Governing Culture
Risk & Opportunity?

A GUIDE TO BOARD LEADERSHIP IN PURPOSE, VALUES AND CULTURE

CONSULTATION DRAFT
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27  Other sections that will be included in the final version:
Perspectives (quotes from a number of chairs, CEOs and other board members)
In practice (a selection of case studies)
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We would like to thank…
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28  About the City Values Forum
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Culture is a critical element in the long-term success of any business. It is both a risk and an opportunity – a healthy culture which is consistently nurtured and developed can protect and enhance the value of an organisation and help differentiate it from its rivals. As we have seen all too often, if culture is neglected this can lead to a destruction of value.

In all of this boards have a leadership role to play and are accountable for the governance of culture.

Purpose and values embrace both strategy and behaviour. If clearly defined they can help the organisation to set a template for ethical behaviours and to embed a culture of ‘this is how we do things around here’. Clarity of purpose and clearly defined values I believe are critical to the success and sustainability of any major enterprise today.

Every organisation will have its own approach to this important topic and appropriately it is not the purpose of this guide to be prescriptive as to outcomes. It does however offer a practical agenda and roadmap to help boards to assess where their organisation stands in relation to their accountability for culture, to evaluate areas for priority action and periodically to assess progress.

Sir Win Bischoff
Chairman of the Financial Reporting Council
A board summary

Culture is both a risk and an opportunity. If not taken seriously by the board it can lead to the destruction of value. It is a key organisational capability and fundamental to an organisation’s long-term sustainable success. It helps distinguish an organisation from its competitors and is crucial to the achievement of its strategic goals.

Organisational culture is the sum of the shared assumptions, values and beliefs that create the unique character of an organisation. The purpose and values of an organisation therefore shape culture. In successful organisations, culture governs behaviour in relationships. It defines the appropriate behaviour for any given situation – ‘the way we do things around here’. It governs the interaction with customers and other stakeholders and also affects how employees identify with an organisation.

Value is created through networks of relationships that can span the globe – the organisation’s ‘ecosystem’. Since culture governs behaviour, it impacts on every interaction within these relationships and therefore on the value created. In the extended supplier relationships that now exist, the importance of aligned purpose, values and culture becomes crucial.

Creating a desired and consistent organisational culture is not easy especially in a global organisation. The national culture of the societies in which an organisation operates have an influence and employees bring their own values into the organisation. But the benefit of establishing common values and expectations of behaviour among employees is that this encourages consistent behaviour. This results in higher employee engagement and enhanced performance.

The desired culture that will enable success needs regular attention and nurturing. Leaders have a crucial role to play in influencing culture through what and how they communicate, their behaviours, how they reward and sanction the behaviours of others, what they measure and how they apply processes and practices. If these are not aligned, then a gap between the desired culture and the actual culture will develop.

Boards have a dual leadership role – accountability and assurance. They are accountable for ensuring that there is no ambiguity about purpose and values and for embodying the behaviours needed to deliver their strategic goals. They also need to assure themselves that the executive is taking the appropriate action to achieve and maintain the desired culture.
The findings from our research indicate that boards which fulfil this dual role well, focus on the following six ‘pillars’ of success:

- inspiring purpose and set of values
- aligning purpose, values, strategy and capability
- promoting and embodying purpose and values
- using purpose and values to guide decisions
- encouraging desired behaviours
- assuring progress is being achieved.

These work together to form a cycle of review and action. We recommend that boards take time every year to review and discuss progress towards achieving the desired culture, its maintenance and development.

To assist such a discussion, we have provided two tools:

- an ‘agenda’ for the board’s discussion, taking each of the six pillars above and providing the core questions a board might ask of itself and the executive team

- a ‘roadmap for boards’ showing the behaviours boards should expect to see that address the questions in the ‘agenda for boards’. The roadmap shows three stages of a journey. Boards can review where they are now and agree where they want to be. Each board will prioritise differently.
Governing culture: risk and opportunity – an agenda for boards

Pillar 1: Inspiring purpose and values

Questions for boards to ask themselves
- Does our purpose adequately describe the way we wish to create value for our key stakeholders including wider society?
- What is our shared understanding about our purpose and values and the culture they inspire?

Questions for boards to ask the executive team
- How inspiring are our purpose and values to our people and other key stakeholders, including society at large?
- How are the changing expectations of our key stakeholders being monitored in order to inform our purpose, values and strategic goals?

Pillar 2: Aligning purpose, values, strategy and capability

Questions for boards to ask themselves
- How well does our current business model deliver our purpose consistent with our values? What might we need to change?
- How effective is the fit between our purpose, values, culture and strategic goals? What are the barriers, enablers, risks and opportunities?

Questions for boards to ask the executive team
- What is our current versus our desired culture? What is being done to close any gap?
- To what degree does our organisation and the key relationships on which we rely to create value have the capability, including culture, to deliver our strategic goals in a way that is consistent with our purpose and values?
Pillar 3: Promoting and embodying purpose and values

Questions for boards to ask themselves

- What are the board behaviours we wish to encourage?
- How do we embody the purpose and values, individually and collectively, inside and outside the boardroom? What can we do to improve this?
- To what degree does our board culture encourage constructive challenge about behaviours that are inconsistent with our purpose and values?
- What more can we do as a board to communicate the behaviours we want to see of everyone who affects our reputation?

Questions for boards to ask the executive team

- How are we assuring ourselves that all leaders in our organisation promote and embody our purpose and values?

Pillar 4: Using purpose and values to guide decisions

Questions for boards to ask themselves

- How do we ensure that board decisions are consistent with our purpose and values?

Questions for boards to ask the executive team

- How are we ensuring that critical decisions are being taken across the organisation at the right level, by the right people, at the right time and in a way that is consistent with our purpose and values?
- What support and training is being provided to help everyone we rely on to create value to take these decisions consistently with the purpose, values and strategic goals?
Pillar 5: Encouraging desired behaviours

Questions for boards to ask themselves

- What are the board behaviours we wish to encourage and how do we encourage them? How do we deal with behaviours that do not support our purpose and values?
- How do we ensure that we practice what we preach in the appointment, promotion and dismissal of the executive team?

Questions for boards to ask the executive team

- How are we rewarding and recognising the behaviours of the executive team, individually and collectively, to ensure they embody and promote our purpose and values across the whole organisation?
- How do we ensure that the incentives, processes and practices adopted inside the organisation and in our value chain are driving the right behaviours?

Pillar 6: Assuring progress is being achieved

Questions for boards to ask themselves

- How are we ensuring that all the people on whom we rely to create value, inside and outside the organisation, are behaving and making decisions in line with our purpose and values?
- In what ways do we monitor whether the desired culture is being achieved at board and executive levels and across the organisation as a whole?

Questions for boards to ask the executive team

- Where insufficient progress is being made, how will this be addressed?
- Where there is misalignment, how do we ensure that cultural risk is being mitigated effectively?
Governing culture: risk and opportunity – a roadmap for boards

This roadmap is an aid for chairs and directors to help them make an assessment of how mature the board’s approach is to governing purpose, values and culture. The three stages and their indicators are drawn from our research and should be used as a stimulus for discussion. Some boards might find it helpful to adapt the ‘roadmap’ to fit their sector better.

It is likely that boards will assess themselves as being at different levels for different issues.

Level 2 is not intended to be a description of the end of the journey, more an indication that the board is governing culture as well as the best boards currently do.
## Pillar 1: Inspiring purpose and values

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<td>Purpose and values have been communicated to all employees at the front line in a way that resonates with them, leading to the values being more closely reflected in behaviours. The board receives an annual update of trends in the expectations of key stakeholders. The board clearly prioritises the value that the organisation creates for key stakeholders on the basis of mutuality and sustainability. The behaviour of all employees is aligned with and reflects the corporate values. The board understands the current culture in the organisation and its ecosystem.</td>
<td>The board publishes what value key stakeholders can expect from the organisation. Members of the board meet regularly with representatives of each key stakeholder group both formally and informally. The value created for each key relationship is measured and reported to the board and published externally. The board receives a 'social value report' each year.</td>
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## Pillar 2: Aligning purpose, values, strategy and capability

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<td>Alignment of strategy, values and behaviours is a regular board conversation. All human resource processes take into account values and expected behaviours. The board has identified suitable accreditations for the organisation and employees to help embed values.</td>
<td>The tension between purpose, values and commercial value is explicit in strategic goals and execution. The board regularly reviews the risks of not embedding appropriate behaviours consistent with values. The board ensures that the recruitment and selection of board members and key senior executives assesses their values and behaviours as well as their professional competence. The business model is reviewed by the board on a regular basis to ensure that it is delivering the purpose consistent with values.</td>
<td>Strategy exploits values and consistent behaviours as a differentiator or sector game changer. Business model goes beyond profit generated for investors to include the investment costs needed to develop organisational capability and consistent behaviours. Suppliers and all those in the ecosystem are required to behave consistently with values.</td>
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### Pillar 3: Promoting and embodying purpose and values

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<td>Leadership behaviours that role-model the values and reinforce the aspirational culture are clearly described and agreed. Board members and executives demonstrate purpose and values through their behaviours.</td>
<td>Board members live and breathe values, through all communications. Board members are selected for character and ability to promote values across the organisation and are role models for the values and culture. The chair includes values-led behaviour, when assessing the performance of board members. The performance of the chair is judged against the extent to which they live and promote the values.</td>
<td>Board members regularly visit operational sites/branches, hold town halls and meet with individuals to promote values and behaviours. Boardroom culture is open and self-critical. It is a safe space for concerns to be raised and discussed. The board has a team coach who focuses on values and culture, recognising the need for continuous development.</td>
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### Pillar 4: Using purpose and values to guide decisions

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<td>Principles-based decision-making is the norm at the board. Product/service alignment with purpose and values is part of the approval process for research and development and marketing. It is acceptable for everyone in the organisation to challenge decisions and actions that are inconsistent with the purpose and values.</td>
<td>The board has a clear decision-making framework that seeks to ensure decisions and behaviours are consistent with values. The values component of reputational risk is an element of all strategic decisions and is reported to the board. Data on the alignment of values and behaviours is collected and used in strategic decision-making. Everyone in the organisation is trained to understand and apply the corporate values in their daily decision-making. The consistency with which values are expressed across the organisation is measured and monitored.</td>
<td>Values are always considered in every decision made throughout the organisation. Strategic discussions are accompanied by a conversation about the reciprocal value for each key relationship and the business model. The board regularly reviews and challenges whether it is meeting society’s expectations – its ‘licence to operate’ – in all the countries where it does business.</td>
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**Pillar 5: Encouraging desired behaviours**

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<td>Reward is tied to demonstrated behaviour. The remuneration committee receives reports on individual behaviours with all submissions for pay, bonus and promotion. Senior leaders are rewarded/sanctioned for performance against 3 or 4 ‘bottom lines’ e.g. finance, customers, employees, society including environmental issues. Senior leaders are encouraged to talk about purpose and values and expected behaviour in their routine communications. The board regularly reviews communications through the lens of values and behaviour.</td>
<td>There is automatic bonus reduction for senior leaders, or their teams, that do not demonstrate expected behaviours and values Board members and senior leaders who do not behave in line with values are sanctioned or exited. The board regularly considers communications strategies to encourage and reinforce purpose, values, culture and behaviour. Stories/examples that reinforce and encourage the desired culture are collected and widely shared. Employee recognition programmes encourage behaviour in line with purpose and values.</td>
<td>Board members who do not demonstrate the expected behaviours are sanctioned. Senior leaders are valued and recognised for consistent behaviour in line with purpose and values. The board receives a report which describes the level to which reward and recognition are aligned with the purpose and values in both the organisation and its ecosystem. Stories/examples of misaligned behaviour and the resultant action are made widely known.</td>
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**Pillar 6: Assuring progress is being achieved**

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<td>The board has ways of measuring values, behaviours and culture in the organisation (e.g. results of key stakeholder surveys, employee engagement, customer satisfaction, regulator reports and internal reviews and audit reports). Internal audits cover values and behaviours contained in the above processes. The board receives regular ‘misdemeanor’ reports. Cultural risk is a specific risk agenda item.</td>
<td>The board agrees key values-based metrics for customers, employees and other key stakeholders and monitors regularly. The board has agreed ways in which it will test whether the values resonate with the people at the front line of the organisation. The board receives an annual report on values and behaviours – distilled from key performance indicators (KPIs), surveys, internal audit, HR and other sources – to assure themselves that the values are being demonstrated throughout the organisation. The board receives an annual report on the alignment of actual and aspired culture.</td>
<td>The board publishes performance against values and behaviours with objectives and metrics in the annual report. The board has an independent team that measures and reviews values and expected behaviours throughout its ecosystem on a regular basis. The board evaluation processes always include the behaviour of board members and board culture. There is a non-executive director who leads on culture.</td>
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Culture is a key organisational capability and fundamental to an organisation’s long-term sustainable success.

Culture helps distinguish an organisation from its competitors and is crucial to the achievement of its strategic goals.

The purpose and values of an organisation shape culture.

Boards, particularly chairs, have a vital role in ensuring that purpose, values, strategy and capability are aligned in a way that creates value for the organisation.

The rest of this guide explores in more detail what board leadership of purpose, values and culture means in practice. It describes each of the six key pillars in more detail and gives examples of what the best boards do. It also shows, for each pillar, the relevant section from the ‘agenda for boards’ differentiating between the questions for the board to ask of itself and those it might ask of the executive team, along with the relevant part of the ‘roadmap’.

The following provides a guide to the various sections:

The board’s role

Why purpose, values and culture matter

The six pillars

Pillar 1: Inspiring purpose and values

Pillar 2: Aligning purpose, values, strategy and capability

Pillar 3: Promoting and embodying purpose and values

Pillar 4: Using purpose and values to guide decisions

Pillar 5: Encouraging desired behaviours

Pillar 6: Assuring progress is being achieved

Other sections that will be included in the final version

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Pages 16 to 17
Pages 18 to 19
Pages 20 to 21
Pages 22 to 23
Pages 24 to 25
Page 27
The board’s role
Why purpose, values and culture matter

In the wake of the financial crisis much has been said about the critical importance of culture, values, the need for leadership, integrity and setting the right ‘tone from the top’. Culture helps distinguish an organisation from its competitors. It is crucial to the achievement of its strategic goals. It can be an enabler of or barrier to success – a capability or a disability.

There is often confusion between the use of the words culture, values and behaviours. For the purpose of this guide we define culture as being ‘the way we do things around here’. It is the sum of the shared assumptions, values and beliefs that create the unique character of an organisation. If culture is left to chance, it can absorb precious energy and put the handbrake on the organisation achieving its purpose and strategic goals. But if led and managed well culture is the rocket fuel for delivering value to stakeholders.

Purpose is an expression of why the organisation exists, beyond financial gain. It states the impact it wants to have on the lives of everyone it wishes to serve. If expressed well, purpose should inspire people so they want to work for the organisation. The set of organisational values support the achievement of this purpose.

Together, purpose and values shape an organisation’s culture. Their collective impact manifests itself through the behaviours of all those in the organisation and in the ecosystem of relationships on which it relies to create value. When the purpose is inspiring, and the values are lived by everyone and used to inform every decision made, then the organisation creates greater value for all its key relationships.

Boards are the ultimate custodians of an organisation’s purpose, values and culture. The board’s role, led by the chair, is to:

• ensure the organisation is delivering its purpose
• ensure alignment between the purpose, values, strategic goals and capability, including culture
• assure itself that the purpose and values are embedded and lived throughout the organisation and the desired culture is being achieved and maintained.

Board leadership of purpose, values and culture is a dynamic process. Boards need to be alive to the changing expectations of the organisation’s key relationships, and to the pressures of those expectations on the behaviours and decisions of people on the front line. It is also a journey. Our research shows that, while many organisations recognise the importance of these to their success, most still have progress to make in terms of governing these well.
The six pillars

Pillar 1: Inspiring purpose and values

The best organisations are clear about their purpose, their values, their key relationships and the reciprocal value created through those relationships.

Purpose and values equip the organisation to be focused and consistent while also being adaptable. They shape its view of success, and underpin its approach to engaging in all its relationships.

Every organisation has a unique purpose – its reason for being. From this a set of values will flow that are necessary to achieve this purpose. Together they act to inspire everyone in the organisation to make the right choices and decisions.

Not only do boards need to be clear about purpose and values, they need clarity about who they value – their key relationships such as customers, employees, suppliers, investors, regulators and the communities and wider society in which the organisation operates.

Relationships are reciprocal. Each of these relationships has value to the organisation and the value that the organisation promises for each relationship needs to be made clear in return. Boards have been excellent at being sensitive and responsive to the changing expectations of investors. They now need to apply the same sensitivity to the expectations of other key stakeholders.

It is this reciprocal value created through each key relationship that differentiates an organisation from its competitors. When boards do not provide sufficient clarity about who and how this value is created, employees on the front line will find it difficult to know what behaviours are expected and to act consistently in these relationships.

Once defined, the purpose and values of an organisation need only to be reviewed on a periodic basis. However, the reciprocal value from each key relationship may need more frequent review as stakeholders’ expectations change. Mergers and acquisitions can substantially change the business model. Changing stakeholder expectations constantly shift the line that separates what wider society considers morally acceptable or not. An example is the adverse public reaction to what is seen as tax evasion.
An agenda for boards

**Questions for boards to ask themselves**

- Does our purpose adequately describe the way we wish to create value for our key stakeholders including wider society?
- What is our shared understanding about our purpose and values and the culture they inspire?

**Questions for boards to ask the executive team**

- How inspiring are our purpose and values to our people and other key stakeholders, including society at large?
- How are the changing expectations of our key stakeholders being monitored in order to inform our purpose, values and strategic goals?

Stages of the journey

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Pillar 2: Aligning purpose, values, strategy and capability

Boards see strategy as a galvanising force for everyone to achieve the organisation’s purpose and commercial goals, and unlock the reciprocal value that lies in all its key relationships. The strategy also sends a strong message about what senior leaders value and prioritise.

The strategy will only succeed if it is supported by the organisation’s culture shaped by its purpose and values and manifested through behaviours.

The board’s role is to challenge the corporate strategy and satisfy itself that the organisation has the capability to deliver it.

By capability we mean:

- financial capability: what additional investment may be required (for example in technology, new products and services, new distribution or supply networks)
- people capability: whether the people in the organisation and throughout the ecosystem of relationships on which it relies, have the skills and capability to deliver their objectives in a way that is consistent with the stated values
- cultural capability: whether the ensuing culture is enabling or acting as a barrier to achieving the strategic goals.

Sustainable strategies of the best companies include value creation for all key stakeholders.

Purpose and values should be embedded in the business model. The business model includes not only how that value is defined, but also the means by which value is created for each key stakeholder and how that value will be delivered in a consistent way, including the investment costs required to develop the organisational capability to deliver the value.
An agenda for boards

Questions for boards to ask themselves

- How well does our current business model deliver our purpose consistent with our values? What might we need to change?
- How effective is the fit between our purpose, values, culture and strategic goals? What are the barriers, enablers, risks and opportunities?

Questions for boards to ask the executive team

- What is our current versus our desired culture? What is being done to close any gap?
- To what degree does our organisation and the key relationships on which we rely to create value have the capability, including culture, to deliver our strategic goals in a way that is consistent with our purpose and values?

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Pillar 3: Promoting and embodying purpose and values

The purpose and values of an organisation shape culture and culture governs behaviour. It governs the way people and groups interact with each other, with customers and clients and other stakeholders and how much employees identify with an organisation. It defines the appropriate behaviour for any given situation – ‘the way we do things around here’.

Promoting and embodying the purpose and values of the organisation is vital. Everyone watches what the leaders of companies do. Whether speaking in public at parliamentary select committees or in private discussions in far flung corners of the organisation, employees, customers and society at large pay very close attention to what board members say and do.

The board’s role is to ensure that its own behaviour is in line with the organisation’s purpose and values and to assure itself that all leaders are doing the same.

Some boards seem almost complacent and take for granted that the published values are being lived. In some cases, these are the lucky ones where values and behaviours have been lived consistently since the organisation was founded. In today’s world even these companies need to be explicit about their purpose and values, ensure they are communicated and understood and reflected in everyone’s behaviour.

Part of this is being unambiguous about the relative priority of financial performance, reputation and values. The interests of key stakeholders are frequently in conflict with each other or with the purpose and values of the organisation. In these situations, boards send a strong signal to the rest of the organisation when they make decisions that are consistent with the organisation’s purpose and values, especially where the commercial benefits may not be immediately apparent.

Dealing with such dilemmas takes strength of character. Board members need to be seen to stand up for their beliefs and step forward in the face of serious challenge. The chair has an important role to play in ensuring that the culture of the board encourages the right behaviours. He/she can enable the board to show this kind of leadership by creating a safe space for constructive challenge and for different ideas to be aired within the boardroom. For example, by ensuring that any of the CEO’s direct reports can raise an issue with the board where they have a contrary view to the CEO. A skilful chair will be able to draw these issues out and encourage discussion. Effective use of board evaluation can be helpful.
An agenda for boards

Questions for boards to ask themselves

- What are the board behaviours we wish to encourage?
- How do we embody the purpose and values, individually and collectively, inside and outside the boardroom? What can we do to improve this?
- To what degree does our board culture encourage constructive challenge about behaviours that are inconsistent with our purpose and values?
- What more can we do as a board to communicate the behaviours we want to see of everyone who affects our reputation?

Questions for boards to ask the executive team

- How are we assuring ourselves that all leaders in our organisation promote and embody our purpose and values?

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Pillar 4: Using purpose and values to guide decisions

Decisions, large or small, can quickly make or break an organisation’s reputation. For example, the decisions taken by Volkswagen in respect of the devices monitoring emissions in their diesel vehicles.

Boards need to be clear which decisions are most critical to their organisation’s reputation and success. For example, protecting the health and safety of employees, customers and society is critical to an oil and gas company. For a bank, protecting customers’ deposits is a priority. The tricky decisions are those that involve balancing the competing interests of key stakeholders, such as returning profits to investors versus customer service versus employee work life balance versus value to society. Boards that are clear about the two or three most important priorities to the organisation and review these regularly will find it easier to govern culture.

Once these key priorities have been identified, the best organisations put in place a decision-making framework, supported by training, to help ensure that decisions taken anywhere in the organisation reflect the purpose and stated values. This could be in the form of principles, a code of conduct or a ‘mantra’ that everyone in the organisation knows and which guides their decisions and behaviour – such as the ‘triple bottom line’ or ‘doing the right thing’.

Good decision-making also means being clear about responsibilities and delegated authority, particularly in matrix organisations.

One way to judge if the decision-making framework is effective is whether the chair and board members talk about using the decision-making framework in the same language as their employees.

A parallel can be drawn with risk appetite. The litmus test for whether a board has articulated the risk appetite well is whether the chair can go to the most junior employee and find that they are able to explain what the major risks around their job are. A similar test might be applied to values. Can employees describe the major dilemmas they face or are likely to face around their job? Can they give examples of scenarios they have observed where the values are working and where they are not working? Can they give examples where decisions have been taken that are not aligned to the organisation’s purpose?
An agenda for boards

Questions for boards to ask themselves

- How do we ensure that board decisions are consistent with our purpose and values?

Questions for boards to ask the executive team

- How are we ensuring that critical decisions are being taken across the organisation at the right level, by the right people, at the right time and in a way that is consistent with our purpose and values?
- What support and training is being provided to help everyone we rely on to create value to take these decisions consistently with the purpose, values and strategic goals?

Stages of the journey

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<td>Principles-based decision-making is the norm at the board. Product/service alignment with purpose and values is part of the approval process for research and development and marketing. It is acceptable for everyone in the organisation to challenge decisions and actions that are inconsistent with the purpose and values.</td>
<td>The board has a clear decision-making framework that seeks to ensure decisions and behaviours are consistent with values. The values component of reputational risk is an element of all strategic decisions and is reported to the board. Data on the alignment of values and behaviours is collected and used in strategic decision-making. Everyone in the organisation is trained to understand and apply the corporate values in their daily decision-making. The consistency with which values are expressed across the organisation is measured and monitored.</td>
<td>Values are always considered in every decision made throughout the organisation. Strategic discussions are accompanied by a conversation about the reciprocal value for each key relationship and the business model. The board regularly reviews and challenges whether it is meeting society’s expectations – its ‘licence to operate’ – in all the countries where it does business.</td>
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Pillar 5: Encouraging desired behaviours

Achieving a desired and consistent culture is necessary to achieve the organisation’s purpose and strategic goals. The board’s role is to encourage the desired behaviours among themselves, the executive team and throughout the organisation and its ecosystem. Communication and incentives have an important part to play.

When discussing incentives, there is a tendency to consider these only in monetary terms. Yet there are other important motivators that can influence behaviour and therefore culture such as:

- **moral**: the drive to do what is ‘right’ – which is why purpose is increasingly important
- **personal**: the satisfaction of individual needs such as status, reputation, autonomy, achievement, self-esteem, pride in the organisation and/or its products and services
- **outside forces** such as regulation, public opinion, peer pressure.

These categories are not mutually exclusive. Neither do individuals exist in a vacuum – they are subject to the influence of others’ beliefs, motivations and actions driven by their own incentives.

While the board should not involve itself in the details of management, it should regularly question the executive team about whether the organisation’s systems and processes are encouraging the right behaviours. Remuneration, recruitment, training, performance and recognition are all important but so too is how inappropriate behaviour is dealt with – what sanctions are used and in what circumstances.

There are many ways to tie values into incentive structures. For example, remuneration can be tied to non-financial metrics such as customer service and employee engagement. ‘Gating systems’ can be introduced, where managers are not considered for a bonus or promotion without meeting certain values targets.

All communication, both internal and external and to all stakeholders, should reflect the organisation’s purpose and values.
An agenda for boards

Questions for boards to ask themselves

- What are the board behaviours we wish to encourage and how do we encourage them? How do we deal with behaviours that do not support our purpose and values?
- How do we ensure that we practice what we preach in the appointment, promotion and dismissal of the executive team?

Questions for boards to ask the executive team

- How are we rewarding and recognising the behaviours of the executive team, individually and collectively, to ensure they embody and promote our purpose and values across the whole organisation?
- How do we ensure that the incentives, processes and practices adopted inside the organisation and in our value chain are driving the right behaviours?

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<td>Reward is tied to demonstrated behaviour. The remuneration committee receives reports on individual behaviours with all submissions for pay, bonus and promotion. Senior leaders are rewarded/sanctioned for performance against 3 or 4 ‘bottom lines’ e.g. finance, customers, employees, society including environmental issues. Senior leaders are encouraged to talk about purpose and values and expected behaviour in their routine communications. The board regularly reviews communications through the lens of values and behaviour.</td>
<td>There is automatic bonus reduction for senior leaders, or their teams, that do not demonstrate expected behaviours and values Board members and senior leaders who do not behave in line with values are sanctioned or exited. The board regularly considers communications strategies to encourage and reinforce purpose, values, culture and behaviour. Stories/examples that reinforce and encourage the desired culture are collected and widely shared. Employee recognition programmes encourage behaviour in line with purpose and values.</td>
<td>Board members who do not demonstrate the expected behaviours are sanctioned. Senior leaders are valued and recognised for consistent behaviour in line with purpose and values. The board receives a report which describes the level to which reward and recognition are aligned with the purpose and values in both the organisation and its ecosystem. Stories/examples of misaligned behaviour and the resultant action are made widely known.</td>
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Pillar 6: Assuring progress is being achieved

At any moment someone, somewhere, in every organisation will be doing something that is not consistent with the purpose and values. But boards of large companies cannot monitor how every individual is behaving. What they can do is examine and review their own behaviour and insist that management has a strategy for achieving the desired culture and develops ways to measures behaviour.

Measuring behaviours and culture is difficult and approaches are still being developed. What is being sought is objective evidence of how behaviours have been applied in arriving at an outcome. There are three main ways board members can assess and measure behaviours:

- **observation** – while not an objective measure, observation can be useful. For example, observing how people behave in the boardroom, board members spending a day listening to calls at a call-centre or talking with those at the front line. Informal evidence can also be collected from those conducting internal reviews and audits, risk and legal teams and feedback obtained from external auditors.

- **structured subjective measures** – these are the most commonly used and are helpful in terms of identifying trends. For example, reports on misdemeanours, performance management, whistle blowing, internal audit and risk reviews. In addition to trend identification, employee engagement and customer satisfaction data can give some indication of potential systemic or exceptional issues or problems.

- **objective measures** – this is the ‘holy grail’. These measures focus on the outcomes of behaviours being measured in practice by using evidence about key decision-making moments to determine whether such decisions have been taken in line with the purpose and values of the organisation. Exploiting ‘big data’ within the organisation to analyse culture and values is a developing science.

Boards should consider the best way to assure themselves that cultural issues are being monitored and reported to the board depending on the structure of the organisation.

There are differing views, but we believe there is value in having a non-executive director who leads on culture.

Over time, independent internal and/or external assurance may be possible in much the same way as companies have moved from reporting only on financial performance to including performance in some non-financial areas.
An agenda for boards

Questions for boards to ask themselves

- How are we ensuring that all the people on whom we rely to create value, inside and outside the organisation, are behaving and making decisions in line with our purpose and values?
- In what ways do we monitor whether the desired culture is being achieved at board and executive levels and across the organisation as whole?

Questions for boards to ask the executive team

- Where insufficient progress is being made, how will this be addressed by the executive team?
- Where there is misalignment, how do we assure ourselves that cultural risk is being mitigated effectively?

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<td>The board has ways of measuring values, behaviours and culture in the organisation (e.g. results of key stakeholder surveys, employee engagement, customer satisfaction, regulator reports and internal reviews and audit reports). Internal audits cover values and behaviours contained in the above processes. The board receives regular ‘misdemeanor’ reports. Cultural risk is a specific risk agenda item.</td>
<td>The board agrees key values-based metrics for customers, employees and other key stakeholders and monitors regularly. The board has agreed ways in which it will test whether the values resonate with the people at the front line of the organisation. The board receives an annual report on values and behaviours – distilled from key performance indicators (KPIs), surveys, internal audit, HR and other sources – to assure themselves that the values are being demonstrated throughout the organisation. The board receives an annual report on the alignment of actual and aspired culture.</td>
<td>The board publishes performance against values and behaviours with objectives and metrics in the annual report. The board has an independent team that measures and reviews values and expected behaviours throughout its ecosystem on a regular basis. The board evaluation processes always include the behaviour of board members and board culture. There is a non-executive director who leads on culture.</td>
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Other sections that will be included in the final version:

Perspectives (quotes from a number of chairs, CEOs and other board members)

In practice (a selection of case studies)

Other useful resources

We would like to thank…

Acknowledgements
About the City Values Forum

The City Values Forum works to embed the principles of trust and integrity in the financial and business services communities and the corporate sector and to improve cultures and behaviours.

Formed in 2011 to deliver the recommendations of The Lord Mayor’s Initiative ‘Restoring Trust in the City’, the Forum is constituted as an informal working group reporting to The Lord Mayor.

The City Values Forum continues to work across a broad front with City institutions, corporate entities, regulators, professional and trade bodies, think tanks and academic institutions to strengthen standards of integrity in the City and corporate communities.

Our latest work, Governing Culture: Risk and Opportunity? – a guide to board leadership in purpose, values and culture, is the latest in an occasional series of initiatives addressing standards of corporate governance, professional competence and the development and sharing of best practice – each aimed at improving business culture and behaviour.

No single initiative can remedy the failures of integrity revealed in recent years, but by acting with the support of many organisations, working throughout the financial, business services and corporate sectors, we aim to reassert the City’s long-standing reputation for fair dealing and to encourage the development of healthy business cultures and behaviours in UK corporate life.

If we succeed together we will inspire customers and clients to entrust us with their business and earn society’s endorsement of our economic role.
About Tomorrow’s Company

Tomorrow’s Company is a London-based globally focused agenda-setting not-for-profit think tank whose purpose is to inspire and enable companies to be a force for good.

It champions a practical agenda for better leadership, governance and investor stewardship.

Tomorrow’s Company believes that adopting an approach that focuses on purpose, values, relationships and the long term is the key to enduring business success. It promotes this approach by engaging business leaders, investors, policymakers and NGOs in a uniquely thoughtful process which sets new agendas.

Tomorrow’s Company developed the concept of the business licence to operate and redefined the concept of corporate social responsibility in the 1990s. Its work on investor stewardship and capital markets stimulated the emergence of the UN Principles of Responsible Investment and the UK’s Stewardship Code.

More recently it has championed integrated reporting and a new agenda for governance and stewardship. It has significantly influenced the direction of corporate governance, including defining the inclusive duties of directors for the UK’s Companies Act 2006 and influencing the King III report in South Africa.
This guide is being issued as a consultation draft. The consultation period runs from 20 July to 7 September 2016.

Comments and contributions are welcome and should be forwarded by e-mail to richardsermon@gryphoncorporate.com and pat@tomorrowscompany.com.

The final published guidance will be available for the FRC Conference scheduled for 20 September 2016.