PROMOTING A HEALTHY CORPORATE CULTURE

David Styles
Director, Corporate Governance at Financial Reporting Council

Poor corporate culture has been highlighted as a primary factor in the destruction of trust in business. Companies with a strong cultural seam, linked to purpose and strategy, will stand out. At the Financial Reporting Council, we believe that embedding a healthy corporate culture is vital to the long-term success of business, and this is why we are focused on highlighting good practice through the work of the Culture Coalition.

The FRC's mission is to promote high quality corporate governance and reporting to foster investment. It seeks to maintain an effective regulatory framework for corporate governance and reporting in the public interest; one that supports the needs of investors and supports boards and the professions in meeting the necessary high standards. Overall, we measure success by the impact we make, not by our level of activity.

At the FRC we are clear that regulation comes in many forms and needs to be fit for purpose in order to achieve the desired outcomes. When it comes to corporate governance, the principles of good practice apply across the board.

High standards of corporate governance and reporting are important for the fair and effective functioning of the capital markets. They benefit investors, companies and the wider public interest. The FRC is responsible for maintaining codes and standards of corporate governance, investor engagement, corporate reporting, audit and other forms of assurance, and for actuarial information. We monitor compliance with corporate reporting and auditing standards. We oversee the accountancy and actuarial professional bodies in their regulatory roles; and we operate independent disciplinary schemes for accountants and actuaries. Our Financial Reporting Lab helps companies and investors collaborate on improvements to reporting.

Ultimately it is for boards, preparers, auditors and other professionals to implement the standards we set; our role is to support them as far as possible by reinforcing best practice and providing a regulatory framework that is seen as realistic and helpful. This is why over the next three years, we intend to work with our stakeholders to encourage and nurture improvement rather than introducing new requirements that add to the regulatory burden.

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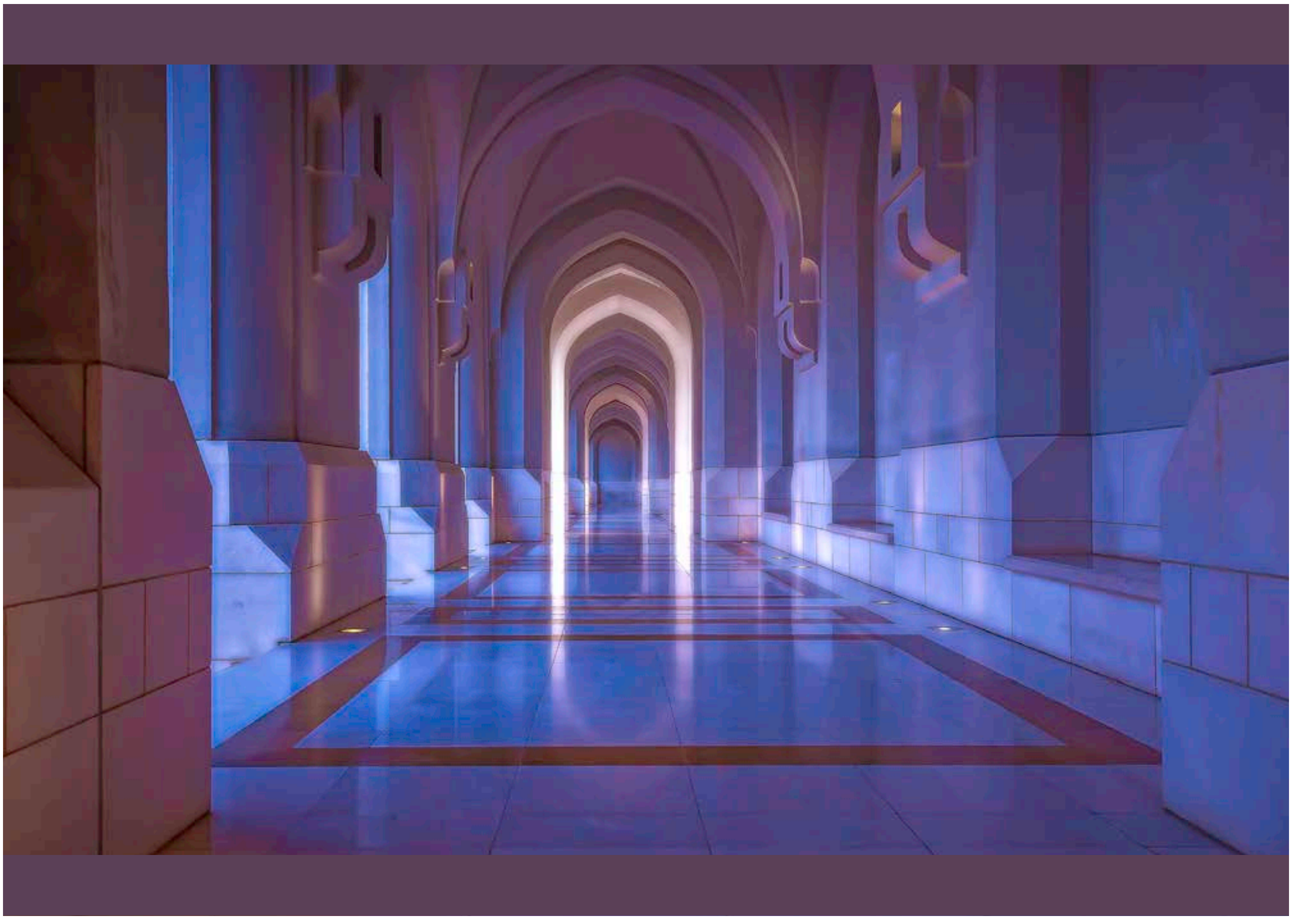
And one of the ways we intend to do this is by promoting a healthy corporate culture.

Over the past decade we have seen examples of what a good company culture can do and what a poor culture can lead to. The FRC understands that addressing behavioural issues and embarking on cultural change in a company is not an easy task. However, we believe that there are strong links between governance and establishing a culture that supports long-term success. For business to prosper, we need to get corporate culture right at all levels to create trust in business, reduce company failings as a result of poor behaviour and serve the needs of wider society.

Codes put forward principles for good practice that make bad behaviour less likely to occur; and public reporting can make it harder to conceal such behaviour. But, by itself, that does not prevent inappropriate behaviour, strategies or decisions. Only the people, particularly the leaders within a business can do that.

In order to establish the appropriate culture, a board must define the purpose of the company, define the value it wants to be known for and the type of behaviours it expects within the company, in order to deliver its business strategy. This involves asking questions and making choices: how to align values and purpose to the company's strategy; how to select new leaders and integrate them into the company culture, particularly at times of merger or acquisition; how to maintain culture under pressure; how to decide whether different parts of the business should operate different cultures, and how actively to communicate culture to shareholders in order for them to engage in constructive discussion. In order to do all this, the board must not just ensure that they pay attention to the findings of internal audits, but that they ensure sufficient internal audit arrangements are in place, and, like the FRC expects of external auditors, that they employ professional scepticism where necessary.

Our Culture Coalition is a collaborative effort with the IIA (Chartered Institute of Internal Auditors), CIPD (Chartered Institute of Personnel



and Development), CIMA (Chartered Institute of Management Accountants), IBE (Institute of Business Ethics) and City Values Forum to assess how effective boards are at establishing company culture and practices, and embedding good corporate behaviour, and to consider whether there is a need for promoting good practice. We have had a very encouraging response from many individuals and organisations to our invitation to participate. Our aim is to publish a report, that is practical, not directive and is a spectrum of views on practical, market-led observations to help boards and companies establish, embed and measure their desired culture.

Through our discussions and workstreams, the Coalition has gained insight on the wide variety of views on the extent to which you can and should measure indicators of culture and what sorts of indicators are useful. We are learning that there is no one size fits all approach and that the indicators selected for assessment should be tailored to each company's circumstances.

The difference in roles between the boards and executives is also important. The board's role is to influence; work with management to identify the desired culture, and monitor and evaluate progress in embedding culture by seeking assurance and asking questions. The executive role is to drive and embed that desired culture throughout the organisation in a way that gains traction.

The collaboration of business functions such as HR, internal audit, risk, finance is also seen as crucial when trying to embed a desired culture and provide comprehensive assurance to the board. Our report of observations will be published this summer and we look forward to sharing the findings with our stakeholders. We are all responsible for upholding good values and behaviours in corporate life. These are central to the way an organisation achieves its objectives and the better they are integrated into business models, the better the UK economy will prosper reputationally and financially.