Culture to Capital: Aligning Corporate Behaviour with Long-Term Performance
20 September 2016

Venue Address

Alderman the Lord Mountevans

Lord Mayor of the City of London

Ladies and gentlemen, good morning and welcome to the Financial Reporting Council's 2016 conference on Culture to capital: aligning corporate behaviour with long-term performance. Almost two weeks ago, and for the second year running, London came top in PwC's Cities of Opportunity Index of 30 global hubs. We beat all other cities in terms of economic clout, intellectual capital, innovation, transport, connectivity and, importantly, quality of life. The report made reassuring post-referendum reading for everyone who cares about the sustainable success of the city of London.

The report also included an intriguing section on the characterisations shared by the most successful global cities. At number three they opined: 'A great city delivers shared good.' A great city delivers shared good. I agree. A city's residents, employees and visitors, not to mention the wider nation, want to feel part of that city's success. They want to be able to identify it, identify with it, benefit from it and take pride in it. In my view, a way for a business to ensure shared good is for its board to take corporate governance seriously, embedding the right culture and values from root to branch.

That has always been the case, but what is different today in an age of forensic scrutiny is what happens when companies – particularly visible ones – fail to do that. The fallout can be very rapid and very public: social media campaigns, 24-hour rolling news and coordinated shareholder revolts, which may not always be proportionate or fair. More than one business has felt the lash of that particular cat-o'-nine-tails over the last few months. It is not just the private sector; an NHS trust attracted huge opprobrium recently when its sacked chief executive was immediately rehired by the same trust in a newly created nominally different role on exactly the same salary without an open application process.

Each of these cases caused a huge amount of damage to people and organisations. It is as Warren Buffet said: 'It takes 20 years to build a reputation and five minutes to ruin it.' There is a flipside to that coin. Greater public scrutiny means news of success spreads faster too, creating greater public trust. These successes can be in the community, like corporate social responsibility, or they can be successes of governance.

Companies with cultures of responsibility and transparency can build up a glowing reputation far faster than the 20 years Mr Buffet cited. That reputation can improve sales, gild even the most impressive public images and, importantly, lead to greater employee satisfaction. I know that the FRC website includes many cases of companies that have done this, from the work of BAE Systems to improve their relationship with the unions, to Marks & Spencer's investment in reducing waste across its supply chain resulting in £500,000 worth of savings since 2007. In other words, a healthy corporate culture absolutely can, and very likely will, contribute to long-term performance – in your words, Sir Win, 'Protecting and enhancing the value of an organisation and helping to differentiate it from its rivals.'

That is what we are here to discuss with a range of speeches and discussions addressing all sorts of corporate culture and behaviour issues, including the thorny question of executive pay. We may not like to discuss that one; it is certainly a contentious and impassioned area for debate. Nevertheless, in looking at it we must always bear in mind the phrase we heard earlier: a great city delivers shared good. The argument that the very top level of pay serves to entice the very best talent really is true, as is the fact that the higher the pay, the higher the tax revenue. Both of these things can contribute to shared good. It is also true that if a company is perceived as offering disproportionate remuneration, not linked to performance or customer service, that trust can take a hit. That message has now reached Downing Street. The Prime Minister, Theresa May, has proposed making shareholder votes on executive pay legally binding rather than advisory. I know that today's speakers and panellists will explore the issue thoroughly, along with all facets of board leadership.

As Lord Mayor, I am an ambassador for the UK's financial and professional services. I would like to end on a reflection. I have visited almost a dozen UK cities during my time in office and nearly 30 different countries. I know what the good City firms do for ordinary working people all over the world: growing pensions, funding infrastructure, providing education and training, unlocking growth, and creating jobs, wealth and prosperity. How often have we in the City talked about doing the right thing? I think that these are the right things. We should celebrate and promote them, and make sure that it is these achievements and vital contributions to our society that people think of when they think of the City. That is how we will prove our contribution to that all-important shared good. The incentives are there: greater long-term value, investor confidence and that most priceless of assets, public trust.

These are the features of great business, and by pursuing them tirelessly at every turn, boards and, indeed, employees at all levels help to create shared good in all aspects. This fantastic conference, the FRC's new report on public culture and the contributions of your cultural coalition partners including CIMA, CIPD, CIIA, IBE and our own City Values Forum have already started to focus the attention of boards on this important issue. There is clearly more to do. Thank you for all you are doing. I wish you all success in your conference today. Thank you.

Welcome Address

Sir Win Bischoff

Chairman, Financial Reporting Council

Thank you, Lord Mayor, for hosting us in this splendid building, your Mansion House, and for opening today's conference. You raised issues that concern a great many of us. They are at the core of what business's role should be and they are issues the Prime Minister, as you have mentioned, has personally addressed and which the Government will be consulting on. They are also issues that are central to the theme of our conference today: culture in business is a key ingredient in delivering long-term sustainable performance for all stakeholders, including customers, communities, suppliers, employees and shareholders – ultimately, of course, society itself.

The FRC is the custodian of the UK Corporate Governance Code, which will be 25 years old in 2017. The Code has been an effective force for good over the last quarter of a century. Its comply-or-explain approach enables companies to have flexibility in the way that they govern their business. The Code has been an effective way to promote the better behaviours the Government and others, including us at the FRC, want to see.

However, there have been some very public instances of poor conduct. Rebuilding genuine confidence in business and long-term prosperity demands business to have a culture that lowers the risk of failure and achieves a wide range of positive outcomes, including serving the needs of wider society. The Prime Minister has been outspoken about her Government's plans for business reform. In the light of Brexit, building confidence is even more imperative for our prosperity and well-being. We need a concerted effort to improve the integrity of business and its connectivity with society. Codes by themselves put forwards principles for best practice that make bad behaviour less likely to occur, but it is public reporting that can make it harder to conceal such behaviour. By itself, a code does not prevent bad behaviour, strategies or bad decisions; only the people, particularly the leaders within a business, can do that.

The FRC has led a report into culture, which is on your chairs. One of its conclusions is the important role that the board has in establishing and delivering the right behaviours. The board must be credible in the eyes of employees and stakeholders more generally, and it needs to take decisions that are consistent with the values and strategy it promotes. For that, thought has to be given to how culture is measured and how it is reported. Corporate culture is intangible; it is true. We all know that, but culture can be measured and much information is already available to companies to do so: health and safety reports, customer satisfaction data, employee turnover and engagement surveys are all examples. It is what you choose to measure and how you analyse and interpret it that is important. At the same time, culture is company specific and no one size fits all.

The indicators selected for assessment should be tailored to each company's specific circumstances. Our culture report was the result of working collaboratively in a coalition with a number of companies. The Lord Mayor has mentioned them: the Chartered Institute of Management Accounts, City Values Forum, the Chartered Institute of Internal Auditors, the Chartered Institute of Personnel Development and IBE, the Institute of Business Ethics. Together, we gathered insights from some of the UK's industry leaders and experts to highlight observations designed to help boards and their companies establish and embed their desired culture. The report has been strongly welcomed, confirming just how topical this subject has become. I am happy to use this occasion to thank all the coalition partners and Independent Audit for their contributions.

In today's event, you will hear from an eminent group of speakers who will discuss their own experiences and consider why and how setting the right culture protects and generates value for all stakeholders. The current public debate highlights specific issues, including executive remuneration, stakeholder representation and stakeholder voting, as well as the role of business itself.

We will also consider how the Corporate Governance Code and guidance can offer solutions. Before I hand over to Conor Kehoe of McKinsey, I want to stress that there simply has to be increased and continuous focus on company culture. That involves all of us. When there is a healthy culture, the systems, procedures, overall functioning and mutual respect of an organisation exist in harmony. This will then lead to enhanced integrity, confidence, long-term success and, ultimately, trust.

I hope that all of you will leave this conference today sharing this particular sense of responsibility. Thank you.

Opening Address

Conor Kehoe

Senior Partner, McKinsey

I. Short-termism

Good morning, everybody. My name is Conor Kehoe of McKinsey & Company. I am here today because over the last few years we have become increasingly concerned about short-termism and how it is leading to bad decisions and poor behaviours around senior executives, which then translates into poor behaviours further down the organisation.

I want to share with you today the evidence that short-termism exists and that it is a problem, what remedies might be out there and the implications for non-executive directors – a particularly important group in overcoming short-termism. At the end, I want to step back and remind you of the success of corporations as an idea. Easy incorporation started in the Victorian era and has been a wonderful invention for all our prosperity. It is worth just thinking about that for a moment or two.

1. Evidence for short-termism

What is the evidence for short-termism? It comes in two forms. I will not bore you with all the details. In essence, when researchers ask senior executives about their decision-making, the senior executives report back that they will forgo value creation opportunities in the long term in order to protect the next quarter or the next half-year's profits. They are quite open about it. They should not say this; they should be saying: 'We will explain to investors why we should invest in project *x* even if it depresses profits in the next quarter,' and get the funds for it. Rather than do that, they too often report they would rather forgo the opportunity in order to hit short-term profit measures.

That is what they say. What do they do? There is some good research that compares publicly listed companies in the United States with their private equivalents. They have been matched for both size and industry. A matched-pair analysis of accounting data – if you can bear with me at this hour of the morning – shows that the public companies are adding to assets or investing at one-third the rate of their private counterparts. They are not investing nearly as much as their private counterparts and their investment in three and a half times less correlated with investment opportunity.

Economists measure that by looking at recent sales growth. Recent sales growth is a pretty good proxy for opportunity to invest, and the private companies' investment is much more correlated with recent sales growth. Through some other manipulations and statistics, they can show that, in fact, this lack of correlation with investment opportunity is highest for those public companies where the share price is particularly sensitive to earnings news, lowest where the share price is not so sensitive to earnings news. You can follow the trail: public companies are investing less than equivalent private counterparts in a way that is less correlated with investment opportunity This seems to be explained by this desire to manipulate earnings to avoid bad earnings news.

If that is the evidence for short-termism, what does it lead to within the company? You can well imagine, apart from just bad investment decisions, it can also translate into bad culture further down. If 'short-term results at any cost' is the tone set in the organisation, you can imagine behaviours that follow.

My favourite quote on this, and I hope I do not do it an injustice, comes from before the financial crisis, when toxic mortgages were being sold aplenty in the United States. Chuck Prince, the head of Citibank at the time, said something quite interesting. I am sure you have heard this quoted before, but he said: 'When the music stops, things will get complicated; but as long as the music is playing, you have got to get up and dance …… and we are still dancing.' You can almost imagine a man trapped by the need to sell more toxic mortgages, though he may not have been talking about them precisely, in order to report profits, because if he did not but his rivals did, he would be damned.

Management can get trapped in this need to show short-term profits and you can imagine that translating into poor behaviours further down the organisation, in the actual selling of the mortgages, for instance. I speculate here – I do not know – but I wonder whether this kind of pressure led Volkswagen engineers to come up with the methods they did to deceive the Environmental Protection Agency in the United States.

2. Remedies

What can be done about it? What are the remedies? How can it be overcome? Indeed, can it be overcome in corporations? I am reminded there was an 18th century jurist who was very concerned about corporations and their behaviour. He said, 'Corporations have neither bodies to be punished, nor souls to be condemned; they therefore do as they like.' Can we find remedies to prevent corporations from doing what they like?

When we looked at the evidence for short-termism, we thought, 'Let us go and talk to management. Let us talk to the boards.' We found that management said: 'You know, Conor, a lot of the pressure comes from the board.' When we talked to the board, they said: 'A lot of the pressure comes from investors.' This chain seems to be causing this pressure towards short-termism.

In the end, we decided that we should ally, to try to do something about it, with the two independent parties along that investment chain: the asset owners, pension funds and insurance companies that run assets on all our behalf; and the non-executive directors, who, although they have to be mindful of shareholder interests, are also men and women with independent responsibility.

We had the pleasure of being able to attract major investors in Canada and Singapore and Larry Fink of BlackRock in New York to this Focusing Capital on the Long Term cause. Interestingly enough, step one for many of them was to realise that, even if they were running 30-year pension money, within their organisations they were rewarding people on one-year bonuses versus an index.

a. Messages

The first step was about how we could expect to transmit the right message all the way down to the corporate boardroom and beyond into good behaviours in an organisation if asset owners themselves are rewarding and incentivising our people on the short term.

I am glad to say that many are looking at changing that or are, indeed, changing it at the moment; some have already done so. It seems imperative to me that the right signals come to the board from investors and therefore investors themselves, who these days are large organisations, need to inject the right incentives and culture into their organisations.

b. Non-executive directors

Secondly, there are non-executive directors. What remedies did we see there? It is all about engagement along two dimensions. One is in strategy setting. Why? We found that engaged non-executives lead to better strategy plans. That is the positive. It also overcomes a negative: non-executives who do not understand the direction the company is taking and do not understand its strategy tend to be very poor at resisting the more shrill, short-term calls that might emanate from the City or from Wall Street.

You need engaged non-executives involved in strategy to get both good strategy but also for them to be able to defend it externally. If that sounds a bit fanciful, there is good evidence that shows that banks in the United States who had non-executive directors who did not understand banking were more likely to need a bail out. The reason was they were much more susceptible to worries coming from outside and brought that into the boardroom rather than defending the bank's strategy outwards.

So there are two remedies. One is to get the investors sending the right signals and having the right incentives; the second is getting non-executives more engaged in strategy and more engaged as well, frankly, within the organisation to understand how behaviours are shaped by the decisions they are making.

c. Technology

There is, by the way, a third change going on in the background - a third remedy that is happening all round us. It is a positive development. Technology is tending to improve, we believe, corporate behaviour. As one leading CEO put it to me, 'Nowadays, things are not hidden anymore. It is out in the open via the internet. Not only do people know about all of our misdemeanours, they can react through social media. Some of our clients have suffered buyer's strikes,' where, through social media, people have decided to punish them. That is much more possible now than it was before.

As a result, corporations can no longer afford poor behaviour. Indeed, they have to go further. They have to promote, as part of their franchise, positive behaviours within their organisation.

So these are the remedies that we saw: get the investors sending the right signals and having the right incentives themselves, and get the non-executives more engaged. We were happy to report that the internet and social media seems to be doing a job too, in the background, for long-termism.

d. Implications for non-executive directors

What are the implications for non-executive directors, who are of particular interest today? We think, from surveys over the years, it has probably moved from being, roughly speaking, a 25-day-a-year job to a 40-day-a-year job. There will be variations around that: some will do more, some perhaps less. On occasions there will be more demands; on occasions fewer demands. The job is changing shape and has become more demanding.

I am happy to report though that the extra days are not typically spent on more meetings. In fact, I quote from the report where Adam Crozier talked about there being 'no substitute for going out into the business and experiencing the culture for yourself'. Rupert Soames said, 'Individual NEDs popping up to sniff the breeze works well.'

That is where people are spending the extra time. It is not 20 days' more meetings; it is 20 days' getting out and about, understanding the organisations and, if it is possible, let us say in the retail space, understanding rivals as well. I believe later you are going to talk about pay. Could I also have you consider how you resource non-executive directors? If I were a non-executive director, I might like to have a researcher or two – like, say, an MP. In fact, what I have today, according to PricewaterhouseCoopers, is £65,000 a year – full stop.

Is that sufficient for a 40-day-a-year job scrutinising the executive? Does it give the non-executive enough compensation for his or her own efforts? Does it gives her or him enough resource to carry out other tasks or to get support.

3. Conclusions

That was our journey into long-termism or short-termism, depending on which way you want to look at it. In summary, we think it is a real problem that is leading to bad decisions at the top. They are translated into poor culture down the organisation. Remedies lie with the investor community and with greater engagement from non-executive directors. The non-executive directors' job, in turn, just becomes a more demanding one. A cannot think of an instance in the last few years, frankly, where we have not asked more of them. My question to you is: are we rewarding them well enough and are we giving them enough resources?

Before we get too negative on this, I have to say that as somebody from a software background I am used to seeing inventions have a big impact on the world.

Yet it is quite hard to find an invention that has done more good for us all that the Victorian Incorporation Acts or Companies' Law. The setting up of a long-term, profit seeking, limited liability corporation was just a wonderful invention in serving the public interest. It works, via Adam Smith's invisible hand, to serve us all by having individuals seeking profit. That is still a good guide. While I worry about the share price as a short-term objective being a very poor guide, shareholder value in the long term seems to me to be a great way of running our organisations. Now what we need is particularly investors and non-executive directors to step up to protect it and strengthen it. Thank you for your attention.

CEOs in Conversation

Moderator:

Dina Medland, independent writer, editor and commentator

CEOs:

Justin King, Vice-Chairman and Head of Portfolio Business at Terra Firma, and former CEO, Sainsbury's

Sacha Romanovitch, CEO, Grant Thornton

Peter Timberlake, Head of Communications, Financial Reporting Council

Thank you very much, Conor, for your very thought-provoking and challenging observations. Thank you particularly, because I know you need to give another speech in Paris. Thank you very much indeed.

We are now about to go into the CEOs in Conversation section. Dina, Sacha and Justin will be on stage in a moment. This is the part where we would encourage audience participation. Rather than have people moving around with roving mics, we are going to use a bit of technology. Use the website Sli.do to pose questions via your phone or tablet during the sessions. If something that somebody says sparks an idea, you can ask the question there and then. Those questions will be totted up on the system and, at a certain point, Dina and then, after the break, Chris Cummings will address those questions.

Dina Medland

Good morning, everyone. It is a great privilege to be here. In the years since the financial crisis, we have heard a great deal about how corporate governance is the essence of a business, but far less until now about corporate culture, which surely is faced daily, both internally and externally. Wells Fargo in the US has arguably just given us an excellent demonstration of corporate culture revealed, raising questions on pay at the top versus incentives down the line. As we have already heard, the Volkswagen emissions saga continues to unfurl, giving us some glimpses into corporate culture there.

This morning I am going to be talking to Justin King, now in the world of private equity as the Vice-Chairman of Terra Firma and previously Chief Executive at Sainsbury's, the retailer. I also have Sacha Romanovitch, the first woman to be elected CEO of a major accountancy firm, Grant Thornton. I will be asking them for their thoughts on corporate culture and its importance. We aim to wrap up in time for a few questions and I will possibly be savvy enough to take them through, but I do not promise that. Join the conversation on social media. The hashtag is prominently displayed everywhere.

Justin, having been Sainsbury's CEO for 10 years, a decade when the retail sector faced increasingly difficult challenges and cutthroat competition, how have you seen the CEO role evolve in terms of establishing company culture? Has it become harder?

Justin King

I am not sure if it is harder. No, I do not think so. It is different. It is the nature of change that the moment you are in feels like the toughest time ever, but I am not sure that is true. If we follow Conor's lead – the history of corporations over 150 years – there are plenty of times when the challenges have been much tougher, in a different time and context. The danger for someone who manages to survive – and sometimes it does feel like survival – running a public company for 10 years is that there is a relentlessness to it.

I remember having a conversation with someone when I had done the job for seven years and they had done their job for seven years, who said, 'I find my job gets harder every year.' I said that I found that too. I realised that there is only one explanation I am comfortable with, which is that for the first two or three years in the job you are beating someone else's performance. From then on you are beating your own performance, so if you are as good as think you are, it should get harder. Anyway, it made me feel more comfortable about why it felt that the job was getting harder. The bar keeps rising. There was a relentlessness to it. If the point of the question is the environment and challenges we are addressing today, then no; it is different but not harder.

Dina Medland

What did you do to make Sainsbury's great again?

Justin King

It is interesting that you pose the question that way. I remember when I first presented what we called the Making Sainsbury's Great Again plan. It was 17 October 2004 and we presented to all of our managers the night before and then we went through the usual roll of analysts, journalists and so on. Sitting in the front row was a *Guardian* journalist, and when I used the words 'Making Sainsbury's Great Again' she audibly guffawed because she thought it was worthy of her contempt. There was a golden moment about five years later when I heard her being interviewed and she used the words 'Making Sainsbury's Great Again' as if it were the most ordinary thing in the world.

The point in that story is that we started with a very clear articulation of what we were going to do. The reason that Making Sainsbury's Great Again resonated with the colleagues in the business and customers that it served, who are to my mind the two most important constituencies in any business – and I say that ahead of shareholders, for the avoidance of doubt – is that they remember a time when the business was truly great and remember what it felt like to work in that organisation and shop from that organisation. They wanted to feel like that again. They felt like something had been taken away from them by the failure of the organisation.

That clear articulation to them and to other stakeholders, shareholders and the wider public through the press and so on was done with very consistent messaging. That consistency, repeated over time, relates a lot of the things we started to hear Conor talk about in terms of measuring it and reporting on it. I resolutely reported on our performance on all the measures that Conor was alluding to around culture, the values of the organisation and the change we were bringing about. When we reached that part of the presentation, the analysts in the room always got their BlackBerrys out and ignored the next bit.

Over time, they started listening, because they started to believe that maybe it was part of the formula of the business. These things take time, and I do not think we are there yet in terms of the wider understanding of the key part that plays. It was pivotal right back to day one of the journey.

Dina Medland

Very briefly, do you think the slogan – if you can call it that – or the mission of Making Sainsbury's Great Again was a great statement going forward on culture?

Justin King

Yes, I think it was. I did not think of it in those terms at the time but, yes, it was. We were trying to grab all of the great bits of the culture of the organisation, modernise them, bring them up to date and make them relevant to today's colleagues and consumers. We were also trying to shed some of the bad things from the past, because there were some pretty poor things in the culture of the organisation too. There is a danger that we talk about culture purely in terms of being a force for good. Culture is as easily a force for bad and that is why changing organisations that do bad things is so difficult, because it is deeply ingrained in their culture. You may prefer not to face that fact, but that is why organisations do bad things: they have a culture that makes that happen, empowers it and gives permission to it. That is why changing it is so difficult; culture change is very difficult to effect.

Dina Medland

Thank you. Sacha, I remember the *Evening Standard* headline very well when you took over the CEO role in June 2015 at Grant Thornton. It read: 'New City Boss: I am capping my pay and giving all staff chance to share in our profits.' I am going to quote just in case the journalist is wrong, because these things do happen. They said, 'Her pay will be limited to a maximum of 20 times the average salary in her firm. That is a fraction of the 149 times average ratio across FTSE100 firms.' What made you do that? Can you talk about the difficulties of calculating the basis for a benchmark?

Sacha Romanovitch

I suppose that the genesis of it comes back to a lot of Justin's point very much about the responsibility of the CEO to set the tone from the top in terms of the culture you want to achieve. One of the things that was critically important for us in our firm was moving to an environment where everybody in the firm absolutely felt invested in the future that we were creating and that their contributions were really valuable. Certainly for us, it was then about looking at what I could do as a CEO that could be symbolic in saying that I was right behind that. CEOs in the room know that you cannot control lots of things yourself and make an immediate change, but that was something I knew that I could personally do and personally control.

It was interesting. We had a lot of discussion at our governance board because I was very mindful of the arguments in terms of being able to attract talent and I did not want to set something that could be detrimental to attracting a successor for me in the future. Equally, I wanted something that was going to be symbolic of where we were. You may recall that at the time there was quite a lot of work that had been going on in Switzerland and analysis as to where might be a sensible benchmark. I took that as a marker and a foot in the ground. My father was a heating engineer at the local council and I am still embarrassed in terms of what I earn. 20 times is still ample for my needs.

Dina Medland

There was also a profit-sharing component.

Sacha Romanovitch

This goes to the heart of how you shift a culture. We set a purpose where it was about how we can, through the clients we work with and what we do with them etc., help to shape a vibrant economy in what we are doing. We knew we wanted all of our 4,500 people involved in that. We created what we define as shared enterprise and looked at how we create the mechanism whereby 4,500 people can share ideas and responsibility for making that happen as well as the reward. We set that as a three-year rolling scheme in terms of rewards. That is very much addressing the long term in business. If we are going to make an investment and have a sustainable business in the long term, those are the choices we need to make.

Dina Medland

Is it correct to say it is like the John Lewis partner scheme?

Sacha Romanovitch

It is similar. Ours has even more emphasis on sharing ideas and responsibility for continuing to develop what we are doing to build value for our clients, for our people and the communities that we serve. There is probably even more emphasis on that aspect. Charlie Mayfield and I have had good discussions in terms of different aspects of the scheme. I have learned a lot from him.

Dina Medland

Is talking about money, executive pay and what people get paid essential if you are going to talk about culture? What do you think, Justin?

Justin King

You have to be open about it. Sacha just eloquently articulated why that measure made sense in her organisation. I have to say the average pay conversation is almost entirely counterproductive because not all corporations are created equal. It is ludicrous to compare a retail organisation that employs 150,000 people and a professional services organisation that employs only graduates. If you think about it even for a short period of time, you realise it will lead to counterproductive behaviour. If we make that the key measure of the acceptability of corporate pay, organisations will start to contract out all low-wage activity so that it is not part of the measure. It would provide a further incentive – and there are many – for things like zero-hour contracts, because you only pay people while they are working, so you can pay them more than if you pay them while they are having breaks, holidays or whatever else they might do.

It is a very dangerous message used more widely. My own approach towards bonuses in Sainsbury's was that they were universal. We devised a bonus scheme, which applied to every single colleague in the business. The measures were the same. It was impossible for me to earn a bonus if everybody else in the business did not earn a bonus. I was very open always when talking in the business and outside about what I earned. I have had many a conversation with a colleague on a till when I was at Sainsbury's, with them saying, 'Oh, I see you got a £3 million bonus; I got £500. Is it not great?' It is entirely possible to have those conversations in an environment that is universal, open and seen to be connected to performance because, ultimately, the profound sense of unfairness comes from the sense that bonuses are an entitlement to many and viewed as such. My experience would be that is exactly what they are to many people. They should be hard earned. The clue is in the word: bonus. It is supposed to be for exceptional performance beyond that that you are paid for in your day job.

Dina Medland

Where are you when it comes to business and government? I think you are on the record as saying that business should stand up for itself.

Justin King

Yes. It is extraordinary that politicians, who I think we would agree are held in low regard by wider society, have worked out there is a community held in lower regard, and that is us – business people. Politicians love to be able to lay a punch on somebody because they certainly get a lot laid on them. We do have to stand up for ourselves. There is a worrying trend towards legislation that is neither proportionate nor evidence based. It is playing to the gallery and playing to 'something must be done'. I do not think that, for want of standing up and being counted, we should let that happen if we genuinely believe it is not going to achieve the effects that politicians attribute to it. If we do not, nobody else will and we let them get away with it.

It is one of the reasons why I have generally been very wary of voluntary agreements. They are much loved by politicians because they can invite you into Number 10 or 11 with a bunch of industry people having a conversation that is at the margins of competition law about what you will agree voluntarily to do among yourselves. That is the legislature seeking to get legislation by the backdoor. We should say, 'Do you know what? If you really think that there is a case to be made, make it through Parliament. That is what you are elected to do. Create a proper legislative level playing field for all businesses to work to.'

I also think part of the problem with collective agreements is, like whichever Marx brother said it, 'I am not sure I want to be a member of that club'. The people that are most enthusiastic for voluntary agreements are those who wish to wrap themselves in the clothes of the best behaving organisations, which tend to have a knee-jerk response to sign up to all of these voluntary agreements. I am not a great fan, and I think we need to be more thoughtful about the use of them.

Dina Medland

I think that after you left Sainsbury's you went on the record for the National Living Wage. What do you think about that?

Justin King

It is a national minimum wage for over-25s. Calling it the National Living Wage is a political title, not an economic title. I worry tremendously about it. We have had a very well-functioning low pay review body. They had a twin remit, which was to push wages for the lowest paid in our society as hard as they could without bringing about economic damage. I think they fulfilled that remit incredibly well. Governments of different complexions implemented their recommendations without change for the entire life of the organisation.

The Government itself has said that it thinks the new national minimum wage for over-25s will destroy jobs; their own calculation is 60,000. Of course the problem is that those 60,000 people do not quite know who they are and it was their job that was cost by that change. Also, it fails to give regard to great employment practice. In one fell swoop, it has increased the incentive for zero-hour contracts, for example. Good businesses are having to look hard at their employment practices that give people non-cash benefits. You mentioned Charlie Mayfield earlier and I think he has even said this. John Lewis Partnership will get no credit for their bonus scheme in the new minimum wage for over-25s. It is also quite bizarre. In law you are not allowed to pay a 24-year-old differently from a 25-year-old. There is no reason why you could and should.

Most corporations have done the right thing, therefore, and treated it as a new national minimum wage for all but the youngest. I think that companies have to look hard at their holiday and paid-break policies, because you do not get credit for that. A simple example is that of two of the biggest grocery retailers in the UK, one pays breaks and the other does not. The one that does not pay breaks quotes a rate of pay that is 60p an hour more than the other, but if you work full time for each organisation you earn more money working for the one that pays the breaks. It cannot be right that we have legislation that is causing companies to dismantle great pay policies.

Dina Medland

Sacha, I think you might want to say something about that.

Sacha Romanovitch

It is interesting. The point Justin makes is absolutely right: great businesses have great employment practices that keep people and make sure that they are applied sensibly across everyone to encourage people in work for the long term. Interestingly, when I am working with my clients there are those that see legislation like that as a reason not to do things and others who see legislation as reason to do things and work with things. It is about continuing that dialogue with Government to educate them as to, 'If this is the intent of what you are trying to achieve with legislation, here are some unintended consequences, and here are some things that we can do to ensure that those do not work against the intent.'

That is the important thing to focus on. When we went through what we call the Living Wage, we were forced to look at our supply chains. In terms of the people who clean our buildings etc., we realised that, going back through the supply chain, there was an awful lot that was not necessarily in our direct remit that we had not paid attention to. I was glad that we resolved that for those people. Sometimes it is about going with the intent of legislation, whether it makes me look at things that I maybe have not looked into, helping me to make better business choices. If you can look at legislation in that vein and influence it where it is causing unintended consequences, we get something that is better for all of us.

Dina Medland

Do you think tension between business and government has an impact on company culture?

Sacha Romanovitch

I have had the opportunity to do a lot with government, and the interesting thing is that whole thing of culture goes through government as well. If there is any system that is set up to reward short-termism and short-term results, it is our political system. We need to recognise that in dealing with government and often trying to help them find ways through to make the right decision for the long term, even though they are the people getting barraged day in, day out to make short-term decisions that are not in the best long-term interests of the country. In the particular system we are in at the moment, there are so many complex issues this country and the world faces. We know that we need to have collaboration between business, government and society that will let us solve them, because that will balance out too much short-term thinking that does not help us progress.

Dina Medland

I was going to ask you this later, but would this be a good time to ask you about Serco and your work there?

Sacha Romanovitch

That is interesting and it goes to some of the things that Conor was talking about. I have always been fascinated in my own practice area about this question of when good people do bad things, because I fundamentally believe that 99.9% of people come to work wanting to do a good job and go away feeling they have done a job well. We can have discussions about whether people dispute that or not, but I fundamentally believe that. It was fascinating to see what happened when we were doing the corporate renewal review of Serco and G4S. I can talk in headlines about this because it is in the public domain.

There were three different dynamics that were observable for people. One is that you had an industry where the business model, when it first came in, was generating premium returns because it was taking a lot of inefficiency out of the system. Then, as they were going through renewal of contracts, there was not that level of premium return to be generated, and yet the City had the expectation of that continued generation of those superior returns. You then had a board that was under pressure from investors to make commitments to delivering continued levels of superior returns. Then you had a culture of a lot of people who were ex-military and used to being asked to do impossible things and making them happen. When you have that combination of the pressure to deliver the impossible and people who are used to being asked to deliver the impossible, sometimes bad things can happen. That is not because people are intently thinking, ‘I am going to do something bad,’ but because of that chain of events. That is where it is really important for us to be able to get much more systemic when looking at the City.

We have a really interesting situation at the moment where much institutional investment is on behalf of pension schemes. Pension schemes are there to invest and deliver long term for people who are going to benefit from those pensions. Not only are there financial returns but long-term investment so that the society we create by those investments is one where we have access to health, transport, good education, people working and all of those things that will give people security in their retirement beyond the financial. Yet, at the moment, we have a mismatch between what is expected in terms of the investor community and what is really needed in terms of pension funds. When we are talking about culture, there is this really important bit about thinking about culture not just in your little box but as a city: what is the culture that we need to create to create long-term value in the system?

Dina Medland

Thank you. No, that is fine. I am going to be digitally savvy. We have a question from Mohammed Amin from the UK Shareholders’ Association for you Sacha. How does Grant Thornton reward partners who turn away clients that would pose excessive risks for the firm?

Sacha Romanovitch

This is really important. Just this week we turned away an assignment that probably would have generated £1 million worth of fees, but when we looked at the assignments and the individuals involved we decided it was not something we wanted to be associated with. It is really important for us. It is reflected through all of our partners and given a quality score. That quality score reflects the risks. No partner can get an overall assessment grading higher than their quality score. That is fairly entrenched in our systems and how we approach things.

Dina Medland

There is another question, which is for you, Justin, if you would like to take it. It is anonymous. We do not like anonymous questions. Put your name on it. Do you monitor organisational culture on an ongoing basis, or did you, at Sainsbury's?

Justin King

I did at Sainsbury's, as I guess would be perhaps obvious from my earlier comments. Perhaps more unusually, I work for a business now and we own nine companies. It is part of our standard suite of management reporting on all of our portfolio companies. If Conor was here I would be asking him for a discount now, because we use McKinsey's Organisational Health Index (OHI) and all of our businesses and management have that as one of their key performance indicators. Indeed, a big part of one of our more recent turnaround stories regarding a business that we have sold or are in the process of selling, Odeon, was a fundamental change of culture driven by a new leadership team. That refocused the business. That sounds pretty obvious, but it refocused the business on serving its customers. In the early part of our ownership, that was not true.

Dina Medland

That brings us nicely to the fact that you are now in private equity as Vice-Chairman of Terra Firma. How do you find the culture? Can business learn from private equity or do listed business hold good lessons?

Justin King

The reality is if you do not think you can learn from any and everybody else, you have reached a pretty poor place. I said when I left Sainsbury's that I wanted to do something very different. As it happens, I did not particularly have private equity in mind, but the role that I was able to take at Terra Firma, taking responsibility for all of our portfolio businesses, felt to me like quite a big job and it has turned out to be that. It is also a job where I could bring skills from my old world but also learn a bunch of new stuff. I have learnt more in the last year than probably in any individual year in the last 20 years of my working life. It has been fantastic from that point of view.

When I was looking at businesses that I might work with, part of the appeal of Terra Firma was its model is ownership, as in outright ownership and control, and it is relatively long term. We are relatively long term in our ownership. Sometimes that is forced upon you by failure; sometimes it is because that is the length of time it takes to transform a business. In fact, there is an irony that in today's world the shortest-term ownership model is the ownership model of public companies. Private companies, family-held companies and private-equity-owned companies all have significantly greater friction cost in the change of ownership. There is almost no friction cost at all in the change of ownership of our public corporations. That longer term ownership model, enforced though it may be, means a lot of what we have been talking about today, such as businesses taking decisions with their eye on the horizon rather than the here and now, is easier to do.

The shareholder management dynamic is much more straightforward. I worked for Asda when they were bought by Walmart. We used to talk in Asda about the fact that having one shareholder, because that was what it was, was either the best thing in the world or the worst thing in the world. The challenge is to try to make it the best thing in the world most of the time. Of course, there are lessons learned both ways, but it is observable that we now have a situation where our shortest term ownership model is in public markets.

Dina Medland

We have another question from Charles Henderson. I do not know which one of you would like to take it. How does a company know it has the right culture for its business and how should it communicate this to investors?

Sacha Romanovitch

That is a great question. That comes back to the discussion around there being no one-size-fits-all culture. It is about looking at the strategy you want to pursue and therefore what it is that you need to inculcate into your people and embed into the DNA. For example, looking at our organisation, if I want our people to be continually creating value for our clients over the long term, I need to have an innovation culture with quality at its heart, creating an environment where people are able to come up with ideas and given space to develop ideas, and where we are very much exploring possibilities and where people are given a chance to try new things out and learn from them. All of those things have become critically important to us. The starting point is looking from a purpose perspective at why you exist – what you are there to achieve with your business in society – and to look at your strategy and say: 'What are the behaviours that we therefore need to have in our people?' We also need to ask whether our culture enables that.

It is fascinating when you get a chance to visit companies because you can get a great insight just walking into a business as to whether the culture that they espouse is the one they are living. I remember going into one business that talked a lot about everyone being in it together etc. but then you walk from one part of their head office into another, and as you went into the executive floor, your heels were sinking into the plushness of the carpet. Suddenly, there was this beautiful barista making you coffee when you had to pay on the other side. It gave this beautiful exposition that they were not really all in it together at all. The words were just words. It is important for investors. Words are beautiful but actions speak much louder than words.

Justin King

Your values, however you choose to express them, are the clearest articulation of your culture. Therefore, you must measure performance against the values, which means you have to ask questions that might give you quite uncomfortable answers. One of the questions in the employee survey at Sainsbury's was: 'Are you paid fairly for the work that you do?' I would encourage you to ask the current chief executive that question, because, by comparison to indices of its type, the answer on pay is spectacularly high and I am sure will have remained so since my departure. You have to ask and answer those questions and then, when you get the answer that you really do not want to receive, you have to demonstrably do something about it.

To the second half of the question, on investors, I was saying earlier about always presenting on our values and how we were improving our performance against them, I can honestly tell you I was never directly asked by an investor in a private meeting an explicit cultural question. There were questions that went to culture: "how is it that your colleagues appear more motivated than those in other businesses?" for example. They were in the space but it was never asked as an explicitly cultural question. It comes back to this mismatch where you have pension money that should have a 30- to 50-year view being stewarded in an investment environment in public companies where holding periods are spectacularly low and friction costs are low too.

This is a bit of PR for my new world, but I am sure that this is one of the reasons why many asset allocators are allocating ever larger proportions of their funds to alternative investments. It is not just that they are seeking the apparently higher returns that alternative investments can achieve, but they can also see that they have longer-term time horizons and those better returns come from those longer-term time horizons.

Dina Medland

I find that question about employees interesting, because it puts the onus on the employee to think hard about the business as a whole and their role in it as opposed to someone else's.

Justin King

Yes, and that goes to the wider issue of how engaged you want your company to be in what the business is trying to achieve. My starting point is: very. I have never understood the top-down idea of corporations: that only the senior management can know because the workforce does not need to. Sacha talked about people wanting to come to work to do a good job; I profoundly believe that to be true, but they only do that if they feel they are part of something worthwhile, that they have a sense of purpose and there is a meaning beyond just earning whatever it is that they earn for that hourly work. In a broad-based customer-facing business, because that is what retailers are, you get a better outcome because the colleagues that are in the store are the people that are genuinely serving customers. We all sit in whatever you choose to call your head offices. We in Sainsbury's used to call them store support centres. There was an intentional meaning in that. It is the people in stores that actually serve customers. If they have a clearer, more profound sense of doing worthwhile work, they will do a better job on customers behalf, too.

Dina Medland

Thank you. What about two changes that are making a big difference to business? Sacha, I know you are keen on the subject as well. One is flexible working and the other is technology. How important is keeping abreast of those changes to culture?

Sacha Romanovitch

A lot of the changes, certainly in technology, allow you to do this wonderful thing of creating intimacy at scale. I am in an organisation that, in the UK, has nearly 5,000 people – nothing like the size of your one – and 40,000 people around the world. Through technology, I can have connections very quickly with people all around the world in a heartbeat. I can share with people things we are thinking about, invite people to comment and I blog regularly. That also enables people to work more flexibly so you can bring much more diversity into the workplace as well, because if you are able to keep in touch like that and anyone wherever they are can be contributing to a conversation and discussion, it makes a massive difference. When we shared ideas, we kicked it off with bursts. We had 2,500 doing stuff face-to-face. We had over 100,000 hits on our open platform for people to share ideas and build on each other's ideas within a three-month period over the summer when we first launched it. That gives you an idea of the power of that ability to engage people and not be so rigid.

It is interesting because possibilities are emerging all the time. My PA works remotely. That works really well for her and me. We are in a world where, in a broader cultural sense, when we look at productivity in the UK, we have an awful lot of people travelling an awful lot of time to get to places of work in metal tubes in deeply unpleasant conditions. One of my big issues is that a culture is not great if it is tired. How do we make sure we are also creating the wellbeing for people to do their best work and look at the world differently? Being able to work flexibly, travel when you really need to and make use of technology lets us set ourselves up to be so much more successful. That is probably at the heart of one of the productivity issues we have in the UK.

Dina Medland

Do you think that technology to the extent of, say, social media has an impact?

Sacha Romanovitch

Social media is a massively important tool. There tend to be two views in business. There are those who say, 'This is dangerous. Someone could say something awful. We have to stop them saying anything,' and those who say, 'This is just a wonderful tool to engage, to have conversations, to meet people and connect with people.' Dina and I met through Twitter, as it happens, and then subsequently went on to meet face-to-face. The number of people now that I meet through my media of choice, Twitter – though everybody will have their own things – and the number of issues that I find out about in the organisation, about which people would not come to me as CEO directly, mean that I can test the mood. I can test it through what my people and clients are tweeting about. If you are not using it, I would urge you to give it a go. Become an egg (the default avatar you get when you first set up an account on twitter).

Dina Medland

It is like taking a pulse, basically.

Sacha Romanovitch

It is. It is a wonderful way to take a pulse.

Justin King

Of course, you should embrace new technology for what it adds to what you are already able to do. The concern that I would have is that if you think it is a short route to the hard yards, it is not. If you work in a retail business, there is no substitute for going and visiting shops. No amount of technology is going to change that fact. Often technology is embraced because it is a lazy way to apparently solve difficult problems. I will give you an example. The Active Kids scheme in Sainsbury's is still vouchers. You may wonder why. It is interesting. Whenever Sainsbury's polls, teachers say, 'It is the 21st century; why do we not go electronic?' and kids say, 'I want to walk into school with a bunch of vouchers. That is what I want to do.' We listen to the kids, not to the teachers. You might think it is the other way around.

Dina Medland

Is it a badge of honour?

Justin King

Yes, and also there is something quite tactile, is there not? We discovered teachers did not like that it was quite hard work to count them, but kids love to have that day when they are all laid out on the floor, put into piles and counted up. Also, they were tradable. Grandmothers give them to their grandchildren. A grandmother is not going to tap her mobile device against the kid's mobile device. They are not allowed to bring it into school anyway. The physical voucher remains the right way of doing it. I use that just as an example, because many businesses think that technology is going to be their hallelujah moment on today's subject matter. We have to go back to covering the hard yards; you will only know what is happening at the coalface of your business if you are really at the coalface of your business. I have a problem with the concept of that television programme Undercover Boss. My particular favourite was the guy who had about three caravan parks. I thought: how could he be unrecognised by his 50 employees? There is the answer to your problem. You do not need a TV programme to tell you that is why you have a problem.

Dina Medland

Can I just throw out a question for both of you: can culture give you a competitive advantage?

Justin King

Yes, completely. It is at the core of competitive advantage because it is hard to do. Broadly speaking, hard things are the things that give you a competitive advantage. Everyone can do and tick off easy things. Without a shadow of a doubt, a business with a culture that is aligned with the customer that it serves has an advantage, whether it is a business-to-consumer or business-to-business business. Sacha made a very important point earlier about looking back into her supply chain when she made the commitments that she did. Your customers, whether they be corporate or consumer customers, will expect that of you. A promise made only about your bit of the business and ignoring the rest of the world that you touch is a completely hollow promise. In consumer-facing businesses, that is the role of a retailer.

Most retailers and a lot of the major food retailers today trace their life back to that incorporation of limited companies in the mid-Victorian era. Food was literally killing people and people literally put their name over the door and said, 'You can trust me to face into the supply chain to ask the tough and challenging questions that you would love to be able to ask but cannot anymore.' When businesses lose their way and retail businesses lose their way, they get the side of the supply chain: 'How can we work together with the supply chain to,' in my language, 'rip off the consumer?' That is not a sustainable model. You can do it for a year or two but consumers are pretty smart. They work that out pretty quickly and punish you for that, because you are supposed to be representing them. That is true for retail businesses, but it is also true for corporations more generally.

We are seeing the most profound reassessment of the role of corporations in society since that mid-Victorian era. I talk to business people who seem bemused by the idea that the man and woman on the Clapham omnibus do not know that we are a force for good, that we pay our taxes and that that is what pays for the National Health Service. Do they not realise how important it is that we are successful? The answer is, 'No, they do not.' They read so much stuff about the bad stuff that the community of which we are a part of does. We do not speak up against it a lot of the time and we avoid facing into some of the more difficult issues. That is why we are below politicians in many peoples eyes and that is a pretty worrying place to be.

Sacha Romanovitch

Particularly in my business, professional services, all we sell is our people doing stuff with our clients. It is the number one thing that can distinguish you. In terms of some of the data, we looked at the least-seen skills in professional services and matched that up against what clients needed. It was fascinating because the least-seen skills in professional services were being able to make sense of complex stuff, get people to talk about what really mattered and get people to agree on courses of action.

It is not rocket science to figure out that if you can make your culture one where those things become second nature and part of your DNA, that is going to give you an advantage. It takes work to create it. I absolutely agree with Justin: you have to spend probably about 50% of your time out in the market doing stuff and 50% with people seeing what it is like to coach, encourage and support. Sometimes doing the brave stuff, such as standing up against things, is hard stuff. You need someone to give you the encouragement and backbone to do it.

Dina Medland

I am going to take a sli.do question based on votes. How do we get the C suite to actively get involved? Who needs to provide the support or own culture within organisations for the board?

Justin King

I am not sure it is any different from what I said about the wider business. It is about engagement. In the early days of the change, and I have observed this in other business too in Sainsbury's, we bypassed the middle of the business to some extent. It is what I sometimes refer to as the muffin top, the bulge in the middle, because our colleagues, the people who were serving customers, got it very quickly. What tends to happen is that your middle management dissect it. They ask more questions, as you would expect them to, but that does rather get in the way of progress. We found that as the culture change in the organisation was embraced at the coalface, the leaders of those people, having seen it happen, seen it in action and seen the difference it made to our people, stopped getting in the way and started embracing it. The 1,000 or so senior leaders in Sainsbury's at store manager and equivalent level stayed largely the same. We changed the board, and the very top of the organisation had to change because the business had failed. Fishes rot from the head and corporations do too. We had just north of 1,000 people in our long-term incentive plan, which played out in full four years later. 960 of them were still in the business. It was the same people led differently. They had embraced that change but were a little bit behind the curve in terms of people at the coalface.

Dina Medland

Have you had any processes for bringing those people up in terms of input to the board at all?

Justin King

We have had lots, more informal than formal. As a simple example, when I first joined I decided to meet every store manager in small groups of about 30. At the time that was about a dozen or 15 meetings. By the time I left, it was more like 35. It was a two-hour session. I took a week out of my diary to do it. At one of the sessions I remember well a store manager said, 'Will we see you again?' I said, 'This is called my quarterly, so I am planning to come every quarter.' They said, 'Yes, the last one said that but he did not come back for a second go.' I did them every single quarter for the 10 years I was there. Every fourth Friday I sat down with a group of colleagues, one from every store in a region, and went round every region of the company on about a two-year cycle. Two Fridays out of four I spend either in stores or in the supply base. There is a lot of hard work involved in this if you want to do it properly.

Dina Medland

Sacha, you have a slightly different way of bringing up leadership.

Sacha Romanovitch

Yes, there are two different aspects. Going back to the original question, if I was advising a C suite on what you do around culture, I do not know if anyone is a fan of Patrick Lencioni's but I highly recommend to you *The Advantage: Why Organizational Health Trumps Everything Else*, because I often think that leaders can be really great at saying the words but not living the actions. It is toxic when you do that. You would be better off not saying the words in the first place, to be honest. It is really important to go through that properly as a board: what is our purpose? What are our values? How specifically will we manifest them? How will we hold each other to account? Certainly, in my monthly team meetings one of the questions is how we have lived our values that month and what we need to pay attention to. It is a real call to action with the leadership team.

The other thing I was going to pick up was in terms of the muffin layer. Someone else had referred to them as the clay layer because it is impervious and difficult to get to. I live in Devon and I have the advantage of clay being the soil that I work with. A lot of organisations I talk to say, 'We have this layer. What do we do about it?' When you garden with clay, it has incredible richness, nutrients and often incredible organisational history. How you unlock the nutrients in it is by adding grit into the system. You add grit into the clay, which oxygenates it and then it gives people the possibility to look at things in different ways. One of the things we do a lot of is finding what we call the culture carriers through the organisation. If you stand with someone by the coffee machine and say, 'Talk about this,' they probably will not listen. If it is one of their peers and that is a conversation they are having, it carries different weight. Think about how you can oxygenate your clay, add grit to the system and then release what you have in that middle layer. When you start to tap into that, it can be very powerful. I agree about bringing people in from the start. When we asked our new trainees to do the shaping of the vibrant economy, what it is about and their vision for the world, that blew everybody away.

Justin King

The point about alignment is incredibly important. You have to recruit to your values, you have to measure them as part of your performance review process, you have to promote to them and you have to fire to them. I can think of instances where I have fired people for things that were culturally unacceptable who were numerically very high performers. That sends incredible strong messages.

Dina Medland

Can you give us an example?

Justin King

If I think back to my early days, when I joined Sainsbury's it was still a pretty sexist organisation. All managers were men. Our employees were 80% women. Throughout my time, if we were not the highest of the FTSE100 with female leadership, we were certainly in the top two or three. I remember a particular instance and very senior manager whose behaviour in a public forum was completely unacceptable in that regard. That led to his exit. That went round the business like wildfire. Interestingly, in that instance, that complaint was made by the husband of the woman that he had behaved badly towards. It started with, 'I know you will not do anything about this, but I think I should bring it to your attention.' He held up a very clear mirror to the organisation.

In change and what Sacha was talking about in terms of grit, I find the population generally splits into three. When you are bringing about change there will always be the evangelical – those who embrace it very quickly. It is great that you have them but you should not allow them to reassure you that you have effected any change because they were probably saying the same thing to the last lot too. They want to be led and are willing to embrace whatever comes next. There will always be a group of naysayers. We used to refer to them internally in Sainsbury's as internal terrorists. Perhaps that is an unfortunate turn of phrase in modern times, but the point we were trying to make is they are not visible. It is going to be very difficult to find them. You do not have to worry about them too much.

You have to focus on the middle group: the people that are doubtful and are worried about what it means to them, whether they will even be able to be part of that change and whether that change will lead to their departure from the organisation. They are the people with their hands up. They are the ones asking the difficult questions and they are the ones you have to embrace. If you confuse yourself into thinking people with their hands up are your internal terrorists, you will be in big trouble, because in the pub on a Friday night when the naysayers are saying, 'The new lot are getting this all wrong,' people start applauding them because their experience is that they are not being listened to. Embrace the sceptics because they are the people that will bring the change about in a lasting way for you.

Sacha Romanovitch

I agree with that absolutely.

Dina Medland

We are in our final five minutes. We do not want you to think you can only use the screen. Did anyone have a quick question?

Participant

Our interest in creating a sense of belonging. I know you are not with Sainsbury's now, but Sainsbury's has done that and Grant Thornton has led new ways of doing that. How can the board be part of the accountability for belonging and not just tell everybody else what to do? How do you share the belonging?

Dina Medland

The question was how you create a culture of belonging and create accountability at the board.

Justin King

Belonging comes from a lot of the things we have been talking about: clear values, living them, running a business in a way where people can see their part in a greater whole. In a business that is dispersed like a retailer, it is one store at a time and people being part of the communities that they service. One of the questions that Sainsbury's ask is: 'Do we, Sainsbury's, make a positive difference in your community as a measure of culture?' In terms of the board, everything that I have been talking about in terms of what I have personally committed to the process has to be part and parcel of what all of your senior leadership take part in, including your non-executives, by the way.

I am often asked who the best non-executive I have ever had was. For a long time I have refused to answer that question because you know that is a road to ruin. In this regard, it occurred to me that there was a very clear answer, and that was Anna Ford. When we appointed Anna, there was a lot of raised eyebrows in the City, so to speak. How could a newsreader possibly be a fantastic non-executive for a business? To Conor's earlier comment, she thought £60,000 a year was a pile of money and that she should commit fully to the business and embrace it. She spent loads of time in the stores, she went to suppliers, she went to depots, she read all board papers before board meetings, she did not take the BlackBerry into the board meeting, she never left early or arrived late and asked every question, she planned as you would expect of an investigative journalist. She immersed herself in the business and absolutely was part of that sense of belonging. She was much loved among our colleagues, and I suspect had we ever asked colleagues to name the members of the board – we never did – she would probably be a notch ahead of one or two of the executives, never mind all the non-executives.

Sacha Romanovitch

It is a really great question because it goes to the heart of something about leadership and what leadership means. The paradigm that has existed to date is the idea that the senior leadership team have all the answers and that as a leader you have to be perfect. Lucy Kellaway had written her article back in February saying that the most important skill for CEOs was to be great liars. The shift we are trying to create is that, with leaders, we are in it together. We have doubts and we have uncertainties. Yes, we know the way and where we want to get to, but we do not necessarily know whether the way we are going is going to be the right way. Being able to share your questions and vulnerabilities and never ask someone in the company to do something you are not prepared to do yourself is a really simple test.

Certainly with my leadership team, when they were forming in roles and telling stories of the things they were finding difficult and challenging, it invited people in to say, 'Okay, they are like me. They are not sitting there thinking that they know all the answers.' That, in turn, creates that culture that allows people to speak up, be heard and all of those sorts of things. If you were going to go for a TED Talk, the Brené Brown talk on vulnerability should be a must view for all executives these days.

Dina Medland

Thank you both. I have certainly learnt a lot. I think we have established that culture is pretty complicated and we probably have not touched as much on the questions that have been coming through. Thank you for those on investors but we will be doing that later today, as I understand. Somebody did ask about diversity and its importance. Did you want to say anything about that?

Justin King

My starting point is that talent is diverse. Therefore, if you want the most talented people, you will by definition be diverse because you should find it wherever it is. That is how you should come at the problem because there is a real danger. I remember when the 30% Club was first mooted. We were 40% female on our board and 40% female among our senior leadership. We rarely did a vote around the boardroom table, but the women around the boardroom table voted against joining the 30% Club because we had already passed that and were on to the next horizon. That was a great place to be, but it was a manifestation of our starting from the fact that talent is diverse and therefore, if you do not have diversity, you are not looking in the right place for talent, or you have barriers in the way of that talent growing.

You were talking about flexible working earlier, and we realised that the demands of being a store manager were stopping a lot of young mothers. Typically, you get appointed a store manager in your mid-30s, so you are likely a young father or young mother. We introduced job sharing for store management, which no other retailer had done at that time. The first application we had was from a male gay couple. Sainsbury's now have a number of job shares around the business. It is about finding those barriers and removing them. You get two for the price of one when you get a job share. It is a great deal for the corporation.

Sacha Romanovitch

I would agree. Diversity needs to be about diversity of perspective. What is wonderful is everyone in this room will see the world differently. If you are inclusive in your attitude and seek to understand other people's worldviews, you get true diversity of thinking. When my husband went for a sabbatical at his organisation, they had not designed career breaks for men in corporate finance. He had to absolutely battle for it. We have to think in a much broader way about all of those sorts of things, to your point, and then we will make it possible for people to make rewarding contributions and have the lives they choose to have as well.

Dina Medland

Thank you, Sacha Romanovitch, and thank you, Justin King.

Delivering Long-Term Value for Stakeholders

Moderator:

Chris Cummings, CEO, Investment Association

Panellists:

Sir Roger Carr, Chairman, BAE Systems

Amanda Mellor, Company Secretary, M&S

Mark Austen, Chairman, LV=

Elizabeth Fernando, Head of Equities, USS

Chris Cummings

Welcome back from the break. I hope you are feeling refreshed with replenished appetites and ready for the next session of today's conference. My name is Chris Cummings; I am Chief Executive of the Investment Association. When Sir Win Bischoff asked if I would chair this session I was delighted to, because the issue of long-termism is one that I feel very strongly about. I certainly feel the investor's voice is one that needs to speak more clearly, indeed more coherently, on this important issue. I have to congratulate Win and the team not only on an excellent conference but also on getting the title of today's conference exactly right, because the tone of it strikes to the very core of what we are here to talk about: culture to capital.

Capital should be attracted by culture. Culture should be the magnet that draws capital to it and, of course, capital should find its due reward in the sensible allocation that it takes by favouring culture. Not only is the title particularly apposite for this conference but the content as well. This is my first outing as Chief Executive of the Investment Association, something I thought long and hard about. I was delighted to participate in today's conference given the importance of the subject and the distinguished panel of course and, if anything, the even more distinguished audience. It does say here, 'Flatter audience to get them on your side.' Before I ask my panel to say a few words, let me introduce them and then we will have some audience participation.

I am delighted to introduce Sir Roger Carr, Chairman of BAE Systems, Amanda Mellor, Company Secretary M&S, Mark Austen, Chairman of LV=, and Elizabeth Fernando, Head of Equities at USS. Their full biographies are in your packs, so I will not dwell on giving you their details. Each is going to give a three-minute speech on the subject of culture. We will then have some questions, so please remember the technology. It is all going terribly well, so please remember the technology. We will keep coming to the audience for questions, but we also have some polling in order to get the best out of the technology and, more importantly, the best out of you this morning.

Having invited you to come back from a break, let us get you refocused on the issues of today. Take out your tablet or smartphone, log back into sli.do and answer, please, this first question to get us reoriented. Who do you think has the most influence on company culture? We will talk about the stakeholder groups and the values groups who are involved in setting culture and so on later, but who do you think has the most influence on company culture?

We can see the emerging vote taking shape. The CEO is coming through as the main influence; there is strong support for management, the board, employees, and the senior executive. The ExCo is on there of course, and the combination coming through very strongly. We will keep managing this as our distinguished panel speaks, but strongly and overwhelmingly, at least at the moment, it is the combination of CEO and management, perhaps supported by the board and employees coming a little way behind. We will keep that open and see how the voting goes.

The nice thing is I know that some of this technology is going to be used to report back to you after the session, and some of the questions that we do not get around to answering on the panel sessions we will also be able to feed back to you in the follow-up to the conference. Stay tuned for further details. Now, let me move to our guest speakers, because it is great to get the practitioners' views, and as the chairman featured so prominently in the polling, let me start with one of our most distinguished chairmen and business leaders in the UK. Please, ladies and gentleman, welcome Sir Roger Carr to the podium.

Sir Roger Carr

Thank you so much. I am delighted to be here. This topic is particularly important. I think the chairman, by the way, in setting the tone from the top, is critical. I was asked to speak for three minutes or thereabouts on something about BAE, the culture, the particular challenges the company had and how we drive the culture. When we get to Q&A, it will be broader than that. BAE has particular challenges. It is the third largest defence company in the world. It makes submarines, ships, military jets and land equipment. It is in the business that itself is particularly sensitive. It operates government-to-government. It is probably one of the most regulated businesses in the world, but it attracts a particular type of scrutiny from all parts of the world. It has to operate scrupulously. If it fails to do that, it loses the trust of all of its stakeholders. That is really about culture; it is not only about a rulebook.

This is particularly important to this company. More than a decade ago, this company was challenged quite significantly on its ethical behaviour. The board had to make a big decision in principle about how to address the challenge. They decided to take a very committed period and decision on change in order to do that. It cleared out every single agent it had worldwide. It appointed Lord Woolf to do a complete review of the rules and regulations and prepare a new list of the way the company should work in rulebook terms.

It then employed Lord Gold, a very eminent lawyer, to police that these rules were implemented and abided by throughout the business. It was a painful transition for the company, but it was important to shift the culture fundamentally to the place where the board, as they then were, felt it should be, which is at the absolute cutting edge of best practice. Those changes then formed the bedrock on which the culture of this company works today. In very simple terms, I would say the fundamentals are as follows. We look at what we do as a company so that everybody is very clear why we are in this business. That is simply to protect and serve those that protect and serve us, and we must do that with pride. Secondly, how we do it. It is, as a business – and this is led from the board – performance driven but values led. That is a key balance in the culture of the business. It is not simply about how much money we make, but how we make money.

The where and when is equally important. Everyone in this organisation is clear that it is a culture that must be adhered to around the clock and around the world. There are no exceptions. There are no excuses. We will support those who struggle to make their numbers. We will never support those who fail to meet the ethical standards of the organisation. Why we do it is very simple. It is for a relationship with all our stakeholders that gives us a licence to operate with our heads held high. We do it because we all want to sleep at night. We do it so that none of us wake up in the morning to see what may have been done in a dark corner one evening appears in the cold light of day on a newspaper to the point where any one of us would be ashamed. That is the bedrock of the culture: to do the right thing because it is the right thing to do. In doing that, we have a licence to operate, a respect for the standards of the organisation and we win the respect of those that we rely on to go forward as a business model. That is the starting point. Thank you.

Chris Cummings

Thank you, Roger. There will be time for individual questions once all the panellists have had an opportunity to contribute as we build up the story of culture through organisations.

Amanda Mellor

Good morning, everybody. I was asked to talk about what culture means to Marks & Spencer. If I could just take you back a little bit, Michael Marks, when he started the business, could not speak any English but he did put a sign on his wheelbarrow that said, ‘Do not ask the price. It is a penny.’ It was a no-nonsense approach which attracted his customers, and because he sold good quality goods, they trusted him. Tragedy struck, however, when one of his staff caught pneumonia in poor working conditions, and this led to the first introduction of good staff welfare in the business.

His son, Michael Marks, took on the mantle in 1916. He was a real visionary and he established the Marks & Spencer ‘Principles of business’. I think he could have written the Companies Act, because what he recognised was a broader accountability to a broader range of stakeholders. His ‘Principles’ were based on simplicity and integrity and set out principles for our products, standards, service and ways of working, how we treat our customers, suppliers and staff, and how we work with the environment and communities in which we operate.

Values and trust, therefore, have been the DNA of the Marks & Spencer brand. Michael Marks understood the balance between profits, standards and behaviour, and he believed that that balance would create sustainable long-term benefit for the organisation. He would therefore agree with the FRC report that acknowledges that a strong culture is a valuable asset, which gives you a competitive advantage. Our values and culture remain very relevant to the business today. As Justin King alluded to earlier, values do need to change with time and we refreshed ours last year.

However, we still have a very clear understanding of what we stand for. Our values set the standards for how we behave and how we assess how we behave. We have an architecture of policies across the business. These policies set the tone and drive our behaviours and standards. The most obvious document within this is our ‘Code of Ethics’, which in fact we call our ‘Code of Ethics and Behaviours’. We have a very clear sense of our culture in how we recruit and train people and how we performance-manage them. It is very much about doing the right thing the right way. Everybody has performance management that assesses not just what they do but how they do it, and how they do it against each of our four values. That goes from the top right down through the organisation. It starts inside and it goes from top to bottom and side to side.

It is very clear that the board has a role in all of this. The board has, over the last six years particularly, taken a clear view on culture and the role of each of the directors, not just the CEO and the Executive team, but also the Non-Executives and the Chairman. We have a strong set of governance processes, but we also have a very good measure of board performance as part of our board evaluation, within which the culture is always covered. More importantly, not only do we cover various aspects of culture in the various board Committee meetings that we have, including the audit committee, the remuneration committee and the nominations committee, but our culture and our responsibility to all of our stakeholders underlines all of the conversations we have around the boardroom table.

The other thing I would like to say about the board is that all of the directors are very clear about the tone of their reporting, and how that is important to demonstrate how they are living the values in the organisation. We try to ensure that there is clear, transparent reporting in what we do, and this has been a key feature of the annual report and the governance section, trying to share with people what we do right, but also where we go wrong and what we are attempting to do about it.

The directors are very visible in the business and we have a number of ways for them to engage, such as our director breakfasts, and they walk the floor often. Justin King talked earlier about the importance of being in-store. Everyone is encouraged to work in the business over Christmas. Our Chairman himself does work in a store over Christmas. I will not tell you where, but he does. Today he is with a number of our store managers, along with our Senior Independent Director, at the retail conference that prepares everybody for the Christmas period ahead.

The Board is very active in embracing the values, modelling those values and understanding the impact of their actions. We have spent a lot of time this year on the Modern Slavery Act and Plan A is obviously a big embodiment of how we demonstrate our values, how we work with our suppliers and how we work with our communities. We have set ourselves a very ambitious number of targets and we report against each one of these regularly.

So, there is a very good, ethical line of sight to the way we do business across our organisation. The true mantra, if you speak to anybody who works at Marks & Spencer, is doing the right thing the right way.

Mark Austen

Good morning, everybody. I hope you have heard of LV=; if not, we are wasting a hell of a lot of marketing spend. We used to be a sleepy mutual and quite unrecognisable as the Liverpool Victoria Friendly Society Limited, based neither in Liverpool nor Victoria but outside Poole. We are still a mutual and we will continue to be a mutual. In fact, we are the largest friendly society form of mutual. This is a bit of a transformation story and I just wanted to share it with you because we have gone through a structured programme of changing our culture as part of the rebranding, the redevelopment and regeneration of a company. It has had a happy outcome, which I will share with you a bit later.

Culture is not an easy topic, as you have heard, as well as its definition. We have worked really very hard on what we mean by culture. It is not something the board does once a year and produces a 20-page statement of our values and then superimposes it on somebody. It has to be something that people can identify with. We have to try to embed it in every aspect of our business, from market evaluation, product design, development to fulfilments and all the stages in between. This is the fundamental of our business. I would like to go on to how we have done it and how it has worked for you, and describe the components of what we did.

The first is to decide, of your stakeholders, the customers must come first. No catalyst-based enterprise can exist without customers. A lot of people say they are customer centric, but are they really? You can ask that of some investment banks. Were they very customer centric? They were not for a long time. That is the first thing. We cannot look after our customers well without staff, and about half our 6,500 people are interacting all the time with customers. We also have to look after our staff. In stakeholder terms, the priorities are clear. Customers are first, our people and then our shareholders and our owners. In our case, our owners are our members. There is a direct read-across between a mutual and a plc. I do not think anything I am going to say is irrelevant to other organisations, even government organisations.

We also reconcile that profits and returns to owners are consequence of getting our customer stakeholders and staff in a very good place. We treat our staff well and we expect them to treat our customers well. Then we became very concerned about measurement. There is a lot of flim-flam talked about culture, measurement and all that. With that clear view of stakeholders, we measure our customer sat in lots of different ways. Anything that we can measure, we measure.

We also measure our staff engagement in as many ways as we can and are very firm on how we are going to measure staff. Everybody knows exactly in their metrics what it is about. In terms of customer fulfilment, we use any external or internal measures. We look at advocacy, sat rates, and repeat business. This then comes to the virtuous circle: if we look after our customers well, our marketing spend can be lower, and our repeat business – our persistency rate, as we call it in insurance – is much higher.

We then communicated from top to bottom how we expect people to behave. Mind you, it is not how the board expect them to behave; it is how everybody expects them to behave with themselves and with their customers. We translated this into some things that, if you interviewed any of our staff, I would hope they would remember: treat people like family – not people just within the company, but think of them as your aunt at the end of the telephone. How would you like her, in some distress – because generally insurance invoked at a bad time – to be treated?

Treat people like family. Do not wait to be asked. In other words, if you can suggest something that would help the company, please do so. We get all sorts of torrid problems, claims, floods and so on. What would best help the customer at that time? Know your stuff. We expect all our staff to know particularly about compliance with regulation and so on. Then there is 'make it feel special'. In other words, if you can interact well, both within and outside the company – where the same is true – can you make it feel special?

We then asked how we embed this in our company. We get to evaluation and compensation very rapidly. Everybody in LV= would feel something if things go well. This is a positive as well as a negative, but they would feel that if they interact well and so on. These are measured by engagement surveys and so on. The next thing we did, and this is more fundamental, is close down functions and practices that are not supportive of our customers or staff engagement. There are plenty of ways in an organisation to simplify it, and if it does not satisfy those tests, let us get rid of them.

Lastly – this is home turf for the board, and some of the questions are very apposite – how is the rhetoric from management translated? How do we know it goes on? We know it through engagement surveys and a lot of this feedback. Also, we encourage people to walk around the business and the board to participate in visits. As I started out by saying, this is not a once-a-year thing. This is not, 'Let us write it, and expect them to do it'; this is interactive with the board, looking at that feedback and so on.

This has been part of the main components of eight or nine years of transformation, a very core part of our rebrand and the refresher of our business. We just had the best year in our history. There is a virtuous spiral here that plays to certainly profit but also to our long-term business franchise. Our members expect us to be around because we have made long-term promises on pensions or annuities and so on. They expect us to be around for a long time. The security of our business and the regeneration of it is very important to us.

YouGov tell us, in a sample of tens of thousands, we are the most recommended insurer. The Institute of Customer Service – I could go on. We win lots of these sorts of awards. They are celebrated by our staff. This is a happy story. I do not want to go on about the 174 years of LV='s history, but I am quite confident we will be around for some time to come. Thank you for listening.

Chris Cummings

Thank you. Finally, Elizabeth can I invite you to the lectern please.

Elizabeth Fernando

Thank you. In some ways, it is much easier to say what good culture is not rather than what it is. It is not about governance; it is not about systems and processes. It is not about having a beautifully cast set of values and behaviours on the wall behind reception or on your coffee mug. It is about your people. It is about how your people behave, how they interact with each other, even when management is not watching.

As part of the Executive Committee of USS Investment Management, I know that senior management have to invest a lot of time and effort in building the culture that they want to see. I know that it can take a long time. Changing behaviours is very difficult and, quite frankly, sometimes it is incredibly frustrating even in a small organisation where we have one business mission, which is to deliver the pensions that our universities have promised to their professors and senior teaching staff. I sit within 100 metres of all my investment colleagues but despite this proximity getting that consistency of culture from one end of the business to the other is a challenge.

As investors we know that if we can find a good culture, it usually leads to a more sustainable business and better returns, which is what I need for my pensioners. However, if it is difficult getting insight into the consistency of culture within your own business, it is incredibly difficult getting insight into the true culture of the businesses that we are investing in. With all due respect to my colleagues, we see a lot of platitudes in annual reports about value and integrity and putting the customer first. One of my favourites at the moment is from the Chairman/CEO of Wells Fargo: 'Integrity exists at the core of a person's and a company's reputation.' This is the company that has just fired 5,300 people for having mis-sold – or more accurately having opened 2 million products on their clients behalf that their clients did not know about.

They have had a fine of $185 million. That costs me, as a shareholder, returns. It damages shareholder value. We need to get behind the statements. We need to understand what these companies that we are investing in are really doing. Are they living the values and the behaviours they are telling us they are? As an asset owner, we sit at the top of the investment chain. It is pretty clear to me that we should not be asking of other people things we do not do ourselves. For USS that means having values and behaviours that align to our mission and our business objectives of delivering those long-term returns and our rewards system is aligned with that.

We should be demanding of the asset managers who work on our behalf; we should not be encouraging, and we should not encourage them to reward, asset gathering over investment returns. It is pretty clear that if we build a culture that is aligned to our business objectives, we are more likely to have sustained good outcomes and are therefore more likely to deliver on the expectations that people set for us.

Chris Cummings

Thank you. We will come to the audience in just a moment or two for questions. Please use the sli.do toolkit in order to let us have your questions for the panel. Let me kick off by asking all of you a question on measurement. For those of us who were around for the first session of the day, there were a lot of questions that came through on sli.do about the practical aspects of culture. Yes, it is fine for people to say the chairman, the board and others are involved in setting the tone and mapping out culture, but the rubber hits the road in terms of measurement and just knowing how well that is getting through. All of you hinted at the various measurement tools that you use, or you have set in place. Could I ask you to give a reflection on how you either set up the measurement, or what measurement systems work well for you, and, indeed, if there have been any that you have had to ditch because they were taking you in the wrong direction? Roger?

Sir Roger Carr

The whole measurement issue is quite challenging, because culture is not about box-ticking. That is quite easy to do; it is what is baked into the DNA of the organisation. That is more about feel, and that is very much reflected in the way the organisation is perceived. It is the way it is reported on; it is the feeling within the organisation when you do internal reviews and you ask people within the company to fill in questionnaires as to their view of the business. You pick up on symptoms of something, rather than reach for a rulebook where the boxes are ticked and the scores are clear. It is important you do police the rules and regulations, and if you are in a regulated business, that is unquestionably at the heart of the business model. However, the feel of the business is the most important thing about culture. As Amanda said, management must walk around the organisation. They must interact with people at all levels in order to feel what is going on, rather than simply rely on written Board reports

Amanda Mellor

Mark alluded to customer focus. Clearly as a retail business, our brand is key, and trust in the brand is key. Our Plan A was our evolution of CSR that embodied a set of targets. Plan A targets and achievement, and not just the easy ones, underpins everybody's performance management in the business. There are two elements. Personally, there will be a Plan A underpin for my department, and I will be as much measured on how I do my job and how I am viewed as a leader in the business, so it is not just about my output. That has been introduced into the executive assessment and remuneration as well.

The other point I would just make relates to the Board and the Board evaluation. The Board takes its own performance management very seriously. Last year, we had an evaluation that was disappointing, and we were very open about it in the report and accounts. I had a number of my peers who said, 'Did you really mean to share that?' I said, 'Well, yes, we did mean to say that, because we cannot share just the good. We need to be able to be really transparent in the way we work, and it sets the right tone.' However, this evaluation did encourage the Board to look at its own culture, and reflect on what it was going to do, how it was going to do it, how it was going to challenge, what was acceptable, and what kind of information it needed to do its role. It then devised an internal framework for how it was going to operate and assess its own performance. We come back to that on a regular basis, so the action plan we set ourselves does not just include the 'what we are going to do', but how we are doing against it, and how we are performing as a team.

Chris Cummings

One of the questions that we have been asked, just before I come to you, Mark – and this is polling very strongly – is whether businesses should report on the quality of their culture to the market. Roger, you mentioned the variety of sources that are available, and Amanda, you mentioned that too. Mark, you gave a very strong read-out of the measurement and practical steps you took, and I suppose your reporting requirements are slightly different. From your perspective, how would you address that?

Mark Austen

We are fully compliant with our FRC colleagues' requirements. Just because we have a different ownership structure does not mean we do not comply; we do, but we are very thirsty for measurement, as I said. We do not measure culture. We measure customers' reaction to LV. We measure our staff engagement. I try to make this very simple: we are very thirsty for any customer measurement, internal or external. By the way, increasingly, you can get a lot from the comparison websites; our first choice, second choice, and so on on all those very complex matrices that there are in the measurement.

We measure our customers in lots of different ways, particularly with external benchmarks, but we also then measure our employee engagement in a very, very thorough way; probably one of the most thorough. We are using Towers Watson – to give them a plug – and we compare ourselves not to other financial services players, but to other organisations worldwide. In terms of staff engagement, firstly, we get very high engagement in our engagement, which is a very good sign: over 92% complete a questionnaire, which is all online. Then, we get very high engagement scores; in the top 1% in this survey, which is about 1,700 organisations.

Then, the question that is important is 'What do you do with that data?' A very important part of our reinforcement mechanisms is around slicing and dicing that data by different organisation, different level, and so on, and feeding it back to people and saying, 'Look, this is not quite good enough.

What can we improve here?' Everybody feels participating in shaping our engagement, and how we improve, which is by definition our culture.

Chris Cummings

Elizabeth, from your perspective, how do you look at the requirements of measurement? Also, perhaps, as an investor looking at potential investments, what would you like to see, so that you can get a better sense of the culture?

Elizabeth Fernando

Internally, we do an engagement survey every year. In an investment business, your people are your assets; they are the people who deliver the investment returns that mean the pensions can get paid. We survey them once a year to see amongst other things, how they are feeling about the organisation; their commitment to us, and whether they understand how what they do contributes to the overall business objective.

When we are looking at the companies we are investing in, there is no substitute for having disclosure in the annual report as to what the Board and management have been doing, and what metrics they have been measuring and why. However, we also really value the engagement we get; the direct, face-to-face contact that we have with the chairmen, the CEOs, and the chairs of the Boards and the committees. That is really how we get to get behind the statements in the annual report to see and test whether or not there is substance there, not just nice words on a piece of paper.

We are nervous where metrics get used as a proxy for culture; sometimes that metric takes on a life of its own, and maximising that becomes the objective in its own right, rather than actually maximising the thing you were originally targeting, that behaviour. That is a real risk. I do not wish to bring Wells Fargo up too often, but it is pretty clear to me that the Board, the CEO/Chairman did not expect – or were not encouraging – the behaviour that occurred. They wanted more products being sold to customers because that would make customers more sticky. They were not intending the consequence to be this mess that they have found themselves in. As an investor there is a need for more reporting, but also the dialogue, face-to-face.

Chris Cummings

We have a couple of specific questions for two members of the panel: one for Mark, and one for Roger. Mark, I am going to give you notice by reading out the question, and I am going to go for Roger, because he has already had the chance to see his. Mark, the question to you is, 'Do you find cultural or behavioural differences in the business between those LV customers who are also society members and those who are not?' Then, to Roger – and I will come to you now for an answer – 'Should cultural compatibility be a criterion for consideration in M&A activity?'.

Sir Roger Carr

That is a different question to the one you showed me.

Chris Cummings

The great thing about these live systems is they keep on updating.

Sir Roger Carr

There is absolutely no doubt that buying a business is easy from a mathematical point of view. The challenge, when you buy a business, is actually integrating it and ensuring that it will operate and function to the standards that you have. As part of due diligence, there is absolutely no question: you need to look at who is on the Board, the behaviour of the company, and the reputation of the company, because if it is in a very different place to the one you are in as a business, when you buy it, the maths will cease to matter and the influence of the behaviours of the people will be much more significant in the successful introduction of that business into your own. The short answer is: culture is a critical piece, and due diligence is very important. It is people, of course, more than anything, that determine the success of a business, and the behaviour of the people is the thing that ultimately determines the success of the company.

Chris Cummings

Amanda, would you have a view on that?

Amanda Mellor

Yes. We have a number of franchise operations and where our brand is being represented it is really important that we have some way of being able to engage with the business to make sure that they are demonstrating the behaviours and values that will represent our brand. At the end of the day, our brand is a very valuable asset, and brands and reputations are lost very quickly. Our customers trust us to be selling them quality, safe products, in the right environment and the right way. That is very, very critical.

I also sit as a non-exec on a big construction company, and I would say that whether it is our joint venture partners or any of the businesses that we have acquired, there absolutely needs to be consideration around the culture of the business. To echo Roger's point, the maths is easy; it is actually thinking about how you are going to implement and integrate these businesses, and understanding that you are going to be working with people, particularly on a joint venture where you are carrying the same risk; that you are aligned with people who have the same behaviours, standards and values as yourselves.

Chris Cummings

Elizabeth, a perspective from you?

Elizabeth Fernando

In my experience, the mergers that have worked well have been ones where the cultures of the two businesses that are joining together are very similar. I could reel off quite a long list of mergers where it has not worked for all sorts of different, specific reasons, but in general, where you are putting two cultures together that have very different values and behaviours, shareholder value has not been created as a result of that. It must be part of the due diligence, and I imagine it is a very difficult part of due diligence to do well.

Chris Cummings

Thank you. I will turn to Mark Austen now, and come to the question that was posed by Robin Fyffe. Do you find cultural or behavioural differences different between those who are members and those who are not?

Mark Austen

The subtlety behind this question is that we have about 1.2 million members. We have a big life fund, and those are member-conferring products, in the jargon of the time. People who own a piece of our life fund own a mutual; own LV. Then we have about 5.5 million customers – largely, general insurance customers, and a lot of them are cars; two out of seven cars in this country are insured by us – who are customers. We do lots to try and make our members feel that members are valued as much as we possibly can. They get some special concessions and some discounts; they get a member dividend, actually, and the surplus of the society is distributed to their life fund.

If I look at the data between members and our customers generally, some of our customers generally will not know that we are a mutual. They will have gone to us, and it is completely neutral, and they are just customers. However, our members – through a lot of the things we are trying to do – are a very strong advocacy base for our society, and our members generally are four or five percentage points higher in advocacy of LV. That is the sort of difference we detect.

Chris Cummings

We will turn to the polling, and look at the most popular question being asked at the moment by 20 of you: is there any evidence that high ethical values lead to better staff retention and revenue growth? It is almost a shame that our McKinsey colleague left, because that is an area he was talking around earlier this morning. Perhaps we can start with M&S as a great brand. Is there any evidence that high ethical values lead to better staff retention and revenue growth? Amanda, I come to you because you mentioned you refreshed your values just last year.

Amanda Mellor

I have two observations on that: absolutely, yes. Going back to Simon Marks and the principles of business, the concept of our values driving sustainable business and an organisation fit for the longer term absolutely underpins the DNA of the business. That was the rationale for introducing Plan A. It was a consideration that said, 'We think good business can be profitable business'. There was an economic rationale for having higher standards. We saw it as a competitive advantage. If I look back over the nine years that Plan A has been in existence, we think it has driven over a £500 million profit benefit to us as an organisation, so it absolutely makes economic sense.

A good example of the value of having good supply chain standards, for us, would have been the horsemeat scandal. The fact that we had total transparency in our supply chain, and that we have the standards we have, meant that we could categorically say that we did not have horsemeat in any of our products, and that gave us a competitive advantage. Customers definitely trust this is in our brand and trust what we stand for.

Chris Cummings

Roger, could I invite you to address the same question, as well? You mentioned about your BAE experience, but in a much wider business career, there must have been opportunities for you to examine those issues as well.

Sir Roger Carr

For 30-odd years, the business of governance, standards, and ethical behaviour has grown very significantly. Part of it, in truth, has been driven by the FRC, from Adrian Cadbury's first code all the way through to the evolution of Derek Higgs' report – indeed, I was part of that – through to, under Win's jurisdiction, the way it is today. What we have is a set of behavioural checkpoints that are on a 'comply or explain' basis, but have changed behaviour. It has fundamentally been very good, whether it is thinking about gender mix on boards or how boards should check themselves by having reviews of their performance. All of these things have been moved on by accounting standards.

There has been something happening in the world that businesses have moved towards. As that has happened, people joining businesses have had higher standards of what they expect businesses to be like. 30 years ago, the only question was, 'How much are you going to pay me?' We all see now when we recruit that there are a whole list of questions, a lot about ethics, behaviours and what the company believes in, and unless you can answer those with authenticity – rather than simply referencing a list – and convey it in the way you speak to the people you are seeking to employ, they will go elsewhere. I agree that there is good economic reason for doing the right thing. Doing the right thing is the right thing to do; it is also good business. However, from a people point of view, today, you will not recruit the best people unless you are operating to the high standards.

Chris Cummings

You have a global perspective on these issues. How would you say the UK measures up, compared to things you see in other markets and other parts of the world? Are we a leader? Are we a laggard? What would you say the UK's position is?

Sir Roger Carr

I continue to believe that we are elite. The 'comply or explain' principle has been adopted all over the world as a very sensible approach. It is not prescriptive; it allows people to shape their business according to the real world that they are in, but it requires them to operate at a certain standard. That has been seen as sensible business, not authoritarian rulebook management. As a result of that, it has been accepted and acknowledged all over the world. Even in America, which is always seen as the leader of capitalism, we split Chairman from Chief Executives and demanded standards of boards that were operating as a group of independent directors, rather than a friendly club. These are the things that are now seen all over the world as the right thing to do, and in all countries, I think – all developed countries, at least – are seen as the way to go. We have a lot to be proud of, but further to go.

Chris Cummings

Thank you. Mark, can I come back to you with the original question about the ethical stance – the values and culture – that you have led the change on at LV? Have you seen better staff retention or improved business performance as a result of that, or do you regard them as being necessary conditions that will lead to it?

Mark Austen

I can only repeat some boring statistics. Our staff retention rates are very, very high indeed. Our customer retention rates have been described by some of our competitors as 'indecent', because we settle claims and we do look after our customers, and it gets through the medium of our staff to our customers that we actually go the extra mile. We do have the luxury of being a mutual here, and I could just touch on it briefly. We are owned by our members – who are our most avid critics, by the way, because they own our product and they do actually make themselves heard very well when things go wrong, because we make mistakes. However, our members are the very strongest advocates of this, and we find that it is a virtual circle here.

Elizabeth Fernando

Ultimately, a business's licence to operate depends on having the trust of the customers and stakeholders who support it. It is very easy to take that license to operate for granted. One needs to remember that it is transient; it can be destroyed very, very quickly. We had some examples earlier about the horsemeat scandal in the retail industry. That did an enormous amount of damage to reputations and trust. Again, you could bang on about the banks forever, but the sector has paid over £260 billion in fines since the global financial crisis, that is an enormous amount of shareholder value that has been destroyed, and that could have filled an awful lot of pension deficits, which I am sure we are all sitting on at the moment. If you do not act in a way that maintains the trust of your customers and in a regulated industry – if you do not act in a way that maintains the trust of the regulator – shareholder value, and ultimately a company's right to exist, will be severely damaged.

Chris Cummings

Looking at the questions, there is a clamour for us to do a bit of politics, as Ben Elton used to say. I will come to you in a moment to get your views on the Government's interest in business reform, but in order to help our panel think through their positions on that, we should turn to a Sli.do question and do some more polling. The question I am going to ask is number 2; 'What is the most useful insight into culture? Is it employee surveys, customer data, supplier feedback, or speak-up reports?'

Overwhelmingly, employee surveys provide the most useful insight into culture. On the simple majority basis, I declare employee surveys to be duly elected. What shows through from this, though, is the importance of customer data and speak-up reports; supplier data getting an honourable mention, but it starts with our employees, and how seriously we take both the opportunity for engagement and the quality of that engagement. Thank you.

I was playing for time there, because we are going to do a little bit of politics. The question to be answered is around the current Government's attitude to business reform and engagement. One of the first speeches that our new Prime Minister made was around the need for better capitalism, or better engagement. We have had, by far, the highest number of votes by people to take soundings on the panel's view of policies put forward by government and the direction of travel. Roger, you will not be at all surprised by the fact that I come to you first, and we will try and work down the panel in order to give people a moment to consider. Your view, please.

Sir Roger Carr

The Prime Minister is absolutely right to highlight this as an issue. We are all living in the moment where the fragmentation of society has been revealed, if nothing else, by the Brexit vote; we are all aware of that. It has reinforced the distinction between the haves and the have-nots; those that feel fortunate and unfortunate. All of those things have been magnified, and are now a fracture line in society.

Business, as part of that, is very, very important. The difficulty is that business, in many, many people's eyes, because of the exceptional behaviour of some people who are not behaving correctly, is seen as an opportunity to feed the greed of the few, rather than respect the fact that business is the engine of wealth creation for the many. Unless business becomes acknowledged as an important and valued part of society, then the whole of it ultimately breaks down. This is about behaviour. Nobody in this country has any problem with somebody who is an entrepreneur, a real risk-taker, who puts their house and home and family on the line and makes a fortune. Nobody had a problem with that. People have a real problem when a professional manager who is paid well does a reasonable job and makes a similar fortune. That reinforces a sense of unfairness, and that is the thing that fragments society and alienates business.

We all have a responsibility to behave. Culture is a nice, easy topic to talk about, but it is about behaviour, and behaving ethically and responsibly in the knowledge that unless we do that as business, we will find ourselves alienated by society, and that is good for nobody. We have to acknowledge that there are a few people who will always be off-piste, but the bulk must stay in the centre ground of doing the right thing because it is the right thing to do. That is why this sort of meeting is very, very important. This is not a box-ticking exercise in the annual report; this is about society today, and what business has to do to heal a wound in society that is very deep.

Amanda Mellor

I echo everything that Sir Roger has just said. We would certainly welcome a chance to get involved in this. We always welcome any chance to look at how we can do things better. On employee engagement, personally, I think there are all sorts of things that can drive engagement, (an enthusiastic manager can always encourage people to participate in the survey) so it is important to try to get under the skin of that and ask, 'What is the data really telling us, and what questions are we asking? Are the right questions flushing out the right issues?', and then, also considering the invariably large number of comments that accompany a survey. There are several ways of cutting that piece of data to give real insight.

The other thing that we do, in which we are maybe slightly ahead of the curve, relates to our business involvement group. This employee representative group was started way back in the 1970s and is a very large voice of our business; of the people who work in our stores and across the offices. The head of this group will attend our December Board meeting. We do look at how we can get that line of sight on fairness through to the remuneration committee, across the business and right down to the lower levels of the business.

The other thing we welcome is the focus on the role of non-executive directors, and the role they play in providing independent and fair challenge, and also the level of reporting and transparency that we are all able to provide as to how we run our businesses. To echo Sir Roger's point, people want to see that businesses are managed in a fair and proper way, and that level of insight and transparency is important.

Chris Cummings

Mark, can I get your views on the Government's interest in business, and whether it is a wakeup call to us?

Mark Austen

This gives me an opportunity to put in a little bit of a plug. As somebody who has spent his life advising what we might call rampant capitalists, and now finds himself as chair of a big mutual, I am very persuaded that mutuals are a force for good; not just mutuals, but also partnerships, employee-owned organisations, and so on. One of the things I would say to the Government would be, 'Try and encourage some alternative business structures'. For some markets, they are very much more appropriate than PLCs.

Just to give you one example, we make promises – as I referred to earlier – to pensioners and annuitants of 10 to 15 years, or 20 years. I find it rather difficult to contemplate answering to our shareholders' interests every quarter, and having to represent our performance every quarter. Our annuitants and our customers are not interested in quarterly earnings at all; they are interested in the long-term security of the franchise, of their pensions and their annuities. For some businesses, mutuals are a very, very strong force for good, and I would like to think the Government would encourage, make it easier, and give a bit more airtime in legislation to make mutuals easier to set up – and also to ensure that those mutuals that are there are also compliant with things they should be compliant with, that PLCs are required to do

Chris Cummings

Elizabeth, what is your view on the Government's wake-up call to business?

Elizabeth Fernando

It is pretty clear that there is a trust gap that needs to be filled, but I am always really nervous about regulation, and the unintended consequences that can come from something that, at first glance, appears to be really sensible. You quite often find there is some baggage that comes with it, that brings out other knock-on effects that we really do not want. One of my colleagues likes to say, 'There is no problem so bad that government intervention cannot make it worse', and I wonder whether this is one of them.

On some of the specifics that have been suggested, the idea of putting employees onto the Board or having a shareholders' committee, if we are going to stand by the principle that directors leave their hats at the door and make decisions in the best interest of the company once they have walked through that door, I do not see what those changes bring about. We ought to be very cautious before we change that approach, because the Companies Act, by and large, has done very well for us as a country and as investors. We would not want to risk damaging that. Directors already have to balance competing interests. They are in fact required to have regard to other stakeholders' interests in the pursuit of maximising shareholder returns. Perhaps reporting more explicitly on how those judgments have been made, how the different parties have been prioritised and why, might be one way of closing that gap without coming in with a sledgehammer of regulation.

Sir Roger Carr

Elizabeth's point is so true. We have to be careful that in pursuit of better behaviour, we do not allow legislation or regulation to become the perceived solution, when in fact it can be very damaging. There are two points I would make. One is that it is absolutely incumbent upon business to lead by example, to address these issues, so that government does not feel the only solution is to legislate or regulate further. That is absolutely vital.

The second piece is that behaviour in all its forms is something we have a responsibility to manage now. The role of the Chairman, the non-executive, is to police, exercise judgment, and make sure that the right standards are managed. In some ways, it is failure to do what we are supposed to do now in some instances that drives the sense of 'There is a need for more regulation or more legislation'. We have a responsibility today to deliver, and if we do that properly, we will not see the creep of legislation into business, which is very dangerous.

Chris Cummings

Ladies and gentlemen, we are out of time. I honestly could not think of a better note to end this panel session on than the answers we have just heard from that last round of questions. It has been my great pleasure to chair and convene this session, but can I ask you please to thank such a terrific group of panellists? I am now handing over to Philippa Foster Back, Director of the Institute of Business Ethics, who will give us an event summary for the day.

Event Summary

Philippa Foster Back

Director, Institute of Business Ethics

Thank you, Chris, for the handover. Thank you to the FRC for giving me this opportunity to provide an event summary. This is a somewhat daunting task, given the richness of discussion that we have had this morning, so I hope you will be patient with me in how I make these remarks, because it has been a truly fruitful morning. We have have been given insights.

I start, though, by harking back – because that is something that is always quite useful – to the definition of culture in the FRC report that was issued in July. Culture in a corporate context can be defined as a combination of the values, attitudes and behaviours manifested by a company in its operations and relations with stakeholders. We have heard that amply echoed during this morning. Collectively, the conduct of some businesses has failed, as we know, which has led to the lower levels of the public trust in business. That really began with Win's comment, as he pointed out earlier. It seems quite a long morning, to go back to Win's earliest comments starting us off, but he was setting the tone for us.

tTe IBE's annual survey, which is run by Ipsos Mori, showed in 2015 that 59% of the British public actually thought that business behaved ethically. That was the highest rating in 12 years of our survey. This year's results are due out next month, so we will see if that has been maintained, but it is important to think that actually while the glass is not exactly empty – and I am a glass-half-full person – it certainly could be more full. If one looks at Edelman's Annual Trust Barometer, while similar in result, it showed a difference of 10% between the informed public's view of trust in business, at 63%, versus the general public's view at 53%. As that came out in January, that might have actually given us a few pointers as to things happening later in the summer. It is an important backdrop to the view of business' role in society as reported by all the speakers, especially through the lens of the specific issues of executive remuneration. I was half-expecting tax to appear as well, but that was not talked about so much this morning.

Connor focused on the issue of short-termism, where evidence shows that short-term decision-making to meet market expectations sets a tone – not only on the culture, but also about creating long-term value, which, again, was a theme that was picked up by later speakers. Sacha explained refreshingly frankly, I felt, her approach to remuneration and hers in particular, and why she has capped her salary at 20 times that of the firm's average salary. Justin spoke of business needing to find its voice; indeed, it does need to speak more to its purpose, and he told us the story about making Sainsbury's Great Again, which was a good illustration of that particular point.

There is, collectively, a need for business to find its voice, because in the main, the public – as mentioned by Sir Roger towards the end – do not always appreciate the need for successful, profitable businesses. This is, of course, to contribute to the public purse through taxes, which of course pays for public services. That whole issue about private companies delivering public services is one that has led to the public becoming more aware of business, because of the service qualities that are delivered, and we had some examples of G4S and Serco brought to our attention. If one goes back not too far – perhaps five or seven years – the public really had no idea, or had not really appreciated, how many public services both government and local government, were actually being delivered by private companies, but we certainly all know that now.

This, in turn, means that individual companies need to articulate their purpose, as we have heard mentioned, as evidence of being part of the greater good – and that, again, was touched on by Connor – connecting purpose and culture. After the break, we looked more at the governance aspects, and delivering long-term value for all stakeholders. The role of the Board, leadership, impact of customers, employees, and the input of shareholders were discussed, the common theme being doing the right thing because it is the right thing to do. Roger had clear espousal of the values of BAE, and the importance of supporting those that struggle to make the numbers, but not those who behave unethically. Having myself sat on the Woolf Committee, I really echo some of the comments that he made about the challenge they were set, and how well they have met it over the years.

Amanda talked about the active engagement of directors in culture, using board evaluation to test it. Mark talked about the core elements of LV's transformation, and the mantra – which I particularly liked – was 'treating people like family, do not wait to be asked, and know your stuff'. Elizabeth, from her perspective at USS, said culture is about how people behave when management is not there, or actually, when nobody is watching. The Wells Fargo example certainly made her case.

The latter session caused me to reflect on the foresight of a group of businesspeople, which included Sir Adrian Cadbury, who, 30 years ago, were faced with the regulatory change in financial markets that became known as Big Bang. At that time, when it was to be introduced, this group of people came together and, literally in this very room, the day after Big Bang, launched the Institute of Business Ethics, which I am proud to be leading today. It was launched specifically with a view to help companies and organisations create the right cultures to prosper. The IBE has always focused on how companies can practically and pragmatically do business in the right way by embedding behaviours and creating a culture based on ethical values. Indeed, our definition of business ethics is 'the application of ethical values to business behaviour'.

It is all about the *how*, and I was particularly taken – as I say – in that last session with the examples given of how companies do this. It is based around purpose, around values; not only business values, but also ethical values, which are key. It is around how companies make decisions; how the leadership operates. It is around the story-telling that goes on, creating an open culture through speaking up. It is around measurement. It is around doing ethical due diligence, as Roger stated. It is also giving and showing the evidence of better staff retention and recruitment. It is looking at that say-do gap through employee surveys; not always doing them internally, but sometimes doing them externally as well.

It is looking at the supply chain. It is addressing the middle management issue, sometimes known as the 'permafrost', the 'muddle in the middle', or many other words. It is certainly looking at recruitment and testing the values, particularly when you are recruiting around the Board and the

CEO, but also senior management and throughout the organisation, as aptly said, when you are not being tested yourself by those you are seeking to recruit. It is also about sanctions. It is making sure that bad behaviour is not tolerated, but is dealt with and dealt with quite swiftly, even if they are a hero in terms of what business they bring in. It is also about recognising, from the top to the bottom, the responsibility that everybody has to perform and behave in accordance with good values, and getting the right thing done.

The FRC's Culture Coalition, which the IBE was pleased to support, marks an important step for business, particularly set against the backdrop – as we have heard – of the Prime Minister's agenda, and the BIS Select Committee review that was announced last Friday on governance and executive pay. That step, now, for business is an opportunity to address how it does its business, to explain its purpose, and to demonstrate its relevance to all of society; in shorthand, to regain its licence to operate that Elizabeth referred to. Failure to do so might well result in the heavy hand of regulation and legislation, which of itself cannot be the answer. You cannot have enough rules and law to regulate behaviour. It just does not work. That is what comes from within us all, and that is what we all need direction and example to follow, to get right.

Collectively, we need to win over hearts and minds, and create through example and behaviours sustainable cultures. Our system of capitalism is not broken, but it has been severely dented, so good businesses with good cultures need to stand up, contribute, and get their voices heard. I would like to thank the FRC and also the fellow members of the Culture Coalition whom they invited to participate in this: CIMA, City Values, CIPD, and IIA. It was a great coalition to be part of, and we look forward to it continuing, as the agenda is always ongoing. I would like to leave you, though, with just one thought: it is, actually, the IBE's strapline, which we have had for the last 15 years. 'Doing business ethically makes for better business'. Thank you very much.

Closing Remarks

Stephen Haddrill

CEO, FRC

Thank you very much, Philippa. I was told that all I had to do was say a few thank yous, but I do not think I am going to get away with that, because almost everybody I have met over tea has said, 'What is the culture of the FRC, and do you live up to it?' I had better say a little bit about that.

It is always a challenge, as a regulator, defining your culture, because you work in the public interest, and the public often has really quite divergent views about how you should be going about your business. We try to be decisive in the public interest; fair, and so driven by respect for the truth and evidence; and also collaborative, which I will come back to in a minute, because it has been a big part of this "culture coalition" that has helped us drive forward the work that we have been promoting today. It is easy to say those things, but how well do we do it? Frankly, having read the report closely as we were preparing it to come out in July, and listening to the speakers today, I realise that we have a huge amount to learn.

The area where, traditionally, the FRC and its culture has worked well is through this notion of collaboration; convening market participants to come together, to share their knowledge, and to take matters forward on the back of that knowledge. That was something that Sir Adrian Cadbury started almost exactly 25 years ago with the Corporate Governance Code, and it is a process that has served us well. What we have to remember, though, is that stakeholders change as issues change. The Prime Minister has asked us to think about a wider group of stakeholders. She has talked more about employees; we have heard a lot about employees today, and quite rightly so. The environmental debate has also moved on over that quarter of a century. We need to do more to reach out to the environmental groups. We have to be agile. Culture has to be based on strong pillars, but we have to move with the times, particularly as the public interest evolves, and that is what we will seek to do.

A lot of people have mentioned the Prime Minister, and the either benign or adverse effects of politicians. What politicians are good at – and there are some things that they are very good at – is spotting that there is a public concern. What we heard on the platform today was that pretty well everyone recognises that there is an issue about trust in business, and it has to be addressed. Our job at the FRC -- we challenge what needs to be changed but also cherish what is good. I hope that the Government will promote a debate, and will be open in its consultation and open to the best ideas. Corporate governance in the UK is internationally regarded as amongst the best, if not the best, in the world, so let us cherish that, whilst challenging what does not work.

There clearly are groups in society who quite rightly feel that governance is not working for them as it should do, and we have to find the right answers there. I hope that in collaboration, we can do that. Finally – I must thank you. I must thank the Coalition; they have done a fantastic job, and particularly Philippa for summing up in such a clear and concise way, if I can use our corporate reporting mantra. Well done on that, and to all the panellists for really stimulating us and making us think. I would also thank my colleagues in the FRC for making this a really exciting morning. Thank you very much indeed.