CORPORATE GOVERNANCE REFORM AND THE OPPORTUNITY FOR CORPORATE AFFAIRS

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Since the publication of the Proposed Revisions to the UK Corporate Governance Code in December 2017, we have regularly been asked what impact, if any, the changes in governance could have on the Corporate Affairs function.

We believe the answer lies in the direction the Financial Reporting Council (FRC) is taking in emphasising the importance of corporate culture and the need for each company to understand the impact of their corporate behaviour. Sir Win Bischoff, Chairman of the FRC, notes "*the importance of the intrinsic value of corporate culture*" as a new addition to the Corporate Governance Code, and that "*engaging with and contributing to wider society must not be seen as a tick-box exercise but imperative to building confidence among stakeholders and in turn the long-term success of a company*". As part of this, Boards will be required to demonstrate that they are formally taking into account the interests of a broader set of stakeholders in their decision-making processes.

How this will impact the Corporate Affairs function will differ for each company, depending, in part, on its current roles and responsibilities. Some are already tasked with being the guardians of generating insight into culture, behaviour and stakeholder engagement for both internal and external audiences. However, for many companies, this insight will be a completely new requirement and the question will be who is best placed to provide the senior management team and the Board with the relevant insight and advice.

The new corporate governance code creates three questions each Corporate Affairs function and company should ask itself. They need to be answered swiftly. As the reporting requirement comes into effect for the 2019 reporting year, every company should work to better understand its own culture, behaviour and stakeholder support, before the reporting requirement forces them to be transparent in this area. This should not be regarded as another irksome reporting requirement but as good governance and good business.

One of the outcomes of the fate of Carillion is that governance and the responsibility of companies to their stakeholders are firmly back in the spotlight and on the political agenda. Companies must understand how culture, behaviour and stakeholder perceptions are impacting their business.

We believe that the Corporate Affairs function is well placed to take the lead and should do so. It will be both a challenge and opportunity for organisations to ensure that their behaviours are aligned with their stated values and that stakeholder expectations are understood and factored in to company strategy. This will entail collecting stakeholder insight in a useable way to feed into strategy and decision-making, as well as using that insight to shape corporate narrative.

There have already been political mutterings that the governance changes are not going far enough. If companies fail to pro-actively adopt the changes, what is essentially a light touch governance approach is likely to become far tougher.

BACKGROUND

On 5 December 2017, at the request of the Government, the FRC published its proposals for the revised UK Corporate Governance Code. This follows a near hostile stance taken by the Prime Minister against numerous cases of poor corporate behaviour and a belief by both main political parties that corporates are out of touch with their broader social responsibilities. These scandals, all of which have featured at the top of the news agenda, demonstrate where Boards, and the advisers, have seemingly been taken by surprise by breaches of values espoused by senior management.

The headline to the revised Corporate Governance Code outlines the ambition to achieve long-term success and trust in business. The revised code states that:

"good governance is demonstrated in the way the company conducts business and engages with stakeholders."

And,

"…acknowledges that the activities of companies have a wide-ranging impact and it is important that Boards consider the way companies interact with the workforce, customers, suppliers and wider stakeholders."

Of particular interest to the Corporate Affairs profession and its role in these changes, is the emphasis that the FRC has placed on corporate culture and behaviour. This first became evident in 2016, when the FRC undertook an examination of culture, which it reported on in "Corporate Culture and the Role of Boards 2016".

As a result of this work, the revised code now places:

"a new focus on stakeholder integrity and corporate culture".

For the purposes of clarity, it is necessary to highlight how the FRC defines culture, as it is a term often used, and often misunderstood. The definition given in the 2016 report is:

"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 its stakeholders. These stakeholders include shareholders, employees, customers, suppliers and the wider community and environment which are affected by a company's conduct."

The relevance of culture is both internal and external. From the FRC's perspective, it will be important that a company understands its corporate behaviour in relation to its values and how this behaviour or conduct influences the relationship with stakeholders.

The Code revisions are there to encourage companies to report fully on broader non-financial matters, including how wider stakeholder interests have influenced the board's decision-making. Because so many of these are influenced and touched on by the Corporate Affairs function, we believe it is vital that the function is involved and, at best, leading in the insight development going forward.

THE QUESTIONS

The three questions we invite Corporate Affairs and communications professionals to ask themselves and their organisations are outlined below.

They are based on the need to report to the Board in a format that provides immediate insight, can be measured and tracked over time and are robust enough to inform decision-making.

1. WHO SHOULD OWN THE RESPONSIBILITY TO DEFINE, MEASURE AND MANAGE OUR CORPORATE CULTURE AND BEHAVIOURS?

This will differ from company to company, but there is a clear role for Corporate Affairs.

The revised code states that

"the Board must consider the culture of the company and wider stakeholder interests."

It also makes clear that it is the CEO who is responsible for the Board receiving the required information on culture and for setting the 'tone from the top'.

At the same time,

"the Board must define the purpose, strategy and values of the company and consider the types of behaviours it wishes to promote to deliver its business strategy."

Corporate Affairs, in its role as an adviser to senior management and the CEO on communicating corporate strategy and protecting and building reputation, has a clear opportunity and responsibility to take ownership for creating a framework and insight for the CEO. This insight will aid the understanding and management of corporate culture and the reporting to the Board on how it relates to corporate strategy and behaviour across multiple stakeholders.

The corporate affairs function should be aiming to ensure that, in light of the new Code requirements, the company has two diagnostics in place: firstly, for understanding and tracking culture and identifying any signs of an action/messaging gap; and secondly for bringing together feedback from different stakeholders about their expectations and perceptions. Both of these insight platforms should be given to the Board for corporate strategy development and risk management processes. KPIs can then be tracked for Board briefings.

These insights do not need to be disruptive, nor in conflict with the ongoing activities of the business. Inevitably it will involve working closely with other key functions such as Investor Relations, Marketing and Human Resources but such is the role of the Corporate Affairs function and why it is so well placed to deliver.

Also, in a modern world that places greater expectation on transparency and accountability, it is vital that behaviour and narrative are closely entwined. Companies are judged for what they are, rather than for what they portray. Any disparity between actual behaviour and narrative is likely to be found out and such enforced transparency will only increase.

This ability to sit at the centre of an organisation's operations, to be positioned as a senior adviser, and have the capacity to link culture and behaviour to narrative is why the Corporate Affairs function should embrace the call for increased cultural understanding and stakeholder measurement as part of its role.

2. HOW DOES OUR CORPORATE NARRATIVE RELATE TO OUR CORPORATE BEHAVIOUR AND THE NEED TO COMMUNICATE WITH A BROADER SET OF STAKEHOLDERS?

In addition to the need to continually monitor culture and behaviour against narrative, one of the outcomes of the changes to the corporate governance code is that the corporate narrative is going to have to move beyond the messaging and channels that have, for listed companies, historically often been balanced towards the investor audience.

The code will require Boards to demonstrate how they are listening to a broader set of stakeholders and what influence these views are having on their decision-making process. Not only will it be important for the Corporate Affairs function to collect that feedback in a useable way to feed into the strategy process, but the outcome will also be that the corporate narrative will need to change and broaden.

The UK Stewardship Code will also be accelerating how the investor community will require more information and the channels through which they receive it.

The Stewardship Code is inviting shareholders to move away from information being communicated primarily through the Annual Report, and away from a 'tick box' approach. As a result, investors will be asking for a more regular dialogue from companies on broader topics. The recent letter from Larry Fink, CEO of BlackRock, one of the largest investors in UK companies, highlighted how they will be looking to engage differently with investee companies. They will want different types of information on different stakeholders, more regularly. All of this will impact the messaging and channels for corporate narrative, most likely resulting in a heavier reliance on digital content.

At the same time, the company will require far more regular insight into how these stakeholders support the company. This will be key not only for how a company communicates but also how it identifies and mitigates risk.

This all means that the corporate narrative is going to have to be reviewed on a regular basis against the insights gained on each stakeholder's engagement and support for the business. The likely outcome of this is that the Annual Report, corporate websites and other corporate collaterals will need to become more active and alive, changing the type of input and insight required from the Corporate Affairs function.

3. IS THE CORPORATE AFFAIRS FUNCTION SET UP TO MEET THE FUTURE DEMANDS FROM THE CEO, THE BOARD AND THE COMPANY IN GENERAL?

The shift that is occurring towards increased transparency and accountability, the need for better insight and the pressure on companies to justify their role in society will change the demands on the Corporate Affairs function.

As companies are required to gain a licence to operate from a broader set of stakeholders, they will need to build a wider, more regular, dialogue through different communication channels. They will also need to measure the strength of this licence regularly.

If the Corporate Affairs function wants to lead or be part of the management process of culture, behaviour and stakeholder engagement, then it will need to change. As well as its role of communications specialist, manager of the media (through all its different forms) and reputation protector, it will also need to build a stronger understanding of a wider set of stakeholders by gathering data and insight.

Just as the rise of the internet and social media has changed the Corporate Affairs function over the last decade, so will the reforms to governance in the future.

CONCLUSION

Many companies are already embracing the need to better understand and manage their culture and behaviour as the bedrock of how they do business and interact with stakeholders. They recognise an increasing political and social pressure and that a strong reputation delivers commercial and valuation benefits. However, companies collectively need to do a better job at explaining the good they do in wider society beyond their traditional outputs. If they fail to do so, then what is now a genuine attempt to have a light touch governance framework, will become far more punitive.

This shift will change the responsibility of the progressive Corporate Affairs function. They will be the centre of the company not only delivering information, but also continually gathering and analysing stakeholder insights – listening as well as speaking.

The challenge will be to ensure Corporate Affairs professionals keep ownership of this critical area. We are already seeing other corporate functions seeking to take ownership of insight and stakeholder engagement, with the Corporate Affairs function being side-lined as a result.

It is already clear that organisations will be judged by how they act, rather than just by what they say. The Corporate Affairs function of the future needs to be able to have input into both elements of this important equation.

ABOUT SIFA STRATEGY

With a 25-year track record of advising organisations, across different industries and geographies, we work with clients to enhance and manage strategic communications programmes, improve their corporate narrative across different stakeholders and develop best practice Corporate Affairs functions.

We work with senior management teams to enable them to measure and embed stakeholder measurement and engagement programmes to assist decision-making and support corporate governance.

Underpinned by our bespoke research and insight programmes, we analyse the current level of support for an organisation across multiple stakeholders. By identifying potential areas of reputation risk and strength, we enable organisations to protect and enhance their stakeholder relationships and treat corporate behaviour, culture and reputation as strategic and measurable tangible assets.

To learn more about our work please visit sifastrategy.com

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