



**AKO Capital Corporate Culture Project
Background and Methodology Update
September 2017**



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Overview

Over many years we have discussed internally the importance of corporate culture, read widely on the topic, and concluded that it can be the ‘secret sauce’ – that certain something that can determine why two ostensibly similar companies in the same industry can have very different track records. Take, for example, Svenska Handelsbanken, which actually lent money to the Swedish Central Bank during the Global Financial Crisis, in stark contrast to its riskier peers, many of which either needed bailing out or disappeared entirely.

It is clear to us that the topic of corporate culture demands further attention from the investment management industry. We are excited to be working with a team of world-class academics from The LSE to further study the topic. The LSE team, led by Dr. Tom Reader and Dr. Alex Gillespie¹ of the Department of Psychological and Behavioural Science, is now conducting a four-phase project, funded by the AKO Foundation.² We expect this innovative project to advance academic research into this topic significantly; furthermore, it may have profound implications for investment managers’ analysis of companies. Specifically the early versions of an Unobtrusive Corporate Culture Analysis Tool (UCCAT), which we discuss in more detail later in the document, appear promising.

The project has four phases as below:

1. An exhaustive, systematic review of the academic literature on the topic.
2. Development of an analytic framework to conduct analysis of ten individual companies as ‘case studies’, including AKO Capital proprietary data. This sample of companies includes both ‘good’ and ‘bad’ cultures, and both strong and weak performers.
3. Refining and finalization of an applied research toolkit to assist with future company analysis.
4. Publication of full results in relevant academic journals.

Currently, the first two phases of the study are complete and the third phase is well underway. AKO Capital continues to work closely with LSE on this exciting project and will provide further updates through the course of 2018.

¹ See <http://www.lse.ac.uk/DPBS/PBSPeople/People.aspx> for full bios

² The AKO Foundation is a UK charity founded by Nicolai Tangen and which is ultimately funded from the profits of AKO Capital. The primary focus of AKO Foundation is the making of grants to projects in the areas of education and the arts and it has, since its inception, been funded by approximately £62 million. For more details on AKO Foundation and entities supported by the Foundation, see <http://www.akocapital.com/40/ako-foundation>.

Phase One: Review of Academic Literature on Corporate Culture

Corporate culture and implications for investing

Corporate/organisational culture has consistently been shown to predict a range of performance metrics, including ROA, ROE, ROI, operating margin, market share developments and sales growth.³ Future success or failure is often apparent and embedded in the cultural properties of an organisation. So, for any stock-picker, being able to measure and assess the culture of an organisation could potentially provide a valuable (and often neglected) addition to the decision-making process.

Yet this is challenging because culture studies typically involve going 'inside' an organisation to collect data (e.g. surveys, interviews, focus groups). For investors, such data is generally unavailable and so alternative indicators of culture are required. This reflects a gap in the academic literature, whereby research is critiqued for focusing too heavily on the subjective viewpoints of organisational members, who may often be unaware of aspects of their culture, or lack insight on cultural dimensions that are externally orientated (e.g. product/service quality).

The LSE research project explores this issue; specifically, whether organisational culture can be measured utilising data from the outside – for example using analysis of company call transcripts, social media buzz, CEO presentations, annual reports, customer complaints, financial data, board composition, executive attrition, and so forth. AKO Capital is in a unique position to provide input that has hitherto been unavailable to academia, such as the proprietary assessments conducted by our Behavioural Assessment and Forensic Accounting teams; equity analyst insight into aspects of individual companies; and decades of experience of being exposed to the external manifestation of company culture through meetings with senior management.

Through this innovative focus on these external, unobtrusive indicators of culture, the aim is to examine whether the cultural profiles of organisations can be i) linked to dimensions of culture (see below) and measured in a standardised fashion; ii) associated with performance metrics; and iii) used to support decision-making for investing in companies. This final point is critical, and one which potentially has significant implications for AKO Capital and indeed all equity investment managers.

What is organisational/corporate culture?

Organisational/corporate culture refers to the values and practices shared within an organisation. The focus of LSE's project is the indicators of organisational/corporate culture that predict financial performance. The proposal is that from the boardroom to the shop-floor, the culture of an organisation shapes the attitudes and behaviours of its members, and this in turn influences its performance.

Specifying exactly what culture consists of is elusive. LSE has identified over 40 definitions of organisational culture within the academic literature. In some cases definitions of culture are succinct – a former managing director at McKinsey simply described culture as "the way we do things around here".⁴ Other definitions of culture are complex and multi-faceted. Schein argues that an organisational culture consists of: i) a shared and explicit framework of values and beliefs by which employees make sense and undertake their work; ii) internalised and non-conscious assumptions (e.g. on questioning authority) that shape how people think, feel, and act; and iii) the systems, procedures, and histories that provide the context in which people function.⁵ Nonetheless, it is universally accepted that all organisations have a distinctive culture or personality which shapes how people behave within them.⁶ From an academic – and indeed, an investor – standpoint, however, questions remain about the types of culture that best engender organisational performance, and the ways in which a culture can be measured.

³Barney, J.B., 1986. "Organizational culture: can it be a source of sustained competitive advantage?", in *Academy of Management Review*, 11(3), pp. 656-665.

⁴Bower, M., 1966. *Will to Manage; Corporate Success Through Programmed Management*.

⁵Schein, E.H., 1984. "Coming to a new awareness of organizational culture", in *Sloan Management Review*, 25(2), p.3.

⁶Watkins, M.D., (15 May 2013). "What is organizational culture? And why should we care?", in *Harvard Business Review*. Retrieved from <https://hbr.org/2013/05/what-is-organizational-culture>.

Which aspects of an organisational culture influence performance?

Research typically tends to characterise an organisation's culture by "dimensions", and then examines whether and how these dimensions predict organisational outcomes such as financial performance. Culture dimensions are somewhat akin to personality traits, with dimensions referring to different aspects of organisational life (e.g. innovation, ethics, adaptability). These dimensions can be assessed through employee surveys, interviews, observations, and ethnographies. Organisations are assessed first in terms of whether they are high or low on any given dimension, and then on the impact of this upon organisational performance. For example, in technological industries, a culture that fosters innovation is essential for performance.

The project focused on identifying studies that have established associations between dimensions of organisational culture and objective (i.e. independent) measures of performance. 2,047 academic papers were reviewed, and 629 unobtrusive indicators of culture (UICs) identified. These UICs were then conceptualized in terms of the core dimensions of organisational culture that were identified as predictive of performance in the academic literature. For example, employee satisfaction (an outcome of an employee-focused culture) was unobtrusively measured using reviews left by current and former employees on Glassdoor⁷ and found to be positively associated with firm performance (subsequent Tobin's q and ROA).⁸

A synthesis of the literature reveals the following cultural dimensions are consistently found to predict organisational performance.

People Orientation

Over one hundred studies specify a link between organisational performance (e.g. profitability) and factors such as increased job satisfaction, employee commitment, work engagement, and employee well-being. This reflects the 'people orientation' of an organisation, whereby it supports employees through placing emphasis on training and growth opportunities, rewarding and publicly recognising work, and supporting employees when they have difficulties. Employees reciprocate the support of the organisation through being more committed to it, which leads to increased effort, innovativeness, fewer absences, and lower employee turnover.

Despite the common-sense link between people orientation and organisational success, organisations do vary in their people orientation. Examples include the Virgin Group (where employees are allowed flexible working hours, given discounted gym memberships, and achievements are publicly celebrated) and Sports Direct (where zero-hours contracts were criticised as "nineteenth-century working practices" and investigated by a House of Commons Select Committee).⁹ Yet people orientation is consistently shown as critical to performance, as illustrated in a review by Gallup (2012), which found that 70% of US employees are not engaged in their work, costing businesses up to \$550 billion in lost productivity annually.¹⁰ Indeed, experimental research shows that simply giving employees a personalised 'Thank You' card results in increased performance.¹¹

Ethical Orientation

Ethical orientation relates to the moral position of an organisation, and the extent to which there is a culture to ignore the 'right' route in order to gain short-term advantage. Studies show that the ethical practices employed by a company can have an influential impact on performance.¹² Recent examples include the Volkswagen emissions scandal and Toshiba admitting that it had overstated its earnings by nearly \$2 billion. Conversely, we point to L'Oréal, honoured as one of the World's Most Ethical Companies every year since 2012 by the Ethisphere Institute.

⁷ Glassdoor.com, a website on which current and former employees provide unsolicited reviews of companies and company management.

⁸ Huang, M., Li, P., Meschke, F., & Guthrie, J.P. (2015). 'Family firms, employee satisfaction, and corporate performance', in *Journal of Corporate Finance*, 34, pp.108–27.

⁹ <http://www.publications.parliament.uk/pa/cm201617/cmselect/cmbis/219/219.pdf>

¹⁰ Gallup's *State of the American Workplace* report 2010-2012 <http://employeeengagement.com/wp-content/uploads/2013/06/Gallup-2013-State-of-the-American-Workplace-Report.pdf>

¹¹ Bradler, C., Dur, R., Neckermann, S. and Non, A., 2016. "Employee recognition and performance: A field experiment.", in *Management Science*.

¹² Berrone, P., Surroca, J. and Tribó, J.A., 2007. "Corporate ethical identity as a determinant of firm performance: A test of the mediating role of stakeholder satisfaction", in *Journal of Business Ethics*, 76(1), pp.35-53.

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Research into organisational culture has extensively examined the ethics of reward structures, and shown them to shape organisational behaviour and performance. One study investigated CEO's incentives to cheat as a result of stock options.¹³ Data was obtained from the U.S Government Accounting Office, which identified companies with accounting irregularities. The sample included 434 misrepresenting firms, with a sales range from \$357,000 to \$39.1 billion. The restatements covered a range of specific types of misrepresentation including adjusted revenue or expenses and stock-related issues. The study concluded that high CEO compensation delivered by stock options increases the chances of financial misrepresentation.

Adaptability

Adaptability is an imperative survival trait, referring to an "organizational capacity to change in response to external conditions".¹⁴ It indicates a company's willingness to learn, to innovate and take risks in order to achieve or maintain competitiveness.

The last twenty years of fast-paced innovation is littered with companies that did not adapt well to change (such as Kodak and Nokia), as well as those that did (Ryanair and Svenska Handelsbanken, for example). A recent study¹⁵ of adaptability which examined 32 technology companies in the US and Ireland concluded that firms whose cultures were higher on adaptability had significantly stronger revenue growth, higher market valuations (Tobin's Q), higher rankings on Fortune Magazine's "Most Admired" list, were more likely to be recommended by stock analysts, and had higher employee ratings as reported by Glassdoor.¹⁶

Market orientation

Market orientation refers to a culture: "that (1) places the highest priority on the profitability creation and maintenance of superior customer value while considering the interests of other key stakeholders; and (2) provides norms of behaviour regarding the organizational development of and responsiveness to market information."¹⁷

Market orientation is consistently found to be a key predictor of financial success. This is because companies that develop and implement a market orientation culture actively obtain market information and integrate the voice of the customer into their business.¹⁸

One study observed fifty-six US companies over nine years to see the impact of responsive and proactive market orientation on firm performance.¹⁹ This focus included understanding the customers' articulated needs (responsive) and having the ability to foresee customer latent requirements (proactive). The most successful companies demonstrated organisational culture with high levels of proactive market orientation. This is because it paved a way for innovation which allowed organisations to acquire new customers and increase their profits.

Other, underexplored, dimensions of culture

It can be argued that there are other aspects of culture which real-world experience suggests may be critical, but which have so far been neglected in academic literature. Examples include the extent to which a company is focused on the long-term; the clarity of communication from senior management; an organisational focus on excellence; and executive buying and selling of company stock. LSE's analysis has also investigated those underexplored aspects of culture as well as the above-mentioned dimensions.

¹³ Harris, J. and Bromiley, P., 2007. "Incentives to cheat: The influence of executive compensation and firm performance on financial misrepresentation.", in *Organization Science*, 18(3), pp. 350-67.

¹⁴ Kotrba, L.M., Gillespie, M.A., Schmidt, A.M., Smerek, R.E., Ritchie, S.A. and Denison, D.R., 2012. "Do consistent corporate cultures have better business performance? Exploring the interaction effects.", in *Human Relations*, 65(2), pp. 241-62.

¹⁵ O'Reilly, C.A., Caldwell, D.F., Chatman, J.A. and Doerr, B., 2014. The Promise and Problems of Organizational Culture CEO Personality, Culture, and Firm Performance. *Group & Organization Management*, 39(6), pp. 595-625.

¹⁶ Glassdoor.com, a website on which current and former employees provide unsolicited reviews of companies and company management.

¹⁷ Slater, S.F. and Narver, J.C., 1995. "Market orientation and the learning organization", in *The Journal of Marketing*, pp. 63-74.

¹⁸ Kumar, V., Jones, E., Venkatesan, R. and Leone, R.P., 2011. "Is market orientation a source of sustainable competitive advantage or simply the cost of competing?" in *The Journal of Marketing*, 75(1), pp. 16-30.

¹⁹ Jaeger, N.A., Zacharias, N.A. and Brettel, M., 2016. "Nonlinear and dynamic effects of responsive and proactive market orientation: A longitudinal investigation", in *International Journal of Research in Marketing*.

These findings suggested that a methodology to assess corporate culture could provide useful insight for supporting investment decision-making. With that in mind, LSE developed the Unobtrusive Corporate Culture Analysis Tool (UCCAT) and analysed ten disparate companies as 'case studies'.

Phase Two: Development of an analytic framework to conduct analysis of ten 'case studies'

Unobtrusive Corporate Culture Analysis Tool (UCCAT)

UCCAT is a theoretically-based and scientifically-tested methodology for evaluating, analysing and benchmarking corporate culture. To reiterate a key point: rather than gathering employee interviews and questionnaires to assess culture, UCCAT analyses publicly available data (e.g. annual reports, financial records, press releases and databases) that are indicative of a company's cultural 'footprint'. These data points are termed "unobtrusive indicators of [organisational] culture" (UICs). Each UIC represents an observable and measurable aspect of organisational activity (e.g. research spending, customer engagement, level of disclosure in its annual reports), and can be understood as a 'dipstick' for measuring a specific aspect of a company's culture. When aggregated together into six cultural dimensions, which are further refined from those discussed in the literature review, the UICs allow a holistic assessment of corporate culture from the 'outside'. This approach to investigating corporate culture is ground-breaking: until now academics and practitioners have tended to focus on employee self-report methodologies, which have a number of widely acknowledged limitations, such as social desirability, subjectivity, sampling errors, and limited longitudinal analyses. We believe that LSE's development of UCCAT represents an important step forward in the field of corporate culture research, as well as providing a new scientifically-evaluated tool that should help to improve investment decision-making.

UCCAT development process

LSE developed UCCAT in the following phases:

- 1) *Initial analysis of two companies in AKO Capital's portfolio.* The 629 identified UICs were initially applied to two companies in order to examine whether it is feasible to assess corporate culture externally. Furthermore, twenty-five new UICs that had not been previously specified within the corporate culture literature were identified through the analysis of AKO proprietary data such as Market Research, BAU transcript analysis and company meeting notes. To take one example, long-term growth targets being discussed in quarterly earnings calls were conceptualized as being indicative of long-term planning.
- 2) *Generation of a preliminary cultural framework.* An initial UCCAT framework was developed, consisting of 76 UICs belonging to eight dimensions. This was reviewed by AKO Capital's investment team, refined through close collaboration between AKO and LSE, and then applied to assess the culture of ten companies within AKO Capital's investment universe. Seven of the companies were considered by us to be strong performers, and three were not. LSE researchers, blinded to our assessments, used UCCAT to independently evaluate the corporate culture of each company.
- 3) *Item Analysis.* Essential to a robust culture analysis tool are high reliability, statistical variance, face-validity, and ease-of-use. For UCCAT, LSE tested whether different researchers would evaluate the same companies in a similar way when applying the initial UCCAT framework to the ten companies. Overall, with an average co-efficient of 0.65, this preliminary testing showed UCCAT to be highly reliable. Based on this analysis, and further statistical assessments of each UIC, such as their variance and time taken to administer, along with feedback from AKO Capital's analysts, UCCAT was further refined.
- 4) *Discriminant Analysis.* Using this refined tool, LSE developed cultural profiles for each of these ten companies, and then reported these back to our investment team. We then assessed whether the profiles generated through UCCAT: i) reflected the companies being reported on; and ii) distinguished between high and low performers.

UCCAT version 1: components

UCCAT version 1 consists of 60 UICs across six dimensions, with 10 UICs being used to measure each dimension. Table 1 shows each of the dimensions along with its definition and constituent UICs.

Table 1: UCCAT Dimensions and UICs

Dimension	UIC
<p>Adaptability: A company's innovativeness, willingness to take risks, and overall ability to respond to changes in the market through strategy and leadership</p>	Acknowledging the need to adapt
	Adapting to negative events
	Awareness of future challenges
	Capital expenditure
	Innovation focused language
	Patents granted
	R&D intensity
	Responsiveness to negative events
	Understanding success
	User ratings of company apps
<p>Customer focus: A company's emphasis on engaging with customers and responding to their wants and needs</p>	CEO customer focus
	Company website
	Customer engagement: Twitter
	Customer responsiveness: Facebook
	Customer responsiveness: Phone
	Customer responsiveness: Twitter
	Customer satisfaction: Facebook
	Market focused language
	Performance in customer survey
	Regular customer survey
<p>Employee focus: A company's treatment of its employees in terms of support, opportunities for professional growth and concern for well-being, as well as employees' subsequent alignment or non-alignment with its business direction</p>	Employee-focused language
	Employee profit-sharing
	Employee representation on the board
	Employee satisfaction
	Employee strikes
	Employee training
	Employee turnover
	Espoused values of diversity
	Rating of employee focus
	Women in the workforce
<p>Governance: The practises, composition, and stability of a company's corporate governance</p>	Adjusting CEO bonus
	Board independence
	Board visibility
	CEO long-term orientation
	CEO rating by employees
	Leadership stability
	No related party transactions
	Shareholder approval: Chairperson
	Shareholder approval: Remuneration
	Women on the board
<p>Planning: The extent and effectiveness of a company's planning surrounding their results, their responsibilities and the future</p>	Accurate accounts
	Clawback provisions for LTIs
	Clear performance indicators
	Foreseeing events
	Forward-looking plans
	Long-term orientation
	Meeting performance indicators
	No profit warnings
	No scandals
	Safety planning
<p>Transparency: The transparency of a company's communications in terms of its annual report, responses to analysts' questions in earnings calls, and press releases</p>	Accessibility of communications
	Availability of company information
	Clarity of annual report
	Clarity of press release archive
	Intelligible CEO pay
	No evasive discourse
	Reporting incidents
	Responding to questions
	Transparency in press releases
	Uninterrupted earnings calls

When using UCCAT, each UIC is scored in terms of being positive or negative. If the data is not evidently positive or negative, then the UIC is scored as indeterminate, whereas if data is unavailable, it is coded as missing. Where all 60 UICS are scored for a company, two headline scores are generated:

1. First, for a given company, each corporate culture dimension is scored in terms of positive UICs minus negative UICs (e.g. 6 positive indicators minus 4 negative indicators would derive a score of 2). This provides insight on the aspects of corporate culture for which an organisation is strong or weak.
2. Second, for a given company, an overall corporate culture score is derived through calculating the total number of positive UICS minus negative UICS (e.g. 45 positive indicators minus 15 negative indicators would derive a score of 30). This provides both an overall assessment of corporate culture (in terms of positivity), and is used to benchmark companies against others.

Examples of UICs

By way of further illustration, we provide more detail for some of the individual UICs in Table 2.

Table 2: Example of UIC definitions

Dimension	UIC	Definition
Adaptability: A company's innovativeness, willingness to take risks, and overall ability to respond to changes in the market through strategy and leadership	Capital expenditure	As % sales over 3 years
	Patents granted	Number of patents granted in the year
	R&D intensity	As % sales over 3 years
	Responsiveness to negative events	Timeliness in press release in response to negative events
Customer focus: A company's emphasis on engaging with customers and responding to their wants and needs	Company website	Customer-orientated nature of company website.
	Customer engagement: Twitter	Responsiveness to customer tweets.
	Performance in customer survey	Presence of a regular customer survey.
Employee focus: A company's treatment of its employees in terms of support, opportunities for professional growth and concern for well-being, as well as employees' subsequent alignment or non-alignment with its business direction	Employee profit-sharing	Presence of employee share ownership scheme.
	Employee satisfaction	% of employees who would recommend
	Employee strikes	Occurrence of employee strikers over last 5 years
	Women in the workforce	% of employees who are female
Governance: The practises, composition, and stability of a company's corporate governance	Board visibility	Clarity and scope of the information provided on the members of the board
	CEO long-term orientation	% of CEO remuneration comprised of long-term incentives.
	Shareholder approval: Remuneration	AGM shareholder voting in favour of the remuneration policy
	Women on the board	% of women on board
Planning: The extent and effectiveness of a company's planning surrounding their results, their responsibilities and the future	Accurate accounts	Restating the accounts
	Clear performance indicators	Targets for the coming year are made clear
	No profit warnings	Presence of profit warnings in the last 2 years
Transparency: The transparency of a company's communications in terms of its annual report, responses to analysts' questions in earnings calls, and press releases	Availability of company information	Availability of past organisational information such as annual reports and presentations on the company website
	Clarity of press release archive	Ease of navigating the online archive of press releases
	Responding to questions	Adequacy of responses given to analysts' questions in the earnings call

Findings of the ten case studies

Table 3 shows the results of using UCCAT to analyse the ten case study companies. Colours are used to indicate where individual UICs were scored as positive (green), negative (red), indeterminate (yellow), or missing (white). Furthermore, an overall culture score is presented for each company, with the score being the number of positive UICs minus negative UICs. We have anonymised most of the company names for the sake of discretion, but are happy to provide full details upon request.

Table 3: UCCAT summary data for 10 case study companies

Dimension	UIC	Svenska Handelsbanken	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10
Adaptability	Acknowledging the need to adapt	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Adaptability	Adapting to negative events	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green
Adaptability	Awareness of future challenges	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green
Adaptability	Capital expenditure	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green
Adaptability	Innovation focused language	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green
Adaptability	Patents granted	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green
Adaptability	R&D intensity	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green
Adaptability	Responsiveness to negative events	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green
Adaptability	Understanding success	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green
Adaptability	User ratings of company apps	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green
Customer Focus	CEO customer focus	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Customer Focus	Company website	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Customer Focus	Customer engagement: Twitter	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Customer Focus	Customer responsiveness: Facebook	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Customer Focus	Customer responsiveness: Phone	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Customer Focus	Customer responsiveness: Twitter	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Customer Focus	Customer satisfaction: Facebook	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Customer Focus	Market focused language	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Customer Focus	Performance in customer survey	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Customer Focus	Regular customer survey	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Employee Focus	Employee focused language	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Employee Focus	Employee profit-sharing	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Employee Focus	Employee representation on the board	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Employee Focus	Employee satisfaction	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Employee Focus	Employee strikes	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Employee Focus	Employee training	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Employee Focus	Employee turnover	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Employee Focus	Esposued values of diversity	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Employee Focus	Rating of employee focus	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Employee Focus	Women in the workforce	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Governance	Adjusting CEO bonus	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Governance	Board independence	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Governance	Board visibility	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Governance	CEO long-term orientation	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Governance	CEO rating by employees	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Governance	Leadership stability	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Governance	No related party transactions	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Governance	Shareholder approval: Chairperson	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Governance	Shareholder approval: Remuneration	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Governance	Women on the board	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Planning	Accurate accounts	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Planning	Clawback provisions for LTIs	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Planning	Clear performance indicators	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Planning	Foreseeing events	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Planning	Forward-looking plans	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Planning	Long-term orientation	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Planning	Meeting performance indicators	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Planning	No profit warnings	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Planning	No scandals	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Planning	Safety planning	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Transparency	Accessibility of communications	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Transparency	Availability of company information	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Transparency	Clarity of annual report	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Transparency	Clarity of press release archive	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Transparency	Intelligible CEO pay	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Transparency	No evasive discourse	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Transparency	Reporting incidents	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Transparency	Responding to questions	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Transparency	Transparency in press releases	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Transparency	Uninterrupted earnings calls	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
OVERALL UCCAT SCORE		23	23	19	18	11	11	6	5	-15	-28

We make three main observations from these ten case studies:

1. First, and critically, the corporate culture profiles generated through UCCAT appear to discriminate between companies. Svenska Handelsbanken was the top performer here with 23 more positive than negative indicators, compared to an average of 6.6. It was also the joint top performer in the dimensions of Transparency and Customer Focus. By way of an example of its strength in Transparency, Svenska Handelsbanken's online archive of company documents predates the digital age, going back 28 years. Conversely, with 28 more negative indicators than positive, Company 10 (a UK sports retailer) gave the sample's poorest performance overall. Uniquely, it scored more negatives than positives in every dimension and was the worst performer of the ten case studies in terms of Governance, Transparency, and Planning.
2. Second, UCCAT provides specific insights for understanding the culture of companies. For example, although Company 3 (a manufacturer of optical lenses) has a strong corporate culture (e.g. in terms of Employee Focus and Transparency), it does not perform especially well on the dimension of Customer Focus. Conversely, although Company 9 (an automobile manufacturer) has a weak corporate culture (e.g. in terms of Governance, Customer- and Employee Focus), it performs well on the dimension of Transparency. This high level of transparency may be a recent phenomenon, prompted by public scandals. Also, Svenska Handelsbanken, despite performing exceptionally well overall, is weak on Adaptability. Thus, UCCAT is able to identify cultural dimensions that should be monitored and potentially investigated for both weak and strong overall performers. As UCCAT is applied to a wider range of companies, it will be possible to generate industry-specific benchmarks, recognising as we do that certain aspects of culture will be more – or less – relevant, depending on the industry.
3. Third, some comments can be made about the patterns of UICS for each company. UICs such as whether a company is effectively “adapting to a negative event” are quite divergent, with strong overall performers tending to perform well on this measure. Conversely, the UIC of “adjusting CEO bonus” is positive across all ten case studies. However, it is retained in UCCAT because, whilst rare, a negative indicator on this measure would be concerning. Crucially, because all companies will have a cluster of positive and negative indicators, no single UIC or culture dimension can be used to determine corporate culture. Yet overall patterns are telling, and paint a vivid and revealing picture of corporate values and practices.

Conclusion and next steps, as at September 2017

UCCAT v1 is a theoretically derived and easy-to-use tool that has huge potential for supporting the quest to identify quality companies, and for addressing important academic questions on the nature and manifestation of corporate culture. It also demonstrates the potential value of collaborations between world-leading academics and investment partnerships such as AKO Capital. We are starting to use this preliminary version of UCCAT as an additional overlay for our due diligence process and we are greatly encouraged by the new insights it offers.

However, important potential avenues of investigation remain as yet largely unexplored. Most critically, the key academic and practical question remains unanswered: can UCCAT provide a measure of corporate culture that is a reliable leading indicator of company performance? Answering this question involves adopting a longitudinal perspective, which is rare within corporate culture research. Made possible by further funding from the AKO Foundation, future work will therefore involve building a rich longitudinal dataset of 50 companies covering a four to eight year period, and examining whether corporate performance can be predicted through assessments of corporate culture using UCCAT. This phase will also involve further analysis to examine the relative contributions of cultural dimensions and individual UICs, which will then provide the basis for UCCAT v2. This will conclude Phase Three: refining and finalization of an applied research toolkit.

AKO Capital continues to work closely with LSE on this exciting project. We look forward to the findings of the longitudinal analysis with great anticipation.