FRC Conference: 'Culture to Capital: Aligning Corporate Behaviour with Long-Term Performance'.

by Peter Parry

In the last edition of TPI I wrote about the increasing interest in corporate culture. The Financial Reporting Council (FRC) has been an advocate of reporting on corporate culture and it has published a report on the subject. It followed this up with a conference on 20th September which I attended.

A full transcript of the conference can be accessed by going onto the UKSA website which contains a link to the transcript. What follows are my own notes and comments on the conference.

Conference structure

The conference consisted of a brief introductory talk by Sir Win Bischoff, Chairman of the FRC, followed by an opening address from Conor Kehoe, a senior partner at McKinsey. This was then followed by two panel sessions. The final summing up was by Philippa Foster Back, Director of the Institute of Business Ethics.

Opening address

Conor Kehoe raised a number of important points focusing primarily on short-termism and the role of non-executive directors. The expectation that companies will keep delivering ever better results over each successive quarter is clearly not realistic and is widely recognised to be unhelpful in terms of longer term business planning and investment. The role of non-executive directors (NEDs) is work in progress. In some companies NEDs have added considerable value. There are too many cases, however, in which their knowledge of the industry is weak and the time they spend in the business is too limited for them to grasp the finer intricacies of how it and its culture work. Too often a non-executive directorship looks more like a sinecure for the recently-retired on the old boys' network. Kehoe is a little kinder but he recognises the problems. If members have time to read only one section of the transcript I recommend that they read Conor Kehoe's Opening Address.

Panel Sessions

The first session was chaired by Dina Medland, writer, editor and commentator with a panel of two – Justin King, late of Sainsburys, and Sacha Romanovitch, CEO of Grant Thornton. A number of good points were raised by both members of the panel during the discussion. There were interesting observations about recent problems at Serco and G4S and how essentially good people can fall prey to bad behaviour. As the panellists noted, there was a chain of events at Serco and G4S. These were businesses that were used to generating premium returns by taking significant inefficiencies out of client organisations. The City expected these returns to continue, or even increase, in perpetuity even though this was unsustainable. Both organisations employ a significant number of ex-military people – people who are used to delivering the impossible. When their boards applied pressure to them to continue delivering ever-increasing returns without scrutinising too closely how it was being achieved the scene was set for a disaster.

However, some of the comment was less insightful. An UKSA member, Mohamed Amin,

asked very pertinently how Grant Thornton rewards partners who turn away clients that would pose excessive risk for the firm. And what was Sacha's answer?
'***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.'***

Was that clear? Well, not to me… And whilst I don't like to rain on anyone's parade unduly, aren't Grant Thornton the auditors at Sports Direct, a pariah in the eyes of many for poor standards of corporate culture?

The second panel session was chaired by Chris Cummins, CEO of the Investment Association. The panel members included Sir Roger Carr, Chairman of BAe Systems and Amanda Mellor, Company Secretary of Marks and Spencer. But wait a moment! Isn't the Investment Association the very organisation that recently fired its previous CEO, Daniel Godfrey, for trying to reform culture within the investment industry by arguing that members should always seek to do what was in clients' best interests rather than their own? And BAe Systems? Weren't they in the news some years ago (how time flies!) for using bribery to win defence contracts in the Middle East? This led to much comment and debate about reputational risk to businesses which are caught transgressing as a result of deficiencies in standards of corporate culture.

Conclusions

Many interesting and valuable points were raised in each of the Conference sessions. However, I struggle somewhat when an organisation with the pedigree of the Investment Association is asked to chair a panel session on 'Delivering Long Term Value for Stakeholders'. I also wince a little when I feel that arguments for promoting sound corporate culture are being conflated with the commercial imperative of avoiding reputational risk. That is a by-product of excellence in corporate culture and the risks of ignoring it belong in the risk report - which is another topic altogether!

Peter Parry