leadership is an important enabler. Companies that mastered that are better at assessing and embracing cultural shift.' **Perrin Carey, Co-Founder and CEO, CoSteer ™**

7 Roles and Responsibilities

'The trick for leadership is to get strategy, purpose, values and behaviours aligned. It's no good having a great purpose if the day-to-day behaviours don't reinforce it or help to deliver the strategy.' **Sir Ian Davis, former Chair, Rolls-Royce plc**

To achieve a positive working culture all elements of the organisation must come together with mutual understanding, a shared drive and determination that is underpinned with the necessary support. The board should set the tone, middle managers given clear objectives to prioritise and enact the change, and the workforce be empowered to engage and speak up.

From the top

'Boards play a critical role. Consistent messaging on culture, role modelling desired behaviours and ensuring robust corporate governance are key to setting the right tone. Boards are also crucial in instigating/instilling appropriate leadership across the organisation.' **Richard Gillingwater, former Chair, SSE plc**

Section 172 of the Companies Act 2006 states that directors should have regard to among other things the interests of company stakeholders, including workers, and ensure high standards of business conduct – to maintain an organisation's reputation. Fostering a positive culture is an important way to discharge these duties.

On culture matters we have found that the extent of board involvement varies – from influencing and shaping, listening and understanding and to a lesser extent only questioning. This variation in approach suggests that many of the most important companies within the UK still struggle to prioritise culture throughout their organisation.

For some boards culture is a standalone agenda point, being discussed once or twice a year, while for others culture underpins all discussions and decisions. Through our polls we found that engagement can also depend on the availability of resources, industry sector, and the level of maturity of the culture debate. Whatever the approach culture is a substantial item and should be given appropriate consideration at board meetings.

'Culture is a common thread through all our conversations. However, as there isn't just one harmonious culture – it's driven locally, you have to get out of the exco/board meetings and be more visible and accessible to employees to understand the different views at each location. You have to break it right down into your organisational planning. You have to work with teams on where they are now and where we want to go. Just going to talk about culture won't cut it.' **Vanda Murray, Chair, Marshalls plc**

Alignment between perspectives is important. The chair needs to be supported by the board and the CEO by their organisation. Where there is interest from a board and high levels of trust in leadership, we have found that that some board members are engaging more closely with company operations. Direct engagement with people across the organisation through listening events and networks helps demystify the culture within the company. Engaging first-hand with employees and managers offers insight that can assist NEDs making appropriate challenges at board-level and ensure that culture remains under discussion.

'I am really enthusiastic about the non-executives actually connecting beyond me, to the business unit managers and the people beyond them, because it gives the NEDs more confidence in the veracity of what I'm telling them. So, I think to a large extent that's about exposure, transparency, communication.' **Mike Speakman, CEO, Keller Group plc**

Demonstrate leadership

'Culture is the tone at the top, mood in the middle and buzz at the bottom.' **Seamus Gillen, Founder, Value Alpha**

All board members should participate in promoting culture and changes to board membership should not be to the detriment of it. Recruitment to the board, including the top executives, and the importance of succession planning are often overlooked. By integrating company culture into the job descriptions companies are more likely to receive applications from individuals who value and promote culture. Without such integration there is no guarantee that successful candidates will consider culture in the same way as their predecessor.

As an example, two companies reported how the change of their CEO had a major effect on organisational culture. For the first one, the change led to culture being deprioritised and the discontinuation of existing initiatives. For the second one it was the opposite, a CEO making culture his key objective. This demonstrates that the CEO is instrumental in driving a positive culture and making the right appointment to this role can have a significant effect on a company.

Along with boards, committees are playing a larger role in culture – often as a way of sifting information and passing issues upwards. Unlike the audit, remuneration and nominations committees and in some cases risk committees, there is no requirement to have a culture committee or ensure that culture matters are considered as part of a committee's remit.

Companies must decide whether a dedicated committee is appropriate, or the remit included elsewhere. At the board-level, this could be audit and/or risk committees – who generally consider culture through the risk management lens, but also ethics, compliance and conduct committees. The CIPD has recently published a **report** arguing that remit of the remuneration committee should be expanded to include review of culture, alongside workforce pay and other people matters, rather than solely being focused on executive pay.

> *'The new focus on culture has made us think much more about what we communicate to people. We have set up a new board-level committee called the Customer, Conduct and Ethics Committee. Our colleagues present to that committee the good things we're doing, which has unified us, as well as the things that aren't going so well.'* **Malcolm Je Le May, CEO, Provident Financial Group plc**

How culture is presented and considered within a company will affect the importance it is given, and the amount of resource allocated to it. We found that most boards only discuss potential risks stemming from their organisational culture, with only a few identifying the positive aspects and opportunities that it can bring. By changing the rhetoric of how culture is perceived and by finding the underlying commonalities between different cultures and how they are approached across all functions, companies should be better equipped to benefit from a positive working culture.

> *'Risk culture is already well looked after by risk professionals – that doesn't mean that the challenge of its embedding is straightforward or has been achieved. It is the broader implications of organisational culture, beyond the standard risk management approach, that is the big challenge. The risk profession needs to work with other disciplines to have culture properly recognised for what it is: a potential risk and an opportunity. Work programmes also need to be in place addressing this business-critical issue – an area of board and management focus.'* **Seamus Gillen, Founder, Value Alpha**

To help risk managers understand the broader aspects of culture, including the opportunities, Airmic will soon publish a white paper. The guidance will be based on findings from the roundtables jointly organised with the FRC and supplemented by Airmic's further research in this area and own expertise.

'We want to see genuine leadership on culture from Execs, with their focus on implementing and guiding values through the way they lead.' **Sir Peter Bazalgette, Chair, ITV plc**

The middle

'Values and behaviours development has to come from the bottom and the top, and what usually makes or breaks a culture is not the top or bottom, it's the middle. Everyone talks about leadership at the top, but the trick is to mobilise the middle – because they are the blockers usually. They often block top-down initiatives and bottom-up initiatives. That's true of most organisations. The middle is key.' **Sir Ian Davis, former Chair, Rolls-Royce plc**

While culture is influenced by leaders, the experience of culture is shaped by middle management. During times when culture needs attention, it is important to focus on those who are responsible for the delivery of the company's goods and services – following processes, established systems and given targets, but also responsible for teams who deliver against targets. Middle managers are fundamental to successful culture change and embedding through the conversations they have, the actions they take and the values and behaviours they encourage.

Influencing culture means creating deeper relationships, adopting a collaborative approach to enable collective problem-solving and building trust as a basis for teamwork. This usually requires a conscious effort to strengthen and enable managers, through training and support systems, to create a positive working culture within teams, based on empathy and psychological safety, where people are encouraged to share concerns and have candid conversations.

The CIPD **found that** people management is key to employee engagement and people's health and wellbeing, including the prevention and management of stress. It is also critical for the prevention and management of conflict in the workplace and to the extent people learn and use skills in the workplace.

'Good people managers are central to efforts to boost inclusion and diversity as it is their decisions and behaviour when recruiting, managing and promoting staff which will decide if HR policies are applied appropriately and if workplace culture really is inclusive.' **Dr Scarlett Brown, Policy Consultant (Corporate Governance), CIPD**

Middle management must feel empowered and fully equipped to deal with challenges coming from implementing and embedding cultural changes. In order to achieve that, organisations need to invest in their training and development.

The CIPD has also found that too many individuals are promoted into management positions because they have good technical skills, not because they have any experience or aptitude in managing others, and then receive little or no training. This is concerning as all too often the success of a programme aimed at improving culture is reliant on management delivering change. When companies invest in talent this should not only be in their expertise for the job but also in training as people managers.

The workforce

'In one organisation we focused on the one team mindset, with regular feedback on our culture, and a bottom-up approach. By listening to our workforce, we solved many issues together. And 12 months on we're seeing the benefits – less attrition, higher engagement, more profits.' **Tea Colaianni, NED, Watches of Switzerland Group PLC & DWF Group PLC**

Many now acknowledge and understand that for culture change to be successful and really land in the organisation, workers need to feel involved in the process and their voices heard. Many companies have reported on their approach including asking the workforce to input into culture change.

'Driving a cultural revolution is entirely dependent on the big people managers – the middle management population, that have the opportunity to drive change. They can be the most difficult population with an established management model – task focused.' **Nick Hampton, CEO, Tate & Lyle PLC**

Spotlight – Inclusive, employee-led approach to culture change

Prior to 2020, values at Drax Group PLC were principally a top-down view of culture. The view was led and shaped by the leadership team and how they saw the culture. The debate on employee engagement in 2020 triggered the company to change its stance and ask colleagues to define what they felt it meant to work for it.

Part of the approach was to use the annual engagement study as well as quarterly 'my voice' forums where the CEO, Head of Human Resources and the Chair asked employees for views on a number of issues. It was in these 'my voice' forum that topics of culture and values were discussed.

Through the forums, the company ended up with five clear themes for its culture and values. This approach was more meaningful because it was more bottom-up, from the employees' own perspectives rather than something that was imposed from the top. The five themes were:

- We care about what matters – climate change, safety, personal wellbeing
- Can-do attitude – practical, innovative, solution-oriented
- We see things differently – carbon capture
- We are a company that listens – to ideas, complaints
- We do what we say we're going to do – we are straightforward

The overriding/overarching theme that came through from the forum was **Integrity**.

Workforce involvement was one of the key themes of this research. The Code, through Provision 5, suggests direct engagement mechanisms companies should be using to understand the views of their workforce. These methods are usually combined with data and insights gathered through surveys, forums, special groups and indirect engagement.

The workforce can often be a major driver of culture change. The use of advisory panels or forums allows employees to engage directly or through their representatives where honest views and experiences are channels upwards without the fear of adverse consequences – providing appropriate safeguarding mechanisms have been put in place.

Some companies also reported instances where the initiative to promote company culture, values and behaviours came directly from their workers. So called 'culture champions', 'brand ambassadors' or 'change makers' can reach those on the ground, using their own words and rhetoric which may be received as more authentic and relatable.

'Having ethics ambassadors – an informal network of people across all business units who are considered key influencers – can prove very helpful in detecting potential red flags but also promoting the right behaviours.' **Ena Okada, Manager, Sustainability and Compliance, Nikon Europe**

This approach has helped several companies to rearticulate their desired values, behaviours and corporate purpose, to empower and build a sense of unity among their workers, and even detect potential red flags. This approach can help companies to reduce the likelihood of non-compliance and reputational risks.

'People who apply to join our employee voice group are expected to be ambassadors – giving the views of their colleagues and giving others the route into sharing their views.' **Vanda Murray, Chair, Marshalls plc**

Spotlight – Change Makers

At Sellafield Ltd, Change Makers are a group of people across all grades and roles passionate about role modelling the behaviours outlined in the company's manifesto and helping others in the business to do the same. They are involved in different projects to help embed the manifesto, engagement sessions and peer-to-peer conversations. All on a voluntary basis alongside their day job.

The manifesto was created from conversations with over 400 people across the business who shared their views of the current culture at the company and discussed what behaviours they wanted to see in the future. With this information the manifesto was written and with the help of nearly 250 change makers engaging with the 11,000 staff, everyone has the opportunity to understand, discuss and role-model the manifesto.

The change makers are essential for the delivery of the nine behavioural themes, the purpose of creating a clean and safe environment for future generations and nuclear professionalism. A small group of behavioural change makers are aligned to each theme and work directly with the CEO's office and executive team to lead on communication, engagement and tangible actions to embed their themes.

They take an active lead in the business, driving the change that they want to see, which has allowed this positive culture to spread to the harder to reach areas of the company. There is still a long way to go but more and more people are joining the change maker community as they are passionate about making the company as they would like it to be.

Trade unions and worker representatives

'It's difficult to have trust without proper employee representatives as individuals can be reluctant to raise concerns for fear of repercussions.' **John Earls, Director of Research, Unite**

Workforce representatives, through a recognised trade union or other forum, can act as a facilitator to encourage more engagement from employees. They can also assist culture change by actively supporting culture monitoring and embedding. If engaged in the process in an open, meaningful and timely manner, they can review company proposals and, where appropriate, promote them to the workforce clarifying the reason for culture change and avoiding potential misunderstandings or confusion.

'How does a company even know what culture it has and how it impacts its workers? Just a survey can be distorted if there is no trust between an employer and its workforce. That's why "trust" is a key issue when it comes to culture and trade unions can be instrumental in building this trust, for example being involved in creating staff surveys or consulted on their purpose and intentions.' **Martin McIvor, Research Officer, Prospect**

For example, a large, multinational company engaged one of the main trade unions to help with filtering its employee survey results. By being involved early in the process, with a full view of the questions asked and intentions behind them, the union was able to endorse the survey and promote participation. This approach gave workers confidence that all levels of anonymity were in place, which led to the highest response rate ever.

After the engagement, is important that any feedback received is followed up by a timely response, such as an action plan and its implementation, to address areas of concern. If a company decides not to disclose results of its engagement campaign, due to negative outcomes, for example, or does it several months after views were sought, this may have disenfranchising effects on the workforce and lead to the loss of trust, impacting the culture and forfeiting opportunities for them to step up or offer solutions.

Trade unions can also be a driver of change by facilitating engagement through a platform where workers can share their ideas, concerns and experiences in confidence, via elected representatives, without a fear of repercussions.

Spotlight – Direct engagement through workers forum

The Union of Shop, Distributive and Allied Workers (Usdaw) and Tesco plc have a well-established joint forum process, which goes up from local to regional and then national level, with elected representatives.

At national level there are over 50 representatives who can have open conversations with business leaders to raise suggestions and concerns. Appropriate structures have been put in place to ensure people felt confident that they can be honest in expressing and sharing views and experiences of their own and of their colleagues who have elected them as their representatives.

Workers' opinions gathered by these means have been significant for the business, with engagement beyond staff surveys where workers can meet directors in person, proving to be more effective.

'Trade unions can bring solutions – not just problems. If there are problems around corporate culture, we are the right partners. If they have concerns about grievances, we are a good way to engage. Our role is to be translator that helps management in addressing issues.' **Donna Rowe-Merriman, National Secretary, Unison**

8   Transparency through Honesty and Trust

Based on honesty and mutual understanding, relationships throughout the organisation should support a culture of transparency around key decisions and build trust at all levels.

At the board-level

Fundamental to maintaining an effective board is openness between executive and non-executive directors (NEDs). With most board meetings being held only a handful of times a year, there must be effective challenge and scrutiny of information. Leaders must be honest about not only the company's achievement but also the challenges that might lie ahead. Such openness will help NEDs to understand why decisions are being made.

Leaders, through their decisions, actions and interactions, need to exemplify transparency, honesty and trust, and other organisational values and behaviours, and the board needs to hold them to account on this commitment. Their visibility with employees at all levels of their organisations is integral to successful embedding of culture. On the contrary, if there are mixed messages coming from the top about culture, values and behaviours, this may lead not only lead to confusion but also distrust between workers and company leaders.

> *'You can have a great culture, but still have a few bad actors – are the leadership team sending the right messages and role-modelling the desired culture? Workers test their organisation's culture by their leaders' words, actions and behaviours.'* **John Rishton, AC Chair, Unilever PLC**

Actions that have helped enable transparency and bolster trust in company leadership include using board 'deep dives' that put a spotlight on a specific topic, business unit or location, and look beyond headline figures that may give a false sense of comfort. They can be used to better understand issues of the moment, find out more about programmes/projects, and to deepen understanding of the data presented to the board by executives.

To strengthen the system of controls and to build trust into the data reported to the board, different functions across an organisation, including audit, risk and ethics & compliance, can and should periodically do deep dives. Ensuring a degree of professional scepticism and inquisitiveness is key to be able to scratch below the surface.

> *'Organisations that don't do deep dives into their culture, tend to find systematic failure in their risk management, often linked to people and behaviours. Therefore, it's a great opportunity for the risk management function to take a lead on driving programmes around cultural change, with the appropriate tools and methodologies. That's not to say that others shouldn't be involved.'* **Tom Teixeira, Partner, Arthur D. Little**

In one company deep dives were initiated by the Chair, giving board members an opportunity to go out into the business to meet people to listen to their challenges and ideas. By asking probing questions, directors should be better equipped to consider whether company culture is having a positive impact on strategy. With clear objectives deep dives are far more effective than ad-hoc site visits, which often feel *'staged'*.

That is not to say that site visits should never be used. Some have said that this form of direct engagement helped them to reach out to workers on the ground, experience the culture first-hand and build that *'sense of connection'*. However, boards should be cautious.

Be open & accountable

'It's dangerous and wrong to always put a positive spin on everything, you need honesty about situations to make positive change.' **Rupert Soames, CEO, Serco Group Plc**

Our review of workforce engagement published in 2021, stated that without a detailed information, it is impossible to know whether the visit offered structured and substantial discussions, leading to genuine insights from the workforce being fed back to the board, or was it simply an informal lunch at the site, where there was a general chat with a small number of staff.

However, another company gave an example of how a reverse mentoring can in fact turn a site visit into a more meaningful and insightful experience. By proactively taking the time to walk the floor and connect with people on the front line, it helps to gain a different perspective.

Across the organisation

'Sometimes there are different appetites for transparency across an organisation. There is a need for management to be honest about what is going well and what isn't.' **Dianne Burke, UK Ethics and Compliance Manager, National Grid plc**

There is a general consensus that leaders need to be open and accessible with workers and other stakeholders, ensuring they feel listened to, trusted and empowered. Such engagement, through a debate, leads to more meaningful discussions, greater accountability and positive working culture.

The pandemic posed a challenge for many leadership teams, with some devolving aspects of decision-making to local teams to enable them to respond quickly to local requirements, particularly around wellbeing and safety measures. By empowering local teams to make these decisions senior management are demonstrating trust in local management.

Codes of ethics and conduct set out the standards of behaviour expected from workers. Such codes are useful, especially in the time of ambiguity, but they should not be used in isolation and are part of a package of engagement measures or tools to build transparency and trust.

Communication events

Regular communication events give leaders an opportunity to be honest about the issues that are affecting the company and for workers to ask questions, which in turn helps to identify emerging themes and areas of concern. They also help managers to assess the level of culture embedding and encourage transparency, integrity and mutual understanding. For example, focus groups, run with an intention to consult rather than dictate, are more effective than town halls, newsletters and intranet information, which help to reach a greater population of workers, but are still seen largely as a form of information campaign.

'Discussion in a group allows things to be unpacked and challenged: How will things work in our team? What are the boundaries? How can we deal with challenges? Talking about the practicalities gets everyone on the same page, and helps the message sink in.' **Deborah O'Riordan, Practice Leader, Risk Solutions, QBE Insurance Group Limited**

However, to understand staff motivation and emotions more fully, targeted work is necessary. Annual surveys can indicate where there is support or concern about high level issues, but using them alone to measure company culture is likely to give a false sense of security. Pulse surveys, on the other hand, which focus on a specific issue, help companies to contextualise the feedback and make better decisions at a particular point in time. Many companies moved to this form of staff engagement during the pandemic, concerned about their workers' health, safety and mental wellbeing.

'Employers being genuinely open about challenges and engaging trade unions help to embed open culture.' **Dominic Hook, National Officer, Unite**

The alignment between what leaders say and do, together with expressed empathy, can help to build workers' trust and reinforce transparency, leading to greater engagement and commitment. For example, during the pandemic, many leaders demonstrated solidarity with their workers, but also suppliers, shareholders and the communities in which they operate, by taking a voluntary pay cut or giving up their bonus awards. Although there was some initial scepticism, the gesture was generally well received and seen as a powerful message.

$$(\text{Say} + \text{Do}) \times \text{Empathy} = \text{Trust} + \text{Transparency}$$
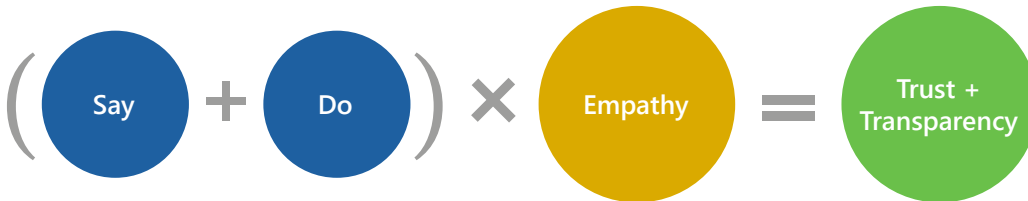
Trust in leadership is further improved when workers have the ability to raise concerns in confidence and, if they wish, anonymously. This is in line with Provision 6 of the Code. Effective speak up culture needs to be supported by reporting mechanisms directly to the board.

While almost all companies have a whistleblowing hotline, what is often missing is a *'listen up culture'*, where management and senior staff have a responsibility to act based on a well-run and clear process. Following a prescribed process with independent intervention helps build confidence that matters will be dealt with in an appropriate and timely manner.

8a Creating psychological safety

'It's about being part of a bigger collective and people having the confidence that they're in a safe space to actually share views and ideas in a scenario where they'll be listened to and it will be inclusive.' **Mike Speakman, CEO, Keller Group plc**

Creating safe spaces that encourage people to engage with a focus on bolstering two-way communication is key. Organisations reported having several committees and groups that placed emphasis on providing a voice for underrepresented colleagues. Establishing, sponsoring and engaging with workforce forums and groups, as well as culture ambassadors, was seen as a helpful mechanism. Such approach was said to promote a better understanding of how culture, underpinned by values and purpose, resonates across the organisation, ensuring meaningful conversations and feedback.

Input received from those groups needs to be channelled right to the top, for boards' and leadership teams' further consideration. Companies should also report, internally and externally, on how received views informed their decisions, and what was the follow-up. Such transparency and openness allows stakeholders to understand the decision-making process and encourage participation. It also helps to build trust, which is essential in fostering transparency, effective challenge and achieving psychological safety.

'For staff to feel that they are genuinely being listened to, without prejudice or jeopardising their career, trade unions should be involved. They can have discussions openly with the CEO and senior management and talk about what is really happening in the organisation; reps will hear directly from staff who will not otherwise speak up. Site visits, on the other hand, are not the right way to evaluate culture as people are aware of the visit and on their best behaviour.' **Dominic Hook, National Officer, Unite**

It is also important that those engaging in groups acting as ambassadors or standing up as employee representatives are not seen only through that lens. Honing their talents within the company and providing opportunities for development and promotion are equally essential.

For a few companies, the use of consultants or trade unions who offer an external perspective was perceived to be important in identifying challenges, blind spots and opportunities, along with pointing out examples of good practice. This independent guidance helps organisations to open up, by driving conversations about culture, and supports creation of a strategy, followed by internal and external communications.

8b Equality, Diversity and Inclusion (ED&I)

A positive culture is underpinned by embracing ED&I throughout the organisation. Demonstrating a commitment to it both shapes culture and is central to driving change. However, ED&I will only be a true enabler if it goes beyond setting and achieving binary targets. Equally, supporting various societal movements as they emerge, without considering long-term implications or engaging with those most concerned, can have the opposite effect – especially if not followed by any tangible actions and positive outcomes.

'Diversity of thought is critical to promoting a positive culture. Interestingly there are several organisations that talk about "culture fit". What this means is that we bring in more people just like us. Instead of culture fit it is about "culture add"'. **Tea Colaianni, NED, Watches of Switzerland Group PLC & DWF Group PLC**

ED&I is much broader than a specific protected characteristic. It must be at the heart of the company and needs long-term investment from senior management. It has also been recognised that ED&I, just like culture, is not static. It shapes as companies grow their workforce and become more international, but also as social norms and the regulatory frameworks evolve over time. Several companies have said that a genuine and measured approach to addressing the evolving ED&I landscape is crucial, with empathy and compassion being at the centrepiece.

'Diversity is a key driver for us, especially as the workforce evolves over time – it's a constant conversation to really challenge ourselves to do more.' **Vanda Murray, Chair, Marshalls plc**

It is essential that there is a common understanding of what is meant by ED&I and what it encapsulates. This includes recognition of individual strengths, but also respecting peoples' differences and creating a culture where everyone is valued for who they are and what they do. This will lead to greater participation and commitment.

For one company, ensuring their employees are representative of the communities in which they operate is very important and builds a relationship between the company and wider community. This approach should also lead to greater embedding of ED&I with organisational culture, especially for global companies.

By harnessing the strength of their entire workforce, companies can foster inclusion and encourage dialogue to help individuals make sense of their own feelings, thoughts and actions.

Aligning and embedding of ED&I with culture

Global companies, in particular, appear to place much emphasis on community representation in the local workforce. This is sometimes driven by local laws. In some cases, this also extends to ensuring community members are put through internal talent programmes and are considered for internal promotion opportunities. However, the global nature of some companies should also be reflected in their boardrooms. By being representative of the communities in which they operate, while keeping in mind legal requirements, companies can demonstrate how their culture is aligned with their strategy and embedded into their succession planning.

'Geographic differences when it comes to values and behaviours can be a challenge and for that reason you need a diverse board to understand complexities of cultural diversities across different geographies.' **Alison McFadyen, Group Head, Internal Audit, Standard Chartered PLC**

Where decision-making sits within the local teams, it is important for organisations to maintain the consistency of approach, being mindful of local differences. This includes equal recognition of the ED&I principles and the alignment with culture frameworks and/or corporate culture principles. Such approach gives greater confidence in locally generated ideas, while ensuring that people can feel included and appreciated for their contributions.

Companies should also be mindful of subcultures that can arise due to geographical differences between regional offices or contrasting working styles between different teams in one location. Whatever the cause, the underlying issues should be addressed.

'We need to recognise that not every individual wants the same things. People have different motivations related to work and this must be reflected in our culture.' John Rishton, AC Chair, Unilever PLC

> *'Subcultures can be a real challenge, especially when it comes to the ED&I agenda. The goal is to get to the same level of expectations from people across the business.'* **Paul Skinnider, Senior Internal Audit Manager, Taylor Wimpey plc**

ED&I is a rapidly evolving area and as such boards should be closely monitoring how it develops and what are the risks and opportunities associated with it. For example, the IIA is currently undertaking research on corporate culture through this lens. The aim of the project is to encourage internal audit functions to do more assurance work in the organisational culture space, including to support boards in meeting the new requirements on corporate culture in the Code. This will update and build on the IIA's previous **report**, which was published in conjunction with the 2016 Report. With its new report on corporate culture and the role of internal audit due to be published in early 2022, IIA intends to provide fresh insights on internal audit's corporate culture journey.

'The best test of a company's culture is how it treats its workforce. If workers are valued and feel secure, they will have faith in the company's values and be confident in reproducing them in their work. A negative culture discourages people from putting their heads above the parapet in case it backfires. It's hard to create a positive culture if some people in the team don't work for the company itself. Companies should consider their employment model as a first step towards creating an inclusive, fair culture.'

Janet Williamson, Senior Policy Officer, Trades Union Congress

'The Institute of Business Ethics is pleased to support the FRC in promoting a stronger focus on corporate culture. For the IBE, a good culture is an ethical culture, where purpose and values combine to deliver ethical behaviour. The IBE shares the FRC's goal to identify and share the best business practices in promoting, embedding and measuring culture. Board members must show leadership, working closely with their companies' ethics and related functions to ensure the best practices are adopted. The IBE is happy to support and facilitate exchange of good practice.'

Dr Ian Peters, Director, Institute of Business Ethics

9   Clear and Consistent Messaging

Aligning culture language

'There needs to be consistency in messaging. You can't have different people saying different things in an organisation. You need to have alignment of leaders. Sometimes it happens naturally, sometimes you need to work at it.' **Tea Colaianni, NED, Watches of Switzerland Group PLC & DWF Group PLC**

Due to this plurality of views on how to frame culture, it is helpful for companies to agree internally what they mean by culture and why it is important for their stakeholders – an approach that can be applied consistently across their organisations. This includes having a common understanding on the components that make up organisational culture, such as purpose, values, behaviours, vision and mission.

How companies frame their culture and how this is communicated will act as a *'compass'* for their people, influencing how they think, act, interact, engage and feel. Leaders and managers should articulate the message clearly using language that is relevant and relatable to all. This approach builds trust through the consistency and competency of leadership being able to articulate cultural norms in a clear and meaningful way.

For example, one company, when undertaking a culture audit, framed the project around business risk, on the advice of behavioural psychologists. Using this term was felt to be more relatable to those involved and ultimately helped to extend the scope to the group's compliance function. They also established a designated board-level committee. Altogether, this has led to the organisation's increased focus on culture and better coordination of any follow-up actions in this area, including corporate affairs and HR functions.

Constant and consistent messaging – internally and externally, and across all levels of the organisation, is key to culture embedding. At the board-level, there are some cited examples of company purpose and values being printed on the first page of board papers – to better guide discussions, or being always addressed as the first agenda item.

'It is key to have a consistent leadership message around culture and constant communications.' **Andy Cosslett, Chair, Kingfisher plc**

Culture blueprints and frameworks

To provide greater clarity and alignment between company purpose, values and strategy, many companies developed a blueprint, also referred to as framework. The aim is to show how all the elements of culture fit together and work in harmony.

They act as a tool to fuel conversations across the organisation and drive a coherent narrative. They also enable leaders, managers, teams and individuals to understand the role they play and act as a lens through which decisions are made and actions are taken. As such, it is key that they are embedded into the decision-making process across different functions and regularly referred to.

Spotlight – Memorable values

'Our values all begin with the letter C. There is something incredibly powerful about memorising or memorialising them – Care, Commitment, Community and Confidence.'
George Culmer, Chair, Aviva plc

Values should resonate and be real for employees. Everyone has a role to play in the success of an organisation and employees need to feel connected to the values and able to demonstrate the behaviours in their day-to-day actions and interactions. Aviva plc has brought this to life through a video where employees share their own experiences through storytelling.
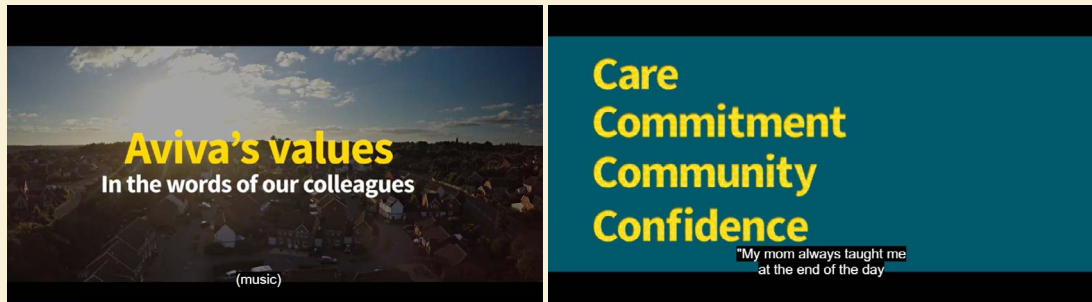
Culture blueprints and frameworks are often accompanied by a supporting culture narrative, playbook or deck. As an example, United Utilities Group PLC, through its culture framework, visually represented how its purpose, values and vision come together, and discussed impact on some of its stakeholders – see Appendix 1 on page 36.

Top five reasons why culture blueprints and frameworks help:

- **One shared view** – ensures one shared and consistent view and language around culture across countries, sites, functions and teams

- **Strengthen emotional connection** – provides everyone with an opportunity to connect with the culture and understand the role they play while supporting individual goals and objectives, helping them to understand what that means to them in their day-to-day jobs/work

- **Reinforce behaviours** – acts as a reminder around values and behaviours, reducing the need for interpretation and reinforcing positive behaviours that matter most

- **Improve decisions** – often serves as a lens through which strategic and everyday decisions are made, driving actions

- **Join the dots** – helps teams and individuals to join the dots, to understand how all the component parts of culture work together

Spotlight – Culture framework

The Marshalls Way, the culture framework of Marshalls plc, has evolved over time and includes the company's vision, purpose and behaviours. It has been made more accessible to employees to ensure they truly understand what it means to how they should think, act and behave.

'The framework empowers and supports people to help each other, it's a practical tool to help people to do the right thing. It has to be owned by everyone.' **Vanda Murray, Chair, Marshalls plc**

Please see **Appendix 1 on page 37** for pictorial representation of its framework.

Organisational culture, demonstrated by desired behaviours, needs to be embedded through policies and procedures, often encapsulated in the code of conduct. This form of cultural framework is primarily designed to educate workers on company values and desired behaviours, with the objective to uphold high levels of ethics and compliance across an organisation, and often aligned with other programmes.

'The 2018 Code quite rightly emphasises the important responsibilities of boards in monitoring, assessing and promoting company culture. Internal audit functions have a vital role to play in supporting boards to meet these requirements, by providing independent assurance on culture and delivering reports, on what is increasingly being viewed as a business-critical risk. It is very encouraging that many are already at the cutting edge of providing such support, however, if boards and audit committees aren't yet receiving it, we would encourage them to proactively seek this from their internal audit functions.'

John Wood, CEO, Chartered Institute of Internal Auditors

'Organisational culture is important for HR and other people professionals. It influences and is influenced by the work of HR, L&D and OD, because every company is made up of human relationships and human interactions. Ensuring a strong relationship between organisational leaders, the board, and HR leaders is essential for good corporate governance and helping the board and leadership to understand culture. People practices are pivotal for embedding positive corporate cultures and allowing people to thrive.'

Scarlett Brown, Policy Consultant (Corporate Governance), CIPD

10 External Influencers

Role of global shocks and societal changes

Global shocks and societal changes can also work as a prompt to reviewing or reprioritising organisational culture. The global financial crisis, COVID-19 pandemic, the racial and social justice movements, technological disruption and climate change are only some of the examples, often leading to increased reporting requirements. During those times of stress, especially in the last 18 months, many companies have taken an opportunity to re-evaluate their strategy, structure and organisational culture, mainly their approach to people – as their key resource.

> *'The impact of COVID-19 meant that prioritising our people and how connected they feel to our values, purpose and strategy were even more important. Further, continued working from home could lead to a longer-term degradation of the culture we have created. It has become even more important to communicate, measure and nurture our culture, ensuring our people feel looked after and supported by their employer.'* **Carolyn McCall, CEO, ITV plc**

Focusing on the most recent global shock, the pandemic, led to several important cultural shifts, for example, accelerating the move to flexible working and additional consideration of employee welfare.

For those companies that were providing essential services and had to keep a physical workforce in place, new, covid-safe ways of working had to be introduced. Teams had to be able to work cross-functionally, with more evolved decision-making, and become more autonomous and responsible for delivering business outcomes. This rapid shift in working styles and locations, requiring new patterns of behaviours, managerial styles and ways of communication, is without doubt one of the biggest challenges that companies are currently facing culture-wise, and there is no one view on how to approach this issue. This has been compounded by a disparity in workforce experience between those who have been and continue to be remote (home-based) and field staff. In such cases, companies will need to address those disparities in their culture over time.

> *'At SSE we needed to keep a frontline workforce, in the field, to secure a supply of electricity. This brought up questions of safety for our people, their concern of harassment while doing their job by those who didn't understand why they were travelling and the nature of their work. These events have had a cultural impact – staff surveys have shown a difference between frontline and remote workers, with a degree of resentment towards the latter.'* **Richard Gillingwater, former Chair, SSE plc**

The need to communicate, evaluate and foster culture, ensuring consistent messaging and signalling became even more important. Most companies tried to ensure that their people felt looked after and supported with particular consideration for wellbeing and mental health. This has largely led to boards and senior managers reflecting on how they work with their teams. With the help of technology, many used the opportunity to engage in a different way, enabling broader and deeper connections to be created with dispersed teams.

This way of working has also extended to some boards and specifically NEDs, enabling deeper dives and interactions into operational activities, priority programmes and topics. However, while technology is widely perceived as an enabler, for some it does not replace the value of interactions that come with in-person socialising and collaborating as these are seen as valuable components of culture.

'People are going to look back at how companies dealt with the pandemic and to what extent wider communities have been considered – yes, you need to survive but did you do it in a way that was balanced and recognised that we are all in this together.' **Andy Martin, Chair, Hays plc**

> *'Working remotely has enabled our CEO to travel around the world virtually in a short space of time, which he wouldn't have been able to do physically. He's dropped into virtual meetings unexpectedly during the pandemic, which is great.'* **John Rishton, AC Chair, Unilever PLC**

To what extent and in what format companies respond to those shocks is crucial. Companies risk reputational damage, which can even lead to a corporate failure, if their response is inadequate or perceived as a marketing campaign. For example, most agreed that companies will be remembered and held accountable for how they responded during the pandemic, including how they treated their workforce and suppliers, and how they continue to address climate change and wider ESG considerations.

In many areas the pandemic brought to the fore a sense of fairness and compassion in society, which left an imprint on the business community. This reinvigorated the debate about the role of culture in aiding corporate resilience and was further reinforced by other societal drivers, including the movements towards greater ethnic and racial justice and gender equality.

> *'The pandemic was a tipping point. If we didn't shift to focus more on local empowerment, agility and decision-making we would not have survived. I personally called our operating businesses across the world and asked them two questions – are your people safe and do you have everything you need? This sent a powerful message of both compassion and empowerment, and we followed up with actions where necessary.'* **Nick Hampton, CEO, Tate & Lyle PLC**

Role of regulators and standards

> *'The prompt we had in the 2016 report was very important. It encouraged a discussion that was the first conversation we had that asked: "What do we understand about our culture?" It rallied us to think about it more as part of the everyday conversations we were having at board-level.'* **Richard Gillingwater, former Chair, SSE plc**

Regulatory trends urging boards to regularly consider culture appear to be having an impact, though mixed views ought to be acknowledged. For example, while the reception of the FRC's 2016 report was very positive, there remained some who felt that this wasn't necessarily an area where regulators needed to be involved.

Building on the 2018 editions to the Code and Guidance on Board Effectiveness (the Guidance), the FRC Lab has further considered culture through its recent publication, which highlights how relationships and engagement with stakeholders reflect the company's culture and how investors view corporate reporting in this area as an indicator of the organisation's culture.

In addition, the FRC's Guidance on the Strategic Report makes it explicit that the board has a role in ensuring that a business is sustainable in the long term, which includes embedding of the desired culture.

> *'In 2020 the corporate governance debate on employee engagement has triggered our new approach. It challenged us to think more broadly about what we need to do, how do we engage and how can we demonstrate to all that the voice of employees is heard by the board.'* **Phil Cox, Chair, Drax Group PLC**

The impact of the Financial Conduct Authority's (FCA) increased focus on culture and behaviours in the financial services sector following fallout from the global financial crisis has also been repeatedly mentioned, including the 2018 discussion paper. This has led to the development of some of the most sophisticated approaches to culture management within that industry, though largely focused on risk culture.

Role of investors

The role of investors in shaping the organisational culture of the companies they are invested in by engaging, encouraging better reporting and effective stewardship, and investors reflecting on their own culture to ensure they are leading by example, was a key theme of the 2016 Report. The latter has been reinforced by the FCA's efforts to transform culture in the financial sector, as stated above. Most recently, the 2020 Stewardship Code, through Principle 1, reiterates the link between investors' own culture and effective stewardship.

Stewardship culture

To better understand if and how investors are engaging with their portfolio companies on culture and to what extent culture plays a role in their investment decisions, we conducted a short questionnaire of 13 questions. There was a limited response; nevertheless we were able to make an assessment of views.

The majority agreed that directors should be held to account if a company regularly fails to report on its culture assessment and monitoring. Most respondents further agreed that regular, proactive engagement on culture is effective and that it should be happening either annually or biannually. This has largely been recognised by members of the Investment Association (IA), who ranked culture as the 7th most important and the 8th most frequent issue for engagement in their stewardship activities survey.

When it comes to culture benchmarks, respondents agreed that peer-to-peer comparisons, although useful, cannot be fully relied on. Answers suggested a certain amount of hesitancy towards assuming that because businesses look similar, culture would be easy to compare.

In terms of remuneration and incentive structures, half of respondents agreed that executive remuneration and incentive structures should include cultural indicators, both at an investee company and investor side. However, respondents voiced their concerns over the principle versus the reality of the application as culture is seen as a difficult indicator to quantify, meaning it would be hard to assess the challenging nature of targets.

Culture reporting

To see if investors are reporting on their stewardship of culture and their firm's own culture, we have analysed a random small sample of stewardship reports from those firms that published their reports prior to any decisions made by the FRC on successful signatories to the UK Stewardship Code.

Our findings showed that disclosure in this area varied widely across the sample. The most talked about was day-to-day working culture, with just over a half of reports discussing their firms' strong working practices, staff diversity, and training and development they had fostered.

However, none of those firms explicitly mentioned culture as a reason for external engagement. The remaining number of reports talked about the impact of the investee company's culture on informing an assessment of a company and their leadership. Several investors used case studies on engagement on culture during COVID-19 as an example of adherence to Principle 4 of the Stewardship Code, discussing how culture and governance had been used to respond to market-wide risks.

Exercise stewardship

Overlaps

By comparing findings from the questionnaire with the level of disclosure on culture in our sample of stewardship reports, several observations emerged:

- The majority of respondents agreed that investors' increased attention to their own culture can have an impact on their portfolio companies. This compares with just over a half of investors who discussed their firm's culture in their reporting.

- Over a half of respondents confirmed that they are looking at corporate culture as a key factor to consider when investing. However, only a half of respondents and half of analysed stewardship reports consider culture not only from the perspective of business risk, but also an opportunity coming from a positive working culture or strategic advantage.

- A great majority of respondents believe that collaborative engagement is an effective way to influence a portfolio company's corporate culture but only a small number of analysed reports covered external engagement on culture as a specific issue.

- All respondents to the questionnaire agreed that companies should use a wide range of metrics to assess impact. This sharply contrasts with investors' own reporting, as only a very small number of firms made any mention of measurement in relation to their own culture. When measurement was discussed in their reports, it was confined to internal staff surveys.

The picture that emerges from our research is that while investors are seeing corporate culture as an important consideration in their investment decisions, they do so mostly from the risk management angle. The findings also suggest that investors rarely engage collaboratively on corporate culture, despite recognised benefits of such an approach, with direct engagement being the preferred method.

In terms of reporting on their own firm's culture, more investors are encouraged to engage in this practice and to do so in greater depth, considering the benefits that may bring to their investee firms, and their clients. The FRC will continue to monitor this and report on progress in due course. The IA created a practical toolkit to help firms in their culture assessment and monitoring.

'Healthy cultures create environments where people want to work, feel challenged, use their talents and are valued. We developed our Culture Framework, a non-prescriptive resource which helps member firms bridge the theory/ practice divide by offering a practical toolkit for firms to use. This is crucial for the industry's health and sustainability. Cultivating and maintaining a healthy culture, both in their own organisations and in those they choose to invest in, is a business imperative.' **Pauline Hawkes-Bunyan, Director Business Risk, Culture and Resilience, The Investment Association**

11 Reviewing Culture

Culture is not static – it constantly evolves and should be regularly reviewed. It is an ongoing iterative process made of a number of elements. By assessing and monitoring culture it is possible to establish the current situation and determine what actions if any need to take place. Any changes need to be implemented and embedded into the organisation, before moving back to assessing how the change has been received and monitoring culture once again. Best practice suggests boards should also seek assurance that underlying policies and practices, as well as promoted behaviours, are in line with corporate purpose, values and strategy. These elements make up the culture cycle.

We are now seeing signs that an increasing number of companies are moving towards a more sophisticated and integrated approach to reviewing corporate culture. Some are even employing organisational psychologists to help design behaviours to match the desired risk profile of a company. Boards are becoming more aware that culture is not just informed by compliance and employee survey results but is a holistic process that encompasses a wider set of methods and factors.

However, this change is slow and differs between industries and companies' legal status, with large, publicly listed companies and those operating in the financial services sector leading the way.

11a From assessment and monitoring to embedding

'There can be many different cultures in an organisation, and therefore no single measure can report on culture. Measurement requires a thorough understanding and balancing of many signals of what the business and its people are experiencing. If goals are set, they have to ensure the tone that is being set is considered.' **David Nish, AC Chair, Vodafone Group Plc**

By assessing and monitoring culture, the board can understand both how the desired culture is embedded and what further action to take. A culture review can be done in many ways. For example, considering values and behaviours separately or assessing them together. The approach to collecting information also varies, with some companies using a single preferred method while other collect information through a number of channels. Those that repeatedly came up in our research include:

Surveys · **Direct Engagement** · **Deep Dives** · **Site Visits** · **Unsolicited Feedback**
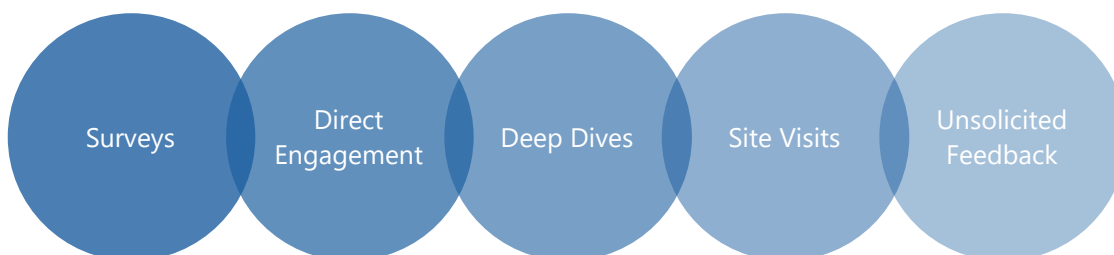
The main approaches have already been discussed, with staff surveys and direct engagement being the two most widely used. Social listening is another method, which when used in combination can provide a rounded view of culture. Unsolicited feedback may be obtained through social media, or in-person conversations, for example networking events. However, it is important to remember that the majority of unsolicited views may typically carry a negative bias. People tend to share their bad experiences more often than their praises.
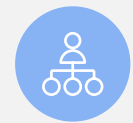
Assess, measure, engage

'Unsolicited views give you different aspects on the picture and enable you to cross-calibrate and pause for thought.' **George Culmer, Chair, Aviva plc**

Spotlight – Use of surveys

Foxtons Group plc approaches its employee engagement surveys, one of the formal ways it measures culture, through multiple avenues. First, it looks at cross-sectional data, which compares the different employee groups within a particular time period, including their ethnicity, sexuality, gender, role and tenure. Then, it looks at the data longitudinally, i.e., how those employee group scores compare across different years. To encourage greater openness and honesty of views, it uses an external provider to administer the survey, followed by doing an in-depth analysis data internally.

'While engagement surveys are limited in that they just provide a snapshot in time, comparing the data cross-sectionally and longitudinally gives us some really interesting information. We then use this as a starting point to explore further with more detailed feedback.' **Sarah Mason, Chief People Officer, Foxtons Group plc**

Whatever the approach, care should be taken to ensure that the information gathered is not misleading or considered in isolation. For example, while engagement scores from a survey may seem overwhelmingly positive, only by bringing together findings from different methods and measures, does an overall picture emerge. By doing so, any challenges, early warnings and opportunities can be more easily identified.

The rationale for using the chosen approach must be clear along with an understanding of the data that will be received and how it should be interpreted. Companies are advised to regularly review it to ensure the methods and metrics are still relevant for the business and producing the desired information.

Culture dashboards

Companies are typically using dashboards to represent findings from reviewing information that impacts on culture. The underlying data is generally produced by different functions across the organisation. A mix of metrics, KPIs and trends are often supplemented with a summary report and delivered to the board and leadership team.

'The dashboard is useful, but the real thing is how we, as the Board, are engaging in culture.' **Sir Peter Bazalgette, Chair, ITV plc**

Companies should be cautious not to over-rely on headline numbers, without the broader context. One company reported that it omits figures for their speak up and whistleblowing cases in dashboards as those could be interpreted twofold – an increase could be a sign of people feeling more able to come forward and openly speak up, but it also could be a matter of concern that poor practices are increasing.

To demonstrate how culture can be measured and monitored, including the use of dashboards, please see the .

'For the sake of consistency, review of metrics only makes sense after allowing a sufficient time to pick up on any trends.' **Susan Swabey, Company Secretary, Smith & Nephew plc**

Joining the dots

'HR and other people professionals are central to driving organisational culture. They are involved in how leadership and people-oriented practices impact culture, the relationship between employee voice/engagement and culture, and how culture is assessed and embedded using engagement and learning & development.' **Dr Scarlett Brown, Policy Consultant (Corporate Governance), CIPD**

While ethics & compliance and HR functions most commonly lead on culture reviews, other teams also have a role to play. Making sure that all information gathered is joined together will provide a richer set of data to help organisations better understand their culture and a more cohesive approach between different initiatives across the organisation.

For example, one company explained that its risk and organisational cultures are regularly considered together, between functions and by the board, even though they are not linked by process. This includes how risk issues such as compliance, internal controls and risk appetite link to rewards and setting the tone from the top, i.e. values and behaviours.

'Due to their unique position within their organisations, management accountants play a pivotal role in providing key business insights, advising boards and mitigating potential risks. This includes the impact of culture on organisational performance. Boards must have those conversations based on available information and data to lead by example. Not actively managing your organisational culture can pose a great risk to your long-term success.' **Andrew Harding, FCMA, CGMA, Chief Executive Management Accounting, AICPA & CIMA**

Company Secretaries, while not directly involved in cultural reviews, hold a position where they are able to see across a number of functions. They should have oversight of all cultural initiatives across the organisation to offer support in elevating information to the board and aligning agenda items. They can ensure that culture doesn't slip off or down the agenda.

'Empowered Company Secretaries and governance professionals are the glue that joins things together. They are able to drive conversations between the Chair and the board as a whole and their committees and will help set the tone. They have a duty to ensure that everything fits together and offer a more independent and holistic view on culture climate. They drive change as an extension of the board and use consistent language to express culture and how it is intrinsically linked to strategy and governance.' **Robert Lester Ford, Executive Director, Strategy and Governance**

However, it appears that most companies have yet to effectively combine different methods and metrics together to fully benefit from the information that is collected by various teams. This could be due to limitations of the IT systems, complex structures of global companies and lack of internal information. Joining the dots across business units and functions has repeatedly been cited as a key challenge for measuring culture.

'Companies should get better at joining the dots and utilising more efficiently the tools currently available to them, as well as improving their communication across their organisations.' **Rebecca Cope-Lewis, Head of Enterprise Risk Management, Riskhive**
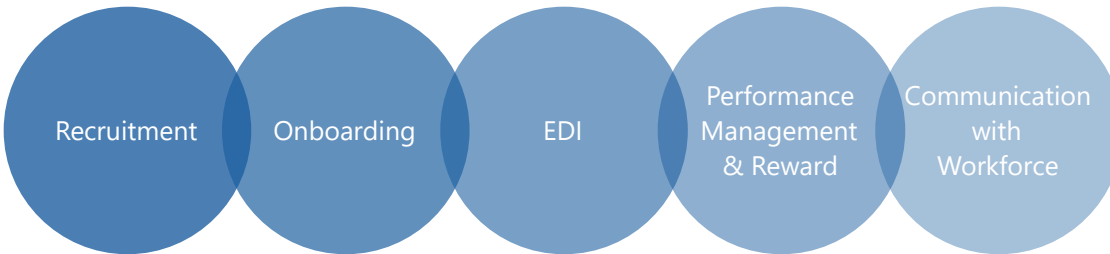
'There needs to be much more interaction and alignment with all business units if you're going to have effective risk management and a healthy corporate culture.' **Rachael Johnson, Head of Risk Management and Corporate Governance, ACCA**

'To be successful, an ethics, culture and compliance programme must be linked to strategy and purpose.' **Warwick Carruthers, Global Head of Business Trust, Vodafone Group Plc**

'Having an ethics and compliance function does not absolve other functions' responsibility to own ethics and culture.' **Shaun Teichner, General Counsel, Glencore plc**

Implementation

Any follow-up actions from culture assessments and monitoring, including redefined purpose, values and behaviours, need to be implemented into working culture and reflected in policies and procedures.

Recruitment · Onboarding · EDI · Performance Management & Reward · Communication with Workforce

Align values and incentives

While most agreed that onboarding is crucial in embedding culture in workers from the point they join the company, one company explained they assess candidates against their knowledge of organisational values already at the interview.

Some also commented on the importance of demonstrating behaviours and values and assessing this as part of annual appraisals. It is essential for everyone in the organisation not to just meet targets but also consider how the target was achieved or understand the circumstances in why the target has been missed - the 'what' and the 'how'. Ensuring a fair system, where both elements are properly recognised and rewarded, is essential. However, any assessment must be evidence-based and follow procedures with clear guidelines. Without rigour and the opportunity to seek third party independence, such a system could be based on personal views

To fully embed culture there should also be alignment between values and incentives – this was explored in the 2016 Report but still remains challenging. Achieving targets by displaying behaviours that are not in line with company values will only lead to an unsustainable working culture. Desired behaviours, with the emphasis on ethics, should be reflected in objectives and linked to how people e remunerated – to ensure there is no disconnect.

'Ethical culture should be a key feature when considering promotions, just as is meeting business targets.' **Anne-Violaine Monnié, Group Ethics Officer, Capgemini SE**

Spotlight – Implementing culture in performance measurement

At Capita plc, every one of their 20,000 managers receive feedback against 10 'management commitments'. All the data leads to a culture report that indicates whether the manager is creating an environment where purpose and values are understood and lived, and whether employees have a voice. The aggregated data is made available to both the board and employees, so that the company can have open conversations about the findings.

Yearly, one-on-one appraisals follow up on the individual feedback, where 50% of the assessment is based on 'what' has been achieved and 50% on 'how' it has been achieved.

This new approach has been an important change for everyone and welcomed by employees. The company also offers training to its managers to help them increase performance against the commitments. Altogether, this has led to scores increasing significantly over a period of three years.

'The culture piece is important. It was completely non-existent a few years ago so employees really welcomed the change.' **Will Serle, HR Director, Capita plc**

To help companies better understand what ethical culture means and how it can be assessed and embedded, the IBE plans to publish a Good Practice Guide on Ethical Culture in early 2022. The guide will also include examples, tools and suggestions for practical application.

'The ethics & compliance function, together with HR colleagues, can help support line managers by providing them with the right tools and guidance to embed culture effectively. The line manager toolkit should support managers, rather than introduce a new language. Useful examples include: scenario-based guidance to encourage ethical conversations within the team; examples-led awareness on ethical decision-making; and practical training on how to deal with employee reports on ethical matters.' **Pamela Mowat, Chief Compliance Officer, Scottish Power UK plc**

Embedding of cultural change among workers, but also other stakeholders, has been discussed in various parts of this report. In essence, consultation – rather than dictation, when it comes to culture-related initiatives, including values, purpose and behaviours, as well as constant and consistent communication, were said to lead to stronger embedding of culture. If the workforce feel connected to organisational values and purpose, this will foster deeper connections, which in turn should lead to greater engagement and productivity on their part. This approach can also be extended to other stakeholder groups and other issues.

Embed & integrate

'To make culture embedding a success you should engage people across your organisation to understand what resonates with them and what motivates them rather than having a pre-conceived idea of what the organisation's culture should be.' **Belinda McGuinness, Group Integrity Officer (ED), Macquarie Group Ltd**

11b   Assurance

Best practice suggests that boards should seek periodic assurance that underlying policies and practices, as well as promoted behaviours, are in line with corporate purpose, values and strategy. Yet, too often, companies don't report on it, despite widespread practice.

The poll of 40 companies, conducted by the IIA among members, revealed that 82% of companies undertake some form of culture audit. Cultural matters are increasingly embedded into the audit process, either by including them into the standard audit or by making them standalone, with most of those polled either opting for the first option (incorporation) or combination of the two (hybrid). Interestingly, only 5% of organisations opted for the standalone culture audit.

'The role of internal audit function is essential to providing culture assurance – on both a regular and ad-hoc basis. In terms of organisational culture, the function can assess how the tone from the top is communicated, whether it is consistent with the organisation's values and how it is actually translated into actions on the ground.' **Sandro Boeri, Head of Staff Development and Culture Assessments, Deutsche Bank AG**

For those internal audit functions that don't consider their organisation's corporate culture, their approach could be explain by the lack of a clear mandate from the top. When asked whether company boards/audit committees proactively commission internal auditors to audit or provide reports on corporate culture, a majority (68%) answered 'no', with a few (8%) not being sure. Several companies report that the mandate can typically be on an ad-hoc basis and is triggered either by unusual activity within a single business unit/department or by an M&A transaction - as a part of a due diligence screening process.

However, it appears that the pandemic has increased the intensity of interactions between boards/audit committees and internal auditors, with half of polled companies saying that discussions on corporate culture are taking place more frequently. This increase appears to be associated with the surge in hybrid working.

It is also reported that audits related to recruitment, training and pay along with the extent to which purpose, values and behaviours are commonly accepted across the organisation are becoming more frequent.

> *'Recruitment audits are very powerful from the cultural perspective, in particular the assessment of recruitment and onboarding processes. If recruitment process is about values and behaviours and those are misaligned with the company's values and behaviours, then you are recruiting the wrong people.'* **Paul Skinnider, Senior Internal Audit Manager, Taylor Wimpey plc**

When it comes to involving external auditors in culture audit, the picture is mixed. Out of those that do audit their culture, engaging the internal audit function was the most used approach, followed by the engagement of both – internal and external auditors. No company that participated in the poll would outsource their audit culture to external auditors entirely. This duality of approaches was also reflected in our research. While one organisation felt external auditors were not well trained or equipped to provide an objective view on culture and would often feel uncomfortable doing so as part of their reporting, another one took a hybrid approach to their culture audit.

Spotlight – Culture audits

To get a different perspective on its organisational culture, SSE plc conducted a cultural audit. The audit was co-sourced by partnering with the company's external auditor.

'I think with all these things you always get a slightly different perspective. You wouldn't always say that you agree with everything you get from it, but we got some different perspectives and gave us another "rounding out" of our approach to help us finalise those measures.' **John Stewart, HR Director, SSE plc**

Effectiveness and reviewing impact

> *'The biggest risk about culture is "culture washing". It takes time to change people and culture, and simply washing it through as a marketing exercise, without driving appropriate behaviours, is a very dangerous way to go.'* **David Lanfranchi, Risk Manager, CSM Sport & Entertainment**

When companies state that their organisational culture is important for success, action and policies must demonstrate this. Committed boards need to build cultural activities into business as usual rather than undertaking one-off exercises for the purpose of box ticking. Ineffective initiatives or delayed or no follow-up actions, even if purely down to poor administration, will likely have an adverse effect and lead to being accused of *'culture washing'*.

The combined impact and efficacy of culture programmes are the pressure points that companies should also be paying attention to. Reviewing the effectiveness of an individual initiative, although challenging, is also encouraged. Ensuring that the efforts remain effective and appropriate for the organisation's strategic objectives and business model is essential.

One way of approaching effectiveness and impact review may be looking out for trends which would point towards the desired culture becoming accepted or directly engaging stakeholders to gather feedback. Some companies hire external consultants who use specialist tools while others conduct it through internal functions.

'I think there is a real appetite from boards to hear more from internal audit to join the dots on culture issues. When internal audit has a true credibility to be able to look at issues within a firm then it can be a real force for change.' **Alison McFadyen, Group Head - Internal Audit, Standard Chartered PLC**

Spotlight – From assurance to action plan (cooperative approach)

Equiniti Group plc, through partnership between its HR and Internal Audit functions, has been developing an innovative approach to auditing its culture and behaviours.

The process starts with conducting an employee engagement survey, using Gallup – an externally recognised approach. However, this is not the only input.

'Clearly, your engagement is a key part of culture, no question. But one of my concerns with that, is you could have people not actually realising why they like or dislike the workplace, or you could even have lots of people who are very engaged but in a really toxic culture.' **Andrew Stephenson, HR Director, Equiniti Group plc**

The surveys are followed by the Top Employers Institute or Investors in People assessment results – systems that audit company activities, instead of workers' perception of their employer. The two inputs are then put into a simple two-by-two grid which identifies: *'Things we're doing well, and people recognise and like'* – narrative to promote; *'Things that we think we're doing, but people don't like or don't mention'* – items for further consideration; *'Things that people think we're doing that we aren't'*; and *'Things we aren't doing that people would really like us to'*.

	Identified in employee engagement survey	**Not identified in employee engagement survey/areas of development in engagement survey**
Identified by external review	*'Things we're do-ing well, and people recognise and like'*	*'Things that we think we're doing, but people don't like or don't mention'*
Not identified in external review	*'Things that people think we're doing that we aren't'*	*'Things we aren't doing that people would really like us to'*

In the next step, internal audit would assess conformance to the company's values that are most appropriate to each area or the process. For example, one of the company's values is: *'we're meticulous'* – key for conducting payroll audit. However, *'being innovative'* - another of the company's values, is considered less important in that particular situation. This helps internal auditors to assess each group against the values that are particularly relevant to them.

The two assessment processes – the 2x2 grid and internal audit – lead to the development of an action plan, which in turn gets assessed against the Johnson and Scholes cultural web – to check for the alignment between messaging with communication, whether organisational design can deliver it, and are the right controls in place, for example.

The above approach informs the basis for other activities, including monitoring and external reporting.

12 Conclusions

The role of culture in companies and its importance appears to have significantly increased since the publication of the 2016 Report. Those interviewed this year and those that spoke at the roundtables are thinking more deeply about what is meant by a positive culture – both in terms of mindset and policies and actions. The work on company culture ranges from companies assessing their values and behaviours to meet their purpose to those who are engaging behavioural psychologists and external consultants.

The issues set out in the 2016 Report are still relevant today and many of the views expressed were anchored in the principles of that report. Reporting appears to be improving as many more annual reports now include purpose and values and talk about their culture-related initiatives in more detail. Companies also appear to better understand the relevance of culture to their business model, and we are beginning to see some alignment with strategy and business models.

Culture is often a matter for the board as an agenda item within its own right or alternatively considered through lenses of internal audit, risk or people matters. The critical factor is to ensure that these elements are joined up across the organisation. To do this, leaders must show both drive and determination to achieve long-term change. Transforming culture often requires a different approach and skills to those necessary to guide operational change.

The 2016 Report urged directors not to wait for a crisis before they focus on culture. It is interesting to see that both this year's annual reports and the view of contributors to this research cite the pandemic as being instrumental in companies considering wider stakeholder and workforce matters, including employee wellbeing and mental health. They recognise that these issues will impact on both culture and the effectiveness of the company in delivering its strategy. This focus needs to be maintained, as these issues are central to improved trust and transparency, and the need for employees to be able to speak up.

This report has re-emphasised the importance of monitoring and assessing culture and we have listed a number of approaches that are being used. The reliance of many companies on staff surveys, site visits and other ad-hoc methods to gain insights into company culture remain a concern.

Based on findings contained in this report, the FRC will consider what further action to take, including any amendments to the Guidance.

13 Appendix

13a   Culture Frameworks

Source: United Utilities Group PLC

Win together

Act with courage

Shape the future

Inspire with clear purpose

We work as one Marshalls team
Breaking down silos and working across boundaries

We respect everyone
Embracing each other's opinions, experiences and diversity

We propose solutions
Dealing with issues together, honestly and proactively

We value development
Development of our business, ourselves and our colleagues
- always sharing our learning

We take responsibility for every action
Considering risks and never compromising on health and safety

We get things done
By persevering and doing what we say we will, in the right way,
with a 'can do' attitude

We learn from experiences
Taking accountability and striving for better

We challenge and feedback
In a constructive way to get the best outcome

We champion our customers
Understanding their future needs through building
long-term trust and relationships

We initiate and embrace change
Spotting and acting on future potential opportunities

We consider the long-term impact of our decisions
For our business, for our people, for the communities
in which we operate, and for the planet we call home

We develop diverse teams
By recognising talent and preparing for the future

We are proud and passionate
Letting this shine through in the quality of our work

We share and celebrate successes
Taking every opportunity to say well done and thank you

We continuously improve
Our practices, processes and products -
always thinking about how we can do better?

We create clarity of expectations
Applying our vision to the everyday to
Create Better Spaces and Futures for Everyone

Source: Marshalls plc

13b Case Study

Case Study – Measuring and monitoring a service-based culture

United Utilities Group PLC is responsible for water and wastewater services for 7 million customers in the North West of England.

Background
To ensure better outcomes for customers, the group has improved its people, digital and data proposition by combining customer service and people under one functional role. This role is responsible for establishing the links between employees and customers, and delivering service excellence. The group also recognised that culture was the key to delivering both an inclusive and *'best in class'* service for its customers and employees, also supporting its digital transformation.

Action
The Board and Leadership agreed that using data and insight was integral to the organisation's transformation. A culture dashboard was established and populated with existing data on people, purpose and business process.

The company adapted a model from the Dennison culture model, and assimilated the data, providing the Board and wider Leadership team with a tool to consider all the indicators, and fuel conversations. The culture dashboard also allows Leadership to look at culture differently, supporting conversations around strategic priorities and helping with key decision-making.

The dashboard was supplemented with an active employee voice panel, which is chaired by a NED and made up of a cross-section of 30 individuals from all areas in the organisation. The panel amplifies the employee voice to the Board and participates in deep dives on topics identified by the culture dashboard indicators – providing insights and understanding around what people are seeing, hearing and feeling.

The dashboard is owned by the Head of Customer and People – who works alongside colleagues from other areas such as safety, quality and compliance, to collect and better understand what views and issues sit behind the data. It is also used in other settings, including by the People Leadership Team to propose actions biannually at board meetings, in the development of the annual report, and is considered by a number of steering committees (such as Health and Safety).

The Board and Leadership also recognised the need to upskill and build capability across key functions to use and manage data in order to drive the change. HR considers different elements and joins the dots across functions, looking beneath reported numbers, RAG status or benchmarks. HR Business Partners discuss the inputs to the culture dashboard with local management, spotting trends and supporting any follow-up actions. Any key insights are reported back to the Board and Leadership.

Metrics and inputs that provide insight into the company culture constantly evolve as the company continues its digital transformation. Six-monthly reviews are planned to keep the dashboard up to date and focused on measures critical to providing a service-based culture for customers and their people.

Impact
The culture dashboard has given the Board and Leadership a deeper understanding of the company's culture. As a result of the follow-up actions, they have been able to report higher levels of engagement. This includes a top 20 position on Glassdoor for employers, recognised as in the top 1% for ED&I (in their sector) and now positioned in the upper quartile for customer service measures.