Governance

Culture

Compliance

Beyond compliance

The building blocks of a strong corporate culture

Corporate governance report 2017

“A phrase originated by business guru Peter Drucker, is ‘culture eats strategy for breakfast’ – and that’s an observation many involved in corporate governance would strongly agree with. Any organisations disconnecting the two are putting their success at risk.”

Mark Hucklesby, National technical director, Grant Thornton New Zealand

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Foreword

Building a 'corporate culture', like many a construction project, needs building blocks. But what do we mean by 'culture'? In other walks of life, 'culture' is a concept all of us are familiar with. Yet the business community has been playing catch-up in defining corporate culture and the elements that create it.

One definition of corporate culture is **the combination of values, attitudes and behaviours that a company exhibits in its operations and relations with those affected by its conduct, eg employees, customers, suppliers and wider society.** Others will put it differently. What's undeniable though is that around the world, the issue of corporate culture is receiving increased regulatory attention as a foundation of good governance. As a result, the issue has arguably never been as high up the business agenda as it is today. Our global survey of 2,500 businesses in 36 economies also indicates the same. And if any more evidence were needed of the importance of culture within governance, take a look at recent storms engulfing Uber[1] and Wells Fargo.[2]

Recently, The Securities Exchange Board of India, in recent guidelines on board evaluation, has recommended that boards set a corporate culture and values which should be followed by the company.

The Australian Prudential Regulatory Authority (APRA) has mandated board responsibility for risk culture. The Australian Securities and Investments Commission (ASIC) has also called for greater civil penalties for executives responsible for poor culture. In the UK, the Financial Reporting Council (FRC) is encouraging companies to focus on broader aspects of governance such as culture and strategy, while the Financial Conduct Authority (FCA) also encourages companies to make sure their culture supports a strong control environment.

In Japan, in light of culture failings, its Financial Services Agency published a new code of governance for audit firms in March 2017 encouraging them to 'develop an organisational culture of openness'.

There are more examples. The New Zealand Stock Exchange (NSX) is preparing a revised Corporate Governance Code. Its Financial Market Authority (FMA), in a report published this year reviewing licences granted to financial services firms over the last three years, emphasised the importance of boards and senior teams leading company culture. In South Africa,

King IV governance codes released in 2016 set out the importance of an ethical culture as part of effective governance.

The message this sends to boards is clear. There is a growing responsibility on their shoulders to meet increased regulatory expectations. That includes holding executive teams to account, to make sure they are taking the issue of culture seriously and fostering it throughout the company in the right way.

But regulatory pressure is not the only driver of greater attention on the issue of culture. How do boards make sure the companies they oversee not only comply with any rules, but also foster an authentic culture which defines the ethos and values of the company itself? Insights from our International Business Report (IBR) tell us boards are taking steps already.

[1] www.theguardian.com – Uber CEO Travis Kalanick resigns following months of chaos – 21 June 2017

[2] www.marketwatch.com – Wells Fargo scandal should spur investors to demand stronger boards – 2 May 2017

Our global survey finds that 80 per cent of boards in India say that culture is now a standing item on their agenda (50 per cent globally). This was the second most cited measure in India as compared to the third measure in APAC. Further, 85 per cent (71per cent globally) of boards in India are establishing internal controls that address culture and employee behavior. Practices such as benchmarking against peers and exploring customer relationships are also prevalent. And the more developed are expanding their internal auditors' remit to test how embedded culture is at all levels of their company.

India is the only major economy where treatment and relationship with employees and conduct of senior management team are cited as the most important factor (87 per cent) that have biggest impact on their brand.

Boards are heading in the right direction when it comes to culture. Evidence from my colleagues around the world, as outlined in this research, illustrates this. But more can be done. We set out practical recommendations for boards to consider, so they can play an even more effective role in fostering a successful culture today and in the future. After all, regulators cannot develop corporate culture. Culture can only be authentic – and sustainable – if it comes from within.

Harish H V
Partner
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Bhanu Prakash Kalmath S J
Partner
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Recommendations

Based on the findings of our research with over 2,500 business leaders around the world, and insights from our global network of governance specialists, here are practical recommendations for boards to consider when working with leadership teams in order to successfully develop a strong corporate culture.

Understand culture

Conduct a culture audit or assessment
Obtain a clear picture, and therefore a better understanding, of the positioning of your organisation's culture. Examine the formal drivers of culture – leadership; strategy; corporate responsibility; people management; resource management; process – and evaluate your findings against the perceptions of your employees and other stakeholders (eg customers, suppliers). Where are there gaps, or misalignment? Then look at your strategy and ask: is your culture enabling your strategy? Or is culture holding your strategy back?

Make sure any audit of culture looks at operating effectiveness and not simply design effectiveness. Involve a sample of people across the organisation and obtain their views as to what it is really like on the ground. A good culture should not only be good on paper – it should work for, and be felt by, everyone.

"Survey employees on their understanding of the culture and remember that culture comes to life when employees interact with each other. This creates subcultures and the only way to find out they exist is to ask people."

Erica O'Malley, Partner, Human capital management practice, Grant Thornton US

Set culture

Set a code of conduct
This is a fundamental bedrock to establishing a strong corporate culture. If the behaviour expected from all employees is clearly defined and accessible for all, it provides parameters for what corporate culture can and cannot encompass.

"The leaders are those companies that have taken their values and integrities and outlined them into a code of conduct: a set of key behaviours and drivers. This makes them into practical outcomes, expectations and behaviours for a range of business functions."

Sarah Bell, Partner, Grant Thornton Governance Institute, Grant Thornton UK

Create open channels of communication for culture to flow
In India, boards and businesses are investing in resources to institutionalise culture throughout the organisation through activities like town hall meetings, periodic training sessions, and opportunities to discuss the code of conduct once it is set.

"Open and timely communication is a key tool to driving the right culture."

Harish HV, Partner, Grant Thornton India LLP

Test culture

Test culture with real life examples
Culture is as much a spirit and a sense of how things should be done, as a set of policies and procedures. By attaching culture to solving an existing business problem, this can test the culture in real life rather than exploring it in theory – and make sure that the culture is working for the challenges your business faces, rather than against it.

"It is very challenging to convince an organisation to analyse their culture overall… What I recommend is asking 'what is your business challenge right now and how confident are you that you're going to achieve it?' If there's any doubt, consider evaluating the impact culture is having on the ability to achieve results."

Erica O'Malley, Partner, Human capital management practice, Grant Thornton US

Factor culture into ongoing risk governance
Board members have responsibilities when it comes to risk, and assessing behaviours and processes through a risk lens helps to maintain corporate culture. Business leaders tell us that conduct of senior management teams is an important driver of reputation. If boards uncover behaviour which could derail culture, it should be captured as part of risk assessment activity.

"New Zealand board members are considering and evaluating 'conduct risk', because New Zealand entities are not immune to the extensive damage that fraud, corruption or unethical behaviours can bring."

Mark Hucklesby, National technical director, Grant Thornton New Zealand

Ensure cultural alignment with key stakeholders
Respondents to our IBR research told us that boards worldwide are thinking about the culture of their customers and their suppliers when they do business with them. It illustrates a recognition that those external stakeholders you deal with can affect your brand and reputation if you are associated with a stakeholder who ends up making headlines for the wrong reasons.

"Corporates recognise third-party risks and are improving their engagement with those parties to ensure their culture is aligned with their own vision and mission. Customers and suppliers are being considered as partners."

Bhanu Prakash Kalmath S J, Partner, Grant Thornton India LLP

Refine and improve culture

Develop strong relationships with senior management
One role of a board is to understand how the leaders it oversees articulate the culture of the organisation in their own words. Consider spending more one-on-one time with senior management, getting to know them and asking behavioural-based questions to see how culture plays in the things they do every day.

"A more free-flowing behavioural-based conversation will help boards experience an organisation's culture. Board agendas are typically quite prescriptive. They need to go off-script, and interact and experience the culture in order to understand whether there's a potential cultural problem."

Erica O'Malley, Partner, Human capital management practice, Grant Thornton US

"Culture has to be a key focus for the Chief Executive Officer, their senior executive team and the board, as culture has a direct impact on organisational performance and its ability to execute the organisation's strategy."

Kim Schmidt, National Head of Leadership, Talent & Culture, Grant Thornton Australia

Explore ways to boost the diversity of your board
Some respondents believe that bringing younger employees into board discussions could help boards embrace digital change. In the UK, the average age of a non-executive director on a FTSE 350 board was 60.[3] Diversity may also help culture embed right throughout an organisation. In the UK last year, the Prime Minister Theresa May chose not to make worker representatives on boards mandatory, but did say "some companies may find [this model] works best for them". More broadly, research[4] conducted by Grant Thornton has found that greater gender diversity improves decision-making and improves how senior teams deal with risk.

"The fast pace of digitisation may impact an organisation and even challenge the profiles and ages of board members in the future. We will need more board members that understand digitisation, disrupters that challenge the status quo and provide new perspectives."

Carla Clamp, Director, Grant Thornton South Africa

[3] Grant Thornton Corporate Governance Review, 2016

[4] Grant Thornton Women in Business report 2017 – https://www.grantthornton.global/en/insights/articles/women-in-business-2017/

Set targets – make culture an actionable corporate objective

Encourage leadership teams to include culture as a strategic objective. Doing this gives leaders extra accountability for ensuring culture is embedded properly. Feedback received in South Africa indicates that embedding the organisational culture in the middle and lower tiers of the business is a challenge for boards and does not take place to the extent that it should.

"If we want a focus on changing the culture in the organisation it must be included as a strategic objective, so that it becomes a tangible drive."

Terry Booysen, CEO, CGF Research Institute (Pty) Ltd

Focus on the future as well as the present

Alongside overseeing day-to-day activities, part of a board's responsibility is to make sure the business they govern is either equipped to meet future challenges, or is taking steps to react and become equipped. In order to establish this sustainability, look at the role culture will play in the years ahead.

"Organisations need to reassess whether the culture is right for its future and sustainability in the first instance. If not, what does the organisation need to change to align its culture with its future?"

Carla Clamp, Director, Grant Thornton South Africa

Global snapshot

Grant Thornton's International Business Report (IBR) asked over 2,500 business leaders across 36 economies what steps their board is taking in relation to the organisation's culture. The number one step being taken by boards in every region is to establish internal controls that address culture and employee behaviour. Nearly three in four boards (71%) are doing this. This focus on building culture from within is encouraging, but we find that boards are looking outwardly too.

After internal controls, the next most commonly cited measures being taken by boards are considering the culture of customers (63%), and considering the culture of suppliers (57%). Across industries, technology, media and telecoms firms stand out: 80% of boards there consider the culture of customers and 67% the culture of suppliers. Clearly, boards realise that working with and for stakeholders works best when the culture and purpose they have is aligned with their own. This makes sense; association with a brand or market seen as unsavory can lead to reputational damage.

Further down the list, 50% of businesses told us their board now has culture as a standing item on their agenda. If this is interpreted as a measure of how important boards currently view culture, this suggests the battle is only half won. Across industries, the figure is highest in the technology, media and telecoms sectors where 62% of businesses said their board has culture as a standing board agenda item.

The IBR also asked business leaders to rate a number of factors by their level of impact on their reputation and brand image. Globally, 71% of leaders said that their business's culture was either an 'important' or 'very important' factor; however of the 12 factors given, culture comes only 8th in importance. This suggests that most businesses do see culture as an important issue, but not as one of the most critical affecting their reputation.

However, while culture may rank only 8th, some of the factors that rank most highly – conduct of senior management team, relationship with employees – are fundamental building blocks of a strong and healthy corporate culture. So even if firms do not rank their culture as a whole as one of the top factors affecting their reputation, it is arguably culture which drives products, conduct, and performance.

"Culture has always been important to governance, it's just never been identified as such. The progress we've made over the years is such that where before we were talking about CSR, remuneration, tackling and avoiding controversies, [until now] we never pulled it all together."

Anita Skipper, Senior analyst – corporate governance, Aviva Investors

Steps being taken by boards globally to drive corporate culture

71%

Establishing internal controls that address culture and employee behaviour

63%

Considering a business customer's culture

57%

Considering a supplier's culture

> "It is surprising to see environmental and diversity issues so low on the list, when you consider how much discussion there is around those two issues at the moment – particularly in relation to businesses and corporate social responsibility."

Simon Lowe, Chair of the Grant Thornton Governance Institute, Grant Thornton UK

Factors business leaders globally see as most critical to reputation/brand image

90% Quality of products/services

89% Customer service

84% Conduct of senior management team

80% Treatment of and relationship with employees

80% Financial performance

75% Treatment of and relationship with suppliers

74% Overall mission or sense of purpose

71% Business's culture

64% Innovation around products and services

58% Environmental impact of operations

55% Level of diversity in workforce

54% Advertising and communication activities

Region and country snapshot

Regional comparisons

Top three steps being undertaken in relation to organisation's culture by region:

North America

75%

Establishing internal controls that address culture and employee behaviour

60%

Considering a business customer's culture

54%

Benchmarking your corporate culture against competitors or peers

Latin America

78%

Establishing internal controls that address culture and employee behaviour

78%

Considering a business customer's culture

74%

Considering a supplier's culture

European Union

62%

Considering a business customer's culture

61%

Establishing internal controls that address culture and employee behaviour

59%

Considering a supplier's culture

Asia Pacific

74%

Establishing internal controls that address culture and employee behaviour

61%

Considering a business customer's culture

55%

Making culture a standing item on the board's agenda

Africa

90%

Establishing internal controls that address culture and employee behaviour

84%

Considering a business customer's culture

79%

Considering a supplier's culture

Top three steps being undertaken in relation to an organisation's culture by country:

Australia

93%	Establishing internal controls that address culture and employee behaviour
75%	Benchmarking your corporate culture against competitors or peers
73%	Considering a business customer's culture/ Considering a supplier's culture

Canada

75%	Establishing internal controls that address culture and employee behaviour
56%	Considering a business customer's culture
54%	Actively communicating with outside stakeholders about your culture

India

85%	Establishing internal controls that address culture and employee behaviour
80%	Making culture a standing item on the board's agenda
66%	Considering a business customer's culture

New Zealand

82%	Establishing internal controls that address culture and employee behaviour
60%	Considering a business customer's culture
60%	Benchmarking your corporate culture against competitors or peers

South Africa

78%	Establishing internal controls that address culture and employee behaviour
73%	Considering a business customer's culture
67%	Considering a supplier's culture

Spain

77%	Establishing internal controls that address culture and employee behaviour
77%	Considering a business customer's culture
73%	Considering a supplier's culture

UK

78%	Establishing internal controls that address culture and employee behaviour
70%	Considering a business customer's culture
58%	Considering a supplier's culture

USA

75%	Establishing internal controls that address culture and employee behaviour
61%	Considering a business customer's culture
54%	Benchmarking your corporate culture against competitors or peers

Top three most important factors impacting on business reputation and brand by country:

Australia

85%	Quality of products/services
85%	Financial performance
84%	Customer service
83%	Business's culture (4th out of 12)

Canada

89%	Customer service
87%	Quality of products/services
86%	Conduct of senior management team
78%	Business's culture (6th out of 12)

India

87%	Treatment of and relationship with employees
87%	Conduct of senior management team
85%	Quality of products/services
81%	Business's culture (6th out of 12)

New Zealand

86%	Customer service
86%	Financial performance
84%	Quality of products/services
66%	Business's culture (11th out of 12)

South Africa

98%	Quality of products/services
96%	Customer service
91%	Conduct of senior management team
69%	Business's culture (8th out of 12)

Spain

100%	Quality of products/services
100%	Customer service
88%	Conduct of senior management team
72%	Business's culture (8th out of 12)

UK

96%	Quality of products/services
93%	Customer service
89%	Financial performance
70%	Business's culture (6th out of 12)

USA

91%	Quality of products/services
91%	Customer service
87%	Conduct of senior management team
74%	Business's culture (6th out of 12)

Europe

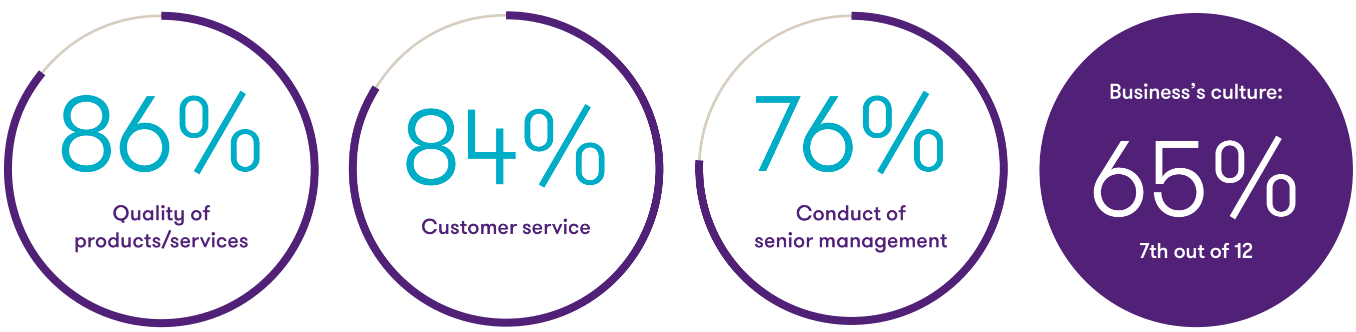
Across the EU the number one action being taken by boards when it comes to culture is considering the culture of business customers. This suggests boards are keen to ensure that the culture they set for themselves is not just authentic, but will also resonate with the businesses who will end up buying their products or services. This is reinforced by the top factors boards in Europe see as critical to their reputation: the quality of their products and services, and customer service.

Elsewhere, despite the fact that 61% of boards across the EU are establishing internal controls to address culture, in two of its biggest economies the picture is somewhat different. A far smaller proportion are taking this step in Germany (50%) and France (39%).

Notably, the step being taken most by boards in Europe when it comes to culture, considering the culture of customers, is cited by 62% of respondents. Globally, this stands at 71%; in North America it's 75% and in Asia Pacific it's 74%. So why is the top figure so much lower in Europe? Are European boards simply doing less than their counterparts in other regions when it comes to culture?

Steps being taken by boards in the EU to drive corporate culture

Factors business leaders in the EU see as most critical to reputation/brand image



Country snapshot: UK

In part as a response to recent corporate failings including mis-selling and fraud scandals, UK businesses are taking a stronger focus on the issue of culture, and it is fast becoming a go-to discussion topic in relation to governance. Evidence from the IBR indicates real appetite among UK boards for tackling culture. 78% of leaders in the UK told us their board is establishing controls to address culture, while 70% see culture as an important driver of reputation.

But are boards simply reacting to regulatory scrutiny, or are they proactively looking for ways to boost culture? It is certainly on the regulatory agenda. The Financial Reporting Council (FRC) carried out a project to gain a better understanding of how boards are currently addressing culture. In 2016 they produced a report that focused on the role of boards in setting and monitoring company culture,[5] and the findings will also guide their review of the UK Corporate Governance Code and Guidance on Board Effectiveness, announced in 2017.

However, as Claudia Chapman, corporate governance policy advisor at the FRC commented, "while a framework of codes and legislation has an important role in directing company culture, far more influential are companies themselves recognising the value of a healthy culture, and making necessary changes". In other words, guidelines can be set but companies have to see the changes through.

In the UK, culture is increasingly seen as something the board is responsible for. This is particularly the case in sectors where there has been increased regulatory focus due to high-profile failures, such as banking, oil, retail and mining. A key challenge boards now face is measuring culture, and understanding what indicators such as health and safety, training, customer feedback or employee surveys actually say about how culture is being embedded.

> "The conversations about culture in the UK have shifted: from 'is culture important?' to 'poor culture undermines control. What can the board do about it?'"

Karen Brice, Head of leadership and culture, Grant Thornton UK

[5] The Financial Reporting Council (FRC), Corporate Culture and the Role of Boards, 2016 – https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Corporate-Culture-and-the-Role-of-Boards-Report-o.pdf

North America

North America is the only region in the IBR research where business leaders cited benchmarking culture against competitors as one of the top three steps being taken by their board. This could be because it is now easier to find real life demonstrations of culture. Thanks to technology and social media, examples of culture having a positive impact can be shared quickly and viewed widely.

Our research also finds that three in four business leaders see culture as important to their reputation. This suggests a recognition that culture is not just a 'nice-to-have'; it can actually improve the way stakeholders view a brand and in turn drive loyalty. North American business leaders also recognise the importance of their own conduct; not just in terms of complying with rules, but embodying the espoused culture and inspiring others to do similar.

Steps being taken by boards in North America to drive corporate culture

75%
Establishing internal controls that address culture and employee behaviour

60%
Considering a business customer's culture

54%
Benchmarking your corporate culture against competitors or peers

Factors business leaders in North America see as most critical to reputation/brand image

91%
Quality of products/services

91%
Customer service

87%
Conduct of senior management

Business's culture:
74%
6th out of 12

Country snapshot: USA

Corporate culture is bubbling as a topic of conversation in the US. Regulators are talking about culture, and boards are too. Boards see it as something that has much more significance than they've realised in the past. In the US we're seeing more and more examples of organisations that are seeing strong culture as a tangible benefit. Retention rates are lower so they spend less on recruiting, and when they do recruit, having that strong culture helps ensure the right people are employed.

According to Erica O'Malley, Partner and Human Capital Management Practice Leader at Grant Thornton US, "organisations are realising the impact that culture can have on results, but there are no regulatory requirements forcing them to do that... the US hasn't regulated around risk culture assessments in the way the UK has."

Instead, Erica puts the increased focus on culture down to the explosion in availability of information, particularly via social media, which allows for perspectives and experiences to be shared quickly and broadly. Organisations can now see culture in action via YouTube and Twitter. "The fact that more information is being shared means momentum builds. This is a driver which leaders cannot ignore", she adds.

At the same time, technology plays a role when businesses look at the future and how they will differentiate themselves. Increasingly that future look is centred around robotics and Artificial Intelligence (AI), and it's the culture element that will be an organisation's differentiating factor. Two key functions of a board, to oversee the business today and look forward to the business of tomorrow, both have culture and technology at their core.

Asia Pacific

Across Asia Pacific, making culture a standing item on the board agenda was the third most commonly cited measure being taken by boards. In India specifically, it's the second most-cited measure. No other region features it in their top three. At a country level, businesses in both Australia and New Zealand cite benchmarking culture against competitors as one of the top steps their board is taking. The most popular measure taken across the region is establishing internal controls to address culture, cited by 74% of firms. In Australia, this is cited by 93% of respondents.

When asked about the factors which have the biggest impact on their brand, India is the only major economy where treatment of and relationship with employees is the most cited factor (by 87% of businesses). Relationships with employees are considered essential to building a strong corporate culture. In Australasia, there is a striking divergence in responses on the importance of culture. Australian respondents cite their business's culture as the 4th most important factor affecting their reputation. In contrast, New Zealand businesses rank it as only the 11th most important factor.

Steps being taken by boards in Asia Pacific to drive corporate culture

74%
Establishing internal controls that address culture and employee behaviour

61%
Considering a business customer's culture

55%
Making culture a standing item on the board's agenda

Factors business leaders in Asia Pacific see as most critical to reputation/brand image

90%
Quality of products/services

90%
Customer service

87%
Conduct of senior management

Business's culture:
71%
9th out of 12

Country snapshot: Australia

Risk culture is growing in importance and becoming a regulatory requirement to consider. For example, the Australian Prudential Regulatory Authority (APRA) has recently mandated board responsibility for risk culture. Likewise, the Australian Securities and Investments Commission (ASIC) has also called for greater civil penalties for executives responsible for poor culture. But there is also a recognised need to make sure culture is aligned to the organisation's strategy and embedded and is not just a 'tick the box' exercise.

Many organisations rely on their staff to identify risks, yet this process is only successful when a strong and positive risk culture already exists. A more effective and reliable way to diagnose risk culture and uncover potential issues is to undertake an independent culture assessment. This can help to expose issues that wouldn't usually come to light in day-to-day business.

In Australia, we have seen the significant impact that leadership – the CEO, executive leadership teams and extended managers – can have on the culture of a business and its performance. However, as Kim Schmidt, National head of leadership, talent & culture at Grant Thornton Australia points out, culture – and risk culture in particular – cannot just be something which comes from the top, it needs the engagement and buy-in from all levels of leadership. Anyone with a leadership role or who is identified as a leader has the capacity to affect the organisation's culture.

Another aspect of culture being debated in Australia at the moment is whistleblowing. There is currently no legislation requiring companies to have whistleblowing policies, yet research suggests that such measures should be considered to encourage staff to expose misconduct.[6]

"Australia is lagging behind Europe and the US in implementing sound whistleblowing frameworks."

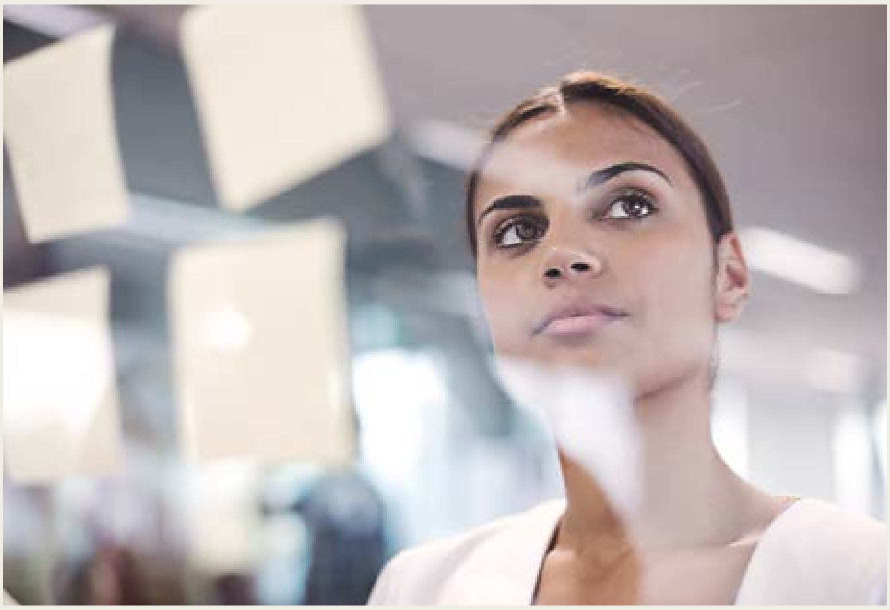
Mark Griffiths, National lead partner, business risk
Grant Thornton Australia

"Regulation is helping bring the topic of culture to the board table, which is very positive."

Jarrod Lean, Partner, business risk
Grant Thornton Australia

[6] Governance Institute of Australia – New research confirms protections for whistleblowing 'a must' – 4 May 2017

Country snapshot: India



> "Culture is the bedrock of good corporate governance."
>
> **Bhanu Prakash Kalmath S J, Partner, Grant Thornton India LLP**

The Indian Government is pushing the agenda of corporate governance very actively through regulations and guidelines. But there are efforts by businesses themselves to improve governance, regardless of the regulatory environment. Rules and regulations drive compliance, but increasingly it's evident that an embedded culture drives the implementation of effective corporate governance in spirit.

This is reflected in language from regulators. The Securities Exchange Board of India, in recent guidelines on board evaluation, recommended boards set culture and values for the company to follow. Boards in India also play an important role in owner-managed companies. Here, the culture of the business is significantly impacted by the values and beliefs of the owner. In these circumstances, the board is responsible for understanding and engaging with the owner to implement good culture which fits with the owner's values and beliefs, but which also benefits all stakeholders. This may explain why 80% of Indian respondents to the IBR told us their board has culture as a standing item on their agenda.

Indian businesses are also investing resources to institutionalise the right culture in their organisation. Measures being invested in include town hall meetings, to ensure open and timely communication, developing codes of conduct, and periodic training.

There is also evidence in India that firms recognise third-party risks when it comes to culture, and are improving engagement with customers and suppliers to ensure their culture is aligned with their own vision and mission. Businesses are increasingly considering customers and suppliers as partners in the business (66% of IBR respondents).

Country snapshot: New Zealand

The last 18 months have seen some significant developments in New Zealand, many of them looking to mirror best practice overseas. In 2017 the New Zealand Stock Exchange made a number of changes to its 2003 Corporate Governance Code, laying out eight principles on ethical standards, board composition and performance, board committees, reporting and disclosure, remuneration of directors and chief executives, risk management, auditors, and shareholder rights and relations. The revised code contains a number of directives, including an expectation that the remuneration of all directors and the CEO is 'transparent, fair and reasonable'. Also this year, the New Zealand Financial Market Authority (FMA) released a report sharing important insights gathered while reviewing licences granted to financial services firms over the last three years. Among its key findings, it emphasised the importance of boards and senior teams leading company culture.

But to what extent is the regulatory interest leading to action? IBR data shows that 66% of businesses in New Zealand view their culture as an important contributor to reputation. In addition, 48% of boards currently have culture as a standing item on their agenda. These are positive steps, but there is room for both numbers to grow.

One thing New Zealand board members are doing is considering and evaluating conduct risk, mindful of the extensive damage that fraud, corruption or unethical behaviour can bring. 82% of respondents in New Zealand told us their boards are establishing controls to address employee behaviour. With discussions on culture a regular fixture at less than half of New Zealand board meetings, there's a challenge to make sure culture is aligned as a supporter of rather than a destabilising influence when seeking to align risk with strategy and sustainability.

"When it comes to corporate governance matters, New Zealand is probably best considered a 'fast follower' rather than 'cutting edge'."

Mark Hucklesby, National technical director, Grant Thornton New Zealand

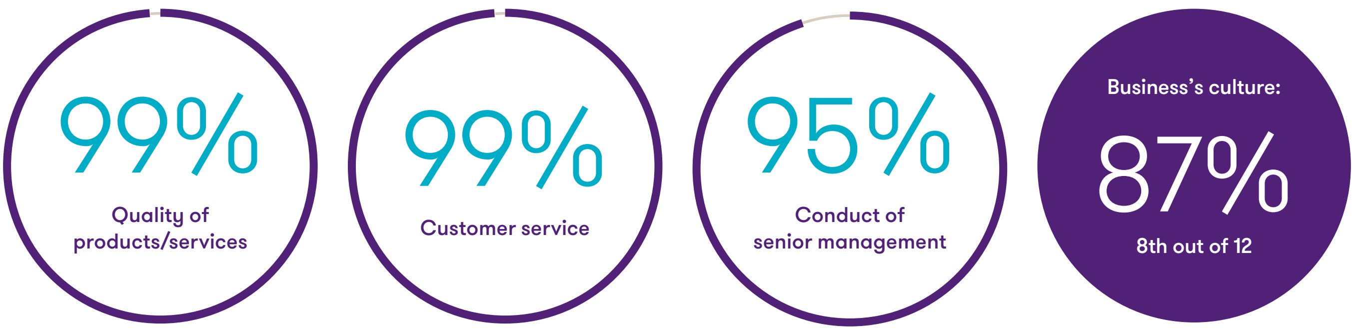
Africa

The trends in culture across Africa mirror those at a global level, with boards taking a combination of internally and externally focused measures. Alongside establishing internal controls to address culture, boards are also ensuring their values fit with those of their customers and suppliers.

The overwhelming majority of businesses in Africa – nearly nine in ten – told us that their culture is an important factor impacting their reputation. It only scored eighth out of the twelve options provided though, behind factors including the quality of products and services, customer service, and the conduct of the senior management team. That said, the latter two are arguably central to the existence of a strong corporate culture.

Steps being taken by boards in Africa to drive corporate culture

Factors business leaders in Africa see as most critical to reputation/brand image



Country snapshot: South Africa

In South Africa, the right culture has always been an important requirement to ensure good governance. The latest version of the King Governance Codes, King IV, published in 2016, defines governance as 'the exercise of an ethical and effective leadership to achieve the governance outcome of, amongst others, an ethical culture'.

King IV also offers a thought-provoking definition of culture in an organisational context, as: 'the way members of an organisation relate to each other, their work and the outside world, in comparison to other organisations. It is generally described as the way we do things around here, even when no-one is watching'.

In South Africa, listed companies are required to apply good governance as per the King IV requirements and they need to explain how this has been achieved in their integrated reports. In the public sector, the Public Finance Management Act also requires organisations to apply good governance and these requirements are reviewed by the Auditor General.

However, although the role of regulators in enforcing governance is critical, it shouldn't be the main reason for practicing and embedding an ethical or positive corporate culture. Increasingly, businesses in South Africa recognise that it's the right thing to do – and that it has commercial benefits. The IBR reveals that 87% of South African businesses see the conduct of senior managers (critical to implementing culture) as an important reputational driver.

"Good governance should be practiced by all organisations because it's the right thing to do if you want to be a good corporate citizen, and because of the benefits you will receive as an organisation that's known for operating ethically and having a good governance culture."

Carla Clamp, Director, Grant Thornton South Africa

Latin America

Boards across Latin America are taking the culture challenge seriously. Three in four business leaders we surveyed tell us their boards are establishing internal controls to address culture, as well as considering the culture of their customers and suppliers. This suggests a well-rounded approach, taking into account the conduct of their employees as well as external stakeholders whose behaviour could have a knock-on impact.

When asked about the factors which impact their reputation the most, businesses in Latin America reach consensus with their peers around the world. The quality of products and services is cited as the single most important factor. However, Latin American firms also pay close attention to their relationship with employees. Eight in ten firms surveyed recognise the importance of treating this important stakeholder properly. Across the region, 69% of firms cite their culture as an important factor; at a country level, this drops to 56% in Argentina and increases to 73% in Brazil.

Steps being taken by boards in Latin America to drive corporate culture

78%
Establishing internal controls that address culture and employee behaviour

78%
Considering a business customer's culture

74%
Considering a supplier's culture

Factors business leaders in Latin America see as most critical to reputation/brand image

91%
Quality of products/services

87%
Customer service

84%
Conduct of senior management

Business's culture:
69%
8th out of 12

The building blocks of corporate culture

Regulatory scrutiny of corporate culture as a governance requirement for boards is increasing. Official guidelines and requirements help because they give boards a way to implement measures to hold leadership – the guardians of corporate culture – to account.

But is it too simplistic to say that pressure from regulators is the sole factor driving behaviour change on boards and in management teams? There are signs in certain countries where they are starting to accept that culture can be beneficial and it is no longer just down to regulation. Early days perhaps, but there are green shoots.

Our findings suggest that a sense of culture cannot be imposed from outside. An authentic and sustainable corporate culture can only come from within an organisation, embodied by its people, products and services, following regulatory guidelines but embracing its own unique blend of talent and ambitions.

Our research tells us that corporate culture should also exist to do more than just tick a box in a report. It should act as a guide to future growth and success. The role of the board is to weave culture into their corporate governance responsibilities. Not just to make sure that culture complements and supports business strategy today, but to confirm that it will do so in the future.

"A 'tick in the box' mentality… will ultimately result in a lack of achievement and ongoing success."

Mark Hucklesby, National technical director, Grant Thornton New Zealand

"Conversations have changed over recent years: from a time where culture either wasn't seen as important, or was seen as important for value-protection and avoiding failures, to now understanding culture as a way to create value and gain competitive advantage."

Sarah Bell, Head of leadership and culture, Grant Thornton UK

"Culture is all about the unwritten rules, and the spirit of the organisation, which is difficult, but not impossible, to quantify, but you know it when you experience it."

Erica O'Malley, Partner, Human capital management practice, Grant Thornton US

Here are our building blocks to corporate culture – our recommendations for boards to help them succeed in this challenge.

Conduct a culture audit or assessment

Set out a clear code of conduct

Develop strong relationships with business leaders

Ensure cultural alignment with key stakeholders

Focus on the future as well as the present

Attach culture to a business problem

Explore ways to bring representatives from lower levels of the organisation into the fold

Set targets – make culture an actionable corporate objective

Factor culture into ongoing risk governance

How Grant Thornton works with you

Organisations are held accountable for accuracy and integrity in their business operations and they must have effective and reliable governance and compliance procedures in place. Additionally, they must understand and manage risk and seek an appropriate balance between risk and opportunities. We offer a full suite of services to help organisations strike that balance.

Grant Thornton member firms work with boards and executive teams to ensure your business is fit for purpose to meet your future ambitions including:

- Facilitating board discussions and performance assessments
- Benchmarking governance structures, processes and procedures
- Performing corporate governance audits and maturity assessments
- Reviewing or assistance with drafting annual integrated reports
- Internal control and management reporting design, implementation, monitoring
- Cybersecurity: managing the risk and reducing threats to your business
- Facilitating horizon scanning and strategy development through our CEO room
- Assessing and assisting organisations to review and update their Enterprise Risk Management (ERM) frameworks
- Building a risk management culture
- Delivering culture audit reviews to objectively assess the embedded culture across an organisation.

Our global presence means we understand the regulation affecting businesses throughout the world and can help clients fully understand and comply with the requirements. We focus on helping clients implement the right corporate governance framework and establish appropriate compliance practices to formalise the approach to managing risk.

Contact us

If you would like to discuss any of the points raised in this report or discuss corporate culture further, please contact your own Grant Thornton adviser or one of the contacts listed.

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Methodology

IBR Research

The Grant Thornton International Business Report (IBR) provides insight into the views and expectations of more than 10,000 businesses per year across 36 economies. Questionnaires are translated into local languages with each participating country having the option to ask a small number of country-specific questions in addition to the core questionnaire. Fieldwork is undertaken on a quarterly basis, primarily by telephone. IBR is a survey of both listed and privately held businesses. The data for this report was drawn from interviews with more than 2,500 chief executive officers, managing directors, chairmen or other senior executives conducted in between October through December 2016.

One on one interviews

In addition to the quantitative research, in-depth interviews took place with governance specialists across the Grant Thornton network, as well as external business leaders and board members in six economies during the first half of 2017.

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