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Corporate Culture

The Financial Reporting Council has published a report on Corporate Culture and the Role of Boards that is as applicable to U.S. companies as it is to U.K. companies—indeed, it is applicable to all market economy companies.

The report starts with the premise that corporate culture is the crucial element in how a company performs. "A strong culture will endure in times of stress and mitigate the impact. This is essential in dealing effectively with risk and maintaining resilient performance."

The report makes the following key points:

1. **Recognize 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.

2. **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.

3. **Be Open and 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. **Embed and Integrate**. The values of the company need to inform the behaviors which 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.

5. **Align Values and Incentives**. The performance management and reward system should support and encourage behaviors consistent with the company's purpose, values, strategy and business model. The board is responsible for explaining this alignment clearly to shareholders, employees and other stakeholders.

6. **Assess, Measure and Engage**. Indicators and measures used should be aligned to desired outcomes and material to the business. The board has a responsibility to understand behavior 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.

7. **Exercise Stewardship**. Effective stewardship should include engagement about culture and encourage better reporting. Investors should challenge themselves about the behaviors they are encouraging in companies and to reflect on their own culture.

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