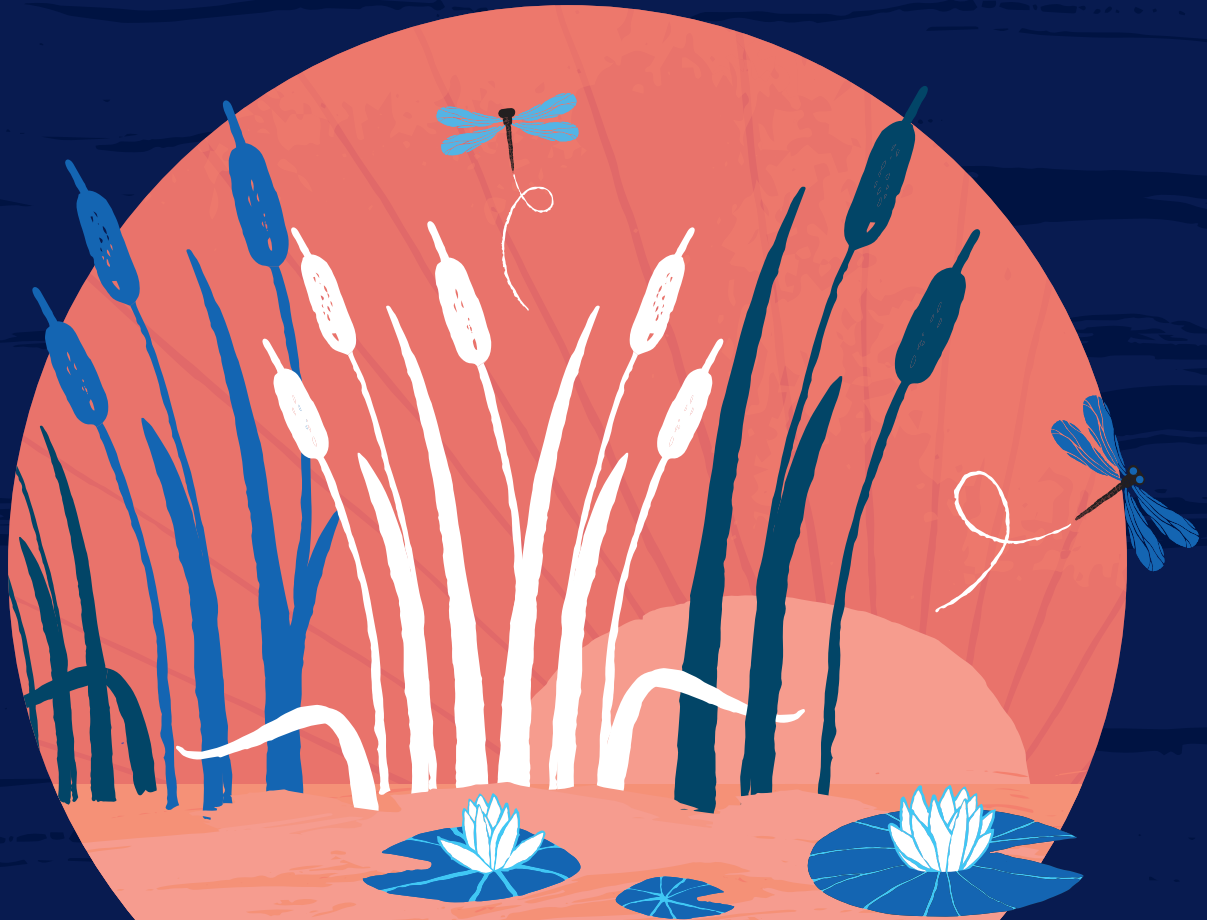


2019 • REPORTING • KLCI30

H R I Z O N  
S E R I E S



# THE IMPORTANCE OF CULTURE REPORTING

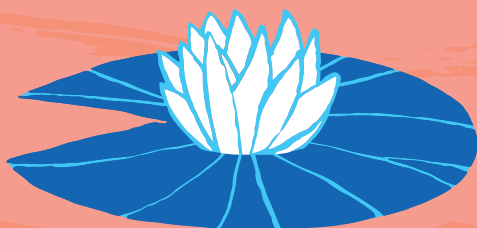
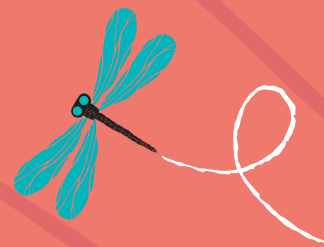
THE GUIDE TO ANNUAL REPORTS  
IN MALAYSIA 2019

2<sup>ND</sup> EDITION



Welcome to the 2<sup>nd</sup> edition of The Guide to Annual Reports in Malaysia, Black Sun's annual flagship research, which identifies trends and best practice in corporate reporting, and assesses how companies are responding to challenges and changes within the reporting landscape.

Our extensive research evaluates the annual reports of companies in the FTSE Bursa Malaysia KLCI (KLCI30) through an audit format of over 50 questions. In this year's research, we focused on the prevalence of culture reporting, an important yet often overlooked component of corporate reporting. This report discusses only a subsection of the research results. The main purpose of our research is to continuously enhance our knowledge of best practice reporting to enable us to support our clients in developing engaging reports that match their level of ambition. We also hope to stimulate debate around what constitutes 'best practice' and contribute to the wider development towards long-term thinking, disclosure, and transparency.



## WHAT'S INSIDE

### ONE: CULTURE COMMITMENT

An explanation of how a company commits to its purpose, values and culture



*See Culture Commitment p. 10-13*

### TWO: CULTURE MEASUREMENT

A look at the various approaches on how culture is measured in a company



*See Culture Measurement p. 14-17*

### THREE: CULTURE IMPLEMENTATION

A discussion on how culture is embedded throughout a company



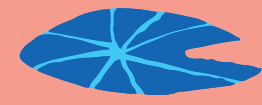
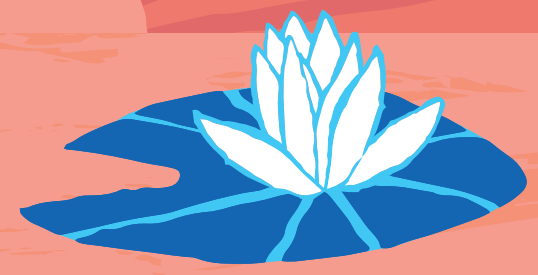
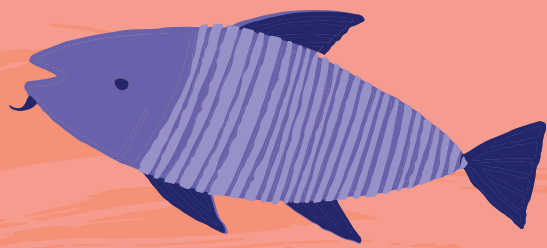
*See Culture Implementation p. 18-21*


### FOUR: CULTURE EVALUATION

A review of how companies review their processes relating to culture



*See Culture Evaluation p. 22-25*



The background of the page is a dark blue illustration of a pond. In the upper left, there is a large orange dragonfly with a long, looping tail. In the upper right, there is a smaller blue dragonfly with a long, looping tail. In the lower left, there is a large blue dragonfly with a long, looping tail. In the lower right, there is a white lotus flower in bloom, surrounded by several blue lily pads. The water is depicted with wavy lines.

”When things you say and the things you do are in alignment with what you actually believe, a thriving culture emerges.”

Simon Sinek

SUPPORTED BY







# FOREWORD

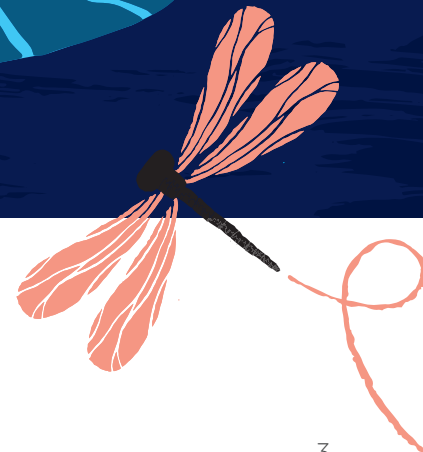
The global business landscape has been plagued with news of corporate failures, with major companies finding themselves embroiled in public scandals. Many of these cases are largely driven by poor governance and an unhealthy corporate culture.

In the presence of heightening regulatory accountability and scrutiny, regulators in the UK and US are also encouraging companies to report on their corporate culture. The oversight of culture is now a growing priority for Boards. In Malaysia, the Malaysian Code on Corporate Governance aims to strengthen good corporate governance culture pillared on accountability and transparency - the Boards should be committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

At the Institute of Corporate Directors Malaysia (ICDM), we understand the importance in building a culture of trust. Through our inaugural ICDM International Directors Summit, aptly themed “The Trust Compass: Resetting the Course”, we hope to underscore the urgent need for all stakeholders to address the crisis of trust and to provide the reassurance of the commitment and direction towards this goal.

We are pleased to support this timely piece of research on “The Importance of Culture Reporting” by Black Sun. We agree that one of the ways companies can build and cultivate trust is through culture reporting. It’s the art of telling the company’s story in an engaging way, creating the conditions needed for retaining and heightening investors as well as consumers’ confidence.

**Michele Kythe Lim**  
President / CEO  
Institute of Corporate Directors Malaysia



# THE IMPORTANCE OF CULTURE REPORTING

We chose to focus this year's Guide to Annual Reports on The Importance of Culture Reporting as it not only serves to present a snapshot of the current state of corporate reporting in Malaysia with regards to culture, but also offers helpful tips and best practice references to improve reporting quality.

We hope that you find our Guide a valuable reference for culture reporting and communications.



A unique approach in our analysis of the KLCI30 annual reports is through the use of text analytics. We developed the Annual Reports Explorer search tool to determine the frequency of key words in the annual reports, giving insights into the language used in reporting.

Try out the Annual Reports Explorer here:



# WHAT IS CULTURE

Corporate culture is, and has always been, difficult to define. It is the invisible hand that influences and guides companies, and is crucial to a company's ability to develop and implement appropriate strategies. As the late management guru, Peter Drucker, once said: "Culture eats strategy for breakfast". Without a well-defined culture, companies will be hard pressed to come up with winning strategies that provide sustainable value creation. How then can investors discern a company's culture simply by reading its annual report and how should they go about doing it?

At Black Sun, we view annual reports as a document that contains information on a company's culture. This year's research focuses on and analyses how companies report on corporate culture, with four main indicators used – Commitment, Measurement, Implementation and Evaluation. Commitment to culture reporting starts from the tone at the top; Measurement acts as an early warning system for culture misalignment; Implementation ensures that performance is achieved in a manner that supports long-term aims; and Evaluation acts as a system of 'checks and balances' to keep the company on the right track.

## SPOTLIGHT ON CULTURE

What's the big deal about corporate culture reporting? As evidenced by significant controversies that often make headlines, an organisation's success is closely tied to its culture and tone at the top. More than just a tick-the-box exercise, the annual report is the perfect opportunity for companies to demonstrate to their stakeholders their alignment between culture and values and everything they do, from strategic priorities to business models. We therefore believe that culture should be more prominently featured in annual reports, a key source of information for shareholders and stakeholders. Regulators too are recognising the importance of the role of culture in business, leading to reforms in an effort to bring governance in line with best practices in corporate culture. One of the hallmarks of the 2017 Malaysian Code on Corporate Governance is a strong emphasis on the culture of accountability and transparency. The Malaysian Anti-Corruption Commission (MACC) Act has also introduced Section 17A on corporate liability for corruption, in a call for organisations to ensure that they have adequate procedures in place. Globally, the updated 2018 UK Code of Corporate Governance also promotes the importance of establishing a corporate culture that is aligned

with the company purpose and business strategy, for the long-term success of companies.

## CURRENT LANDSCAPE

Overall, there is much room for improvement for culture reporting in Malaysia, with companies scoring a total average score of 38%. Out of the four main indicators of culture, most companies did better at culture implementation and evaluation, which had average scores of 38% and 49%, respectively. Culture commitment and measurement lagged slightly behind with average scores of 32%. These scores are not meant to be a reflection of a company's performance or rating, but are intended to provide the reader with a quantifiable grasp on the cultural indicators that populate the annual report. There is still a long way to go in terms of reporting on culture, but we expect that the quality of culture reporting can only improve from hereon.

## AREAS FOR IMPROVEMENT

We have identified four key areas for improvement on culture reporting:

- Featuring culture as a key component of sustainable value creation
- Committing to culture through leadership statements on desired behaviours and values
- Reporting more comprehensively on the board evaluation process and the outcomes / objectives resulting from it
- Enhancing communications around employee training programmes, including training conducted on anti-bribery and anti-corruption

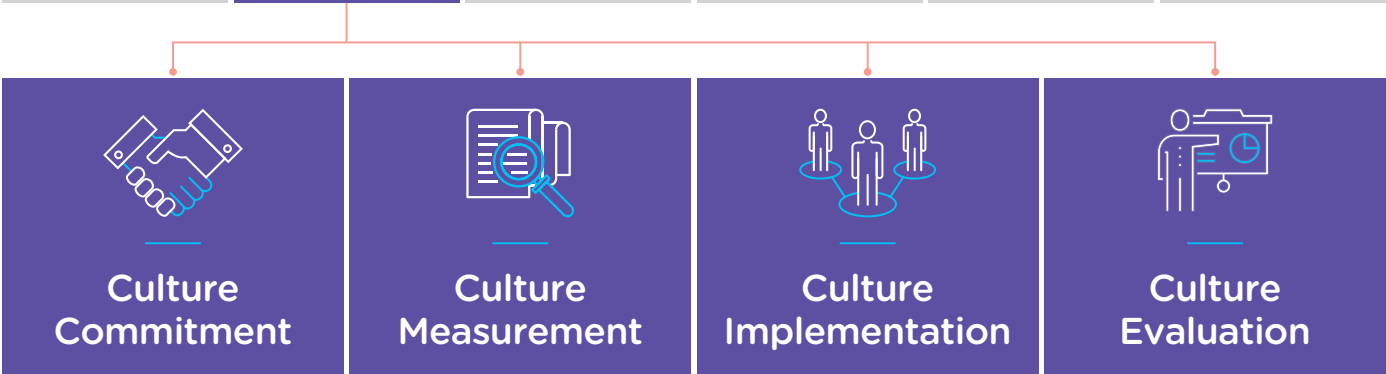
## OUTLOOK

Trust is an indicator of how people perceive an organisation and is a vital ingredient in sustainable long-term growth. The challenge with trust is that it cannot be bought, it has to be earned. Companies need to engage stakeholders in a collaborative and transparent manner in order to earn their trust. In this aspect, the annual report represents an excellent opportunity to build relationships and nurture trust with stakeholders. Culture is a key component of trust, as proper reporting on culture in annual reports goes a long way towards building trust with stakeholders.

# BUILDING A CULTURE OF TRUST

Truthful and authentic communication play an integral part in building corporate trust. Any company can produce an annual report that ticks all the boxes, but not every company practices what they preach. One of our key research areas

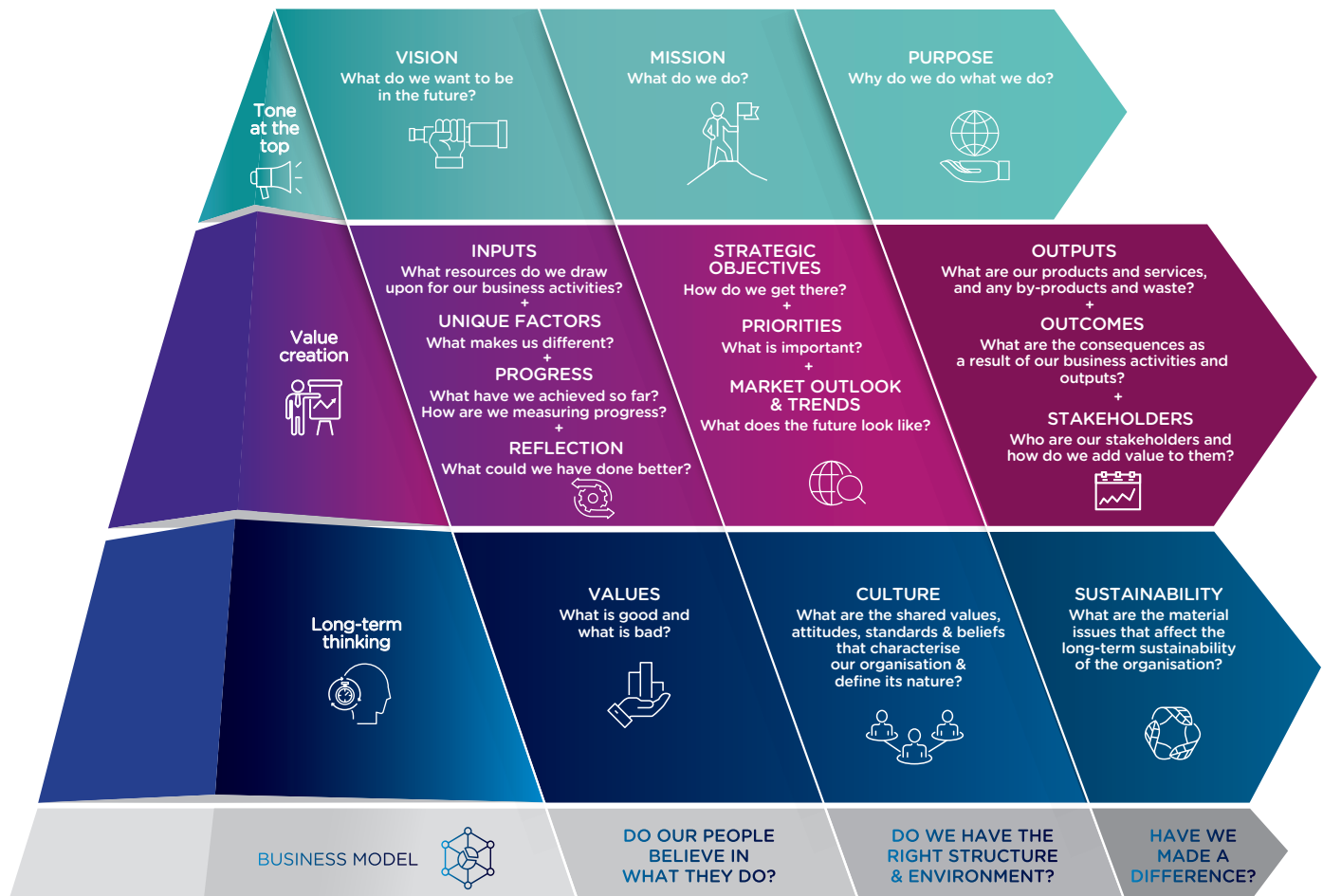
last year was to explore the principles of trust in reporting, and we have identified six fundamentals that individually and collectively contribute to corporate trust. This year, we have chosen to focus on one of the six principles, culture.



# CULTURE IN THE BUSINESS MODEL

Culture plays an integral role in a company's business model. It is the glue that holds the business model together. The business model is one of the most important and powerful components of an annual report, showing how a company fulfils its strategic purpose and creates value for its stakeholders

in the short, medium and long term. Without evidence of corporate culture embedded within the business model, companies will be hard pressed to come up with a convincing narrative for its stakeholders.



# KNOW THE SIGNS

## INTERESTING FACTS ABOUT CULTURE

### SIGNS OF POSITIVE CORPORATE CULTURE

1

#### CLARITY OF COMPANY VALUES

Clear company values, purpose and direction are evidence that a coherent message has been sent throughout the organisation and employees know why they are there. Annual reports that detail corporate values and how they are incorporated into the work environment tend to be a sign of positive and healthy corporate culture.

2

#### STRUCTURED EMPLOYEE TRAINING AND DEVELOPMENT PROGRAMMES

When employees are well-trained for their job, they tend to be more confident and better placed to carry out their tasks. This all begins with structured employee training and development programmes and companies who are committed to investing in their people. Annual reports which disclose the number of hours a company puts in for employee training each year and detail its training programmes are an indication of positive culture.

3

#### PRODUCTIVITY INCREASES

Employee engagement and job satisfaction are inextricably linked to performance. Employees who feel engaged and motivated tend to be more efficient and effective at work, leading to better overall performance for the company. Companies whose annual reports demonstrate a link between employee engagement, value creation and financial performance have a good chance of having healthy corporate cultures.

#### CASE STUDY ON HILTON

American multinational hospitality company Hilton Worldwide and operator of the Hilton Hotels & Resorts has consistently been named as one of the 'World's Best Workplaces' by Great Place to Work®. Known for being one of the most hospitable companies in the world, employees say that Hilton's culture, benefits and travel perks make it a great place for a career in the hospitality industry. With 45% of its current 355,000 global team members being millennials, the company genuinely believes in providing great experiences wherever they operate. Their first strategic objective was to have a great global culture and integrate their daily work experiences with their mission, vision and values. For example, the management brought in food trucks to their headquarters in Virginia the week before Thanksgiving, where the CEO and executive committee made their rounds and even went into the food trucks to serve team members. When questioned on why they did this, Hilton replied that it was in line with their vision of being the most hospitable company in the world and keeping great millennial talent was a result of their core beliefs displayed in daily life. The company has also been known to recruit for their values, which are Hospitality, Integrity, Leadership, Teamwork, Ownership and Now (a sense of urgency). Their award-winning culture did not stem from a one-time program, but an ongoing commitment to recruiting talent aligned with these values.



## SIGNS OF NEGATIVE CORPORATE CULTURE

1

### EMPLOYEES NOT DEMONSTRATING STRONG COMMITMENT TO THE ORGANISATION

A company with a healthy work culture tends to produce employees that genuinely believe in its vision and are dedicated to contributing to its growth. On the contrary, a high employee turnover rate, low energy and less than stellar performance are some warning signs of cultural weakness. Annual reports which do not mention employee engagement efforts or a company's commitment to training and developing their employees could be a potential warning sign of poor culture.

2

### HIGH VOLUME OF CUSTOMER COMPLAINTS

When running a business, service is everything. Customer responses to a company reflect their treatment by the company's employees, particularly front-line staff. Having lots of complaints mean that there are unresolved internal problems, such as staff lacking adequate training. Annual reports which do not touch on customer engagement efforts or demonstrate a commitment towards good customer service could be a potential red flag in terms of corporate culture.

3

### LACK OF PROCESS AND GOOD LEADERSHIP

In order for a company to run smoothly, effective processes and strong leadership are key. Without effective leadership, a company lacks the direction, accountability and an overall steward to guide it. Annual reports that evidence a high executive turnover rate could point to an unstable future with conflicting strategies.

## CASE STUDY ON SAMSUNG

In August 2016, Samsung released the S7 Note, which many customers had been anticipating due to the new technology and features that it boasted of. However, shortly after its release, numerous reports emerged showing the charred remains of the newly purchased S7 Note, which claimed that the phones had exploded. The phones were thus banned on many airlines, further damaging Samsung's brand reputation and eroding consumer confidence. In light of all this, many news outlets have claimed that the exploding phone is simply a symptom of much bigger problems within the top-down culture of Samsung and South Korea itself, where employees are expected to follow orders without question. In an interview, the former Chairman of Samsung Lee Kun-Hee explained that in the company, managers constantly felt pressured to prove themselves with short-term achievements and executives were constantly afraid of not meeting their goals and losing their jobs. In response to the crisis, Samsung implemented a large-scale recall of the faulty S7 Notes, issued customers with replacement handsets, carried out extensive testing to identify the cause of the problem and apologised for the massive oversight, pledging to take significant steps to prevent the problem from recurring.



# ONE: CULTURE COMMITMENT



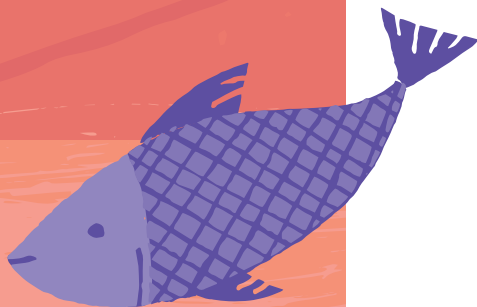
Culture commitment illustrates how companies commit to their purpose, values and culture, which requires clear direction and commitment from the leaders of the company. An example would be providing a clear definition of purpose and values, as well as well-articulated leadership statements on the company's purpose, values and culture in the annual report.

#### **WHY IT IS IMPORTANT**

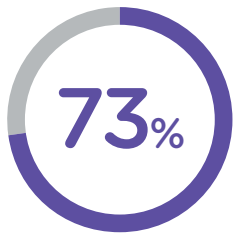
Demonstrating culture commitment helps set the tone for desired values and culture, and provides a narrative insight into how these will help the company achieve their strategic objectives. With a healthy corporate culture and commitment from top management, employees would have greater motivation to perform and the company would be seen as a safer and more attractive company to invest in, partner with and work for.

#### **WHERE WE ARE NOW**

Culture commitment among Malaysian companies is at a preliminary yet promising stage, with almost three quarters of the KLCI30 companies outlining their organisation's values in their annual report. However, less than a quarter of the companies clearly demonstrated commitment from the tone at the top and identified principal risks relating to culture, leaving much room for improvement in this respect.



# ONE: CULTURE COMMITMENT

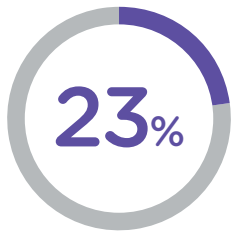


of companies outlined their values

## GENERAL OBSERVATIONS

### Outline the company's values

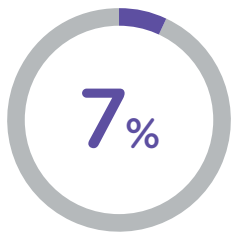
Outlining the company's values gives the company direction, helps it build a reputation and leads to the implementation of desired behaviour and culture. By clearly outlining its values, a company sets the tone for how its business interacts with customers and makes important decisions, a crucial element in winning stakeholder trust. 73% of KLCI30 companies outlined their company's values, with the majority explicitly using the term 'values'.



of companies mentioned culture in their Chairman / Chief Executive statements

### Tone at the top

The role of leadership is imperative in enhancing transparency and building trust and confidence among stakeholders. Leadership statements are a good opportunity for the Chairman and CEO to take ownership of key issues and to promote a healthy culture by addressing their organisation's culture and values. Traditionally, the Chairman sets the tone for the company's culture while the CEO implements it. Among the KLCI30, only 23% of Chairmen and Chief Executives mentioned culture in their leadership statements. Among the companies with separate statements, 27% and 30% of Chairmen discussed values and culture, respectively; while 27% and 40% of Chief Executives discussed values and culture, respectively.



of companies identified principal risks relating to culture and values

### Identify risks relating to culture

Risk influences every aspect of the business and it is essential to demonstrate how the business is managing them. Our research found that 7% of KLCI30 companies' principal risks related to culture and values, while 13% had principal risks relating to integrity and employee compliance.

### What does the future hold?

Despite culture commitment being closely tied to a company's identity, performance and success, our research shows that companies still have a long way to go in this respect, especially in disclosing risks relating to culture and values. With the tone at the top setting the drumbeat of corporate culture, companies who do not have a well-defined purpose and a clear plan to set the organisation towards fulfilling this purpose are at risk of misalignment between management and employees. This could also result in weak cultural cohesion, whereby employees are unsure of how to behave and what is expected of them. In view of current trends, we hope to see more companies expressing their tone at the top and articulating their values as a way to steer aspirations in terms of culture.

3%

of companies mentioned the appointment of an external party to be responsible for all anti-corruption compliance matters, including providing advice and guidance

## Misalignment between tone at the top and company's purpose

In the US space industry, "Go Fever" is an informal term used to refer to the overall attitude of being in a rush or hurry to get a project done, while overlooking potential problems or mistakes. This is not uncommon in organisations, where leadership tend to be overly committed to a particular course of action based on time and resources already expended, and ignore the insufficient future benefits or glaring signs of considerable risk. This normally stems from leadership having a lack of culture commitment, causing a lack of clarity in terms of company direction and culture misalignment throughout the organisation. This leaves employees confused and torn between the culture set by top management and the company's purpose.

### CASE STUDY ON THE CHALLENGER SPACE SHUTTLE DISASTER

The 1986 Challenger space shuttle disaster was an incident that shocked the world and changed NASA. Challenger exploded just 73 seconds after blasting off from Florida's Kennedy Space Center, killing all seven astronauts on board - including Christa McAuliffe, a civilian educator who had been selected to fly via NASA's "Teacher in Space" programme. Although it was not the first time NASA astronauts had died on the job, it was the very first time the United States had lost a space vehicle with crew and a non-professional on board. Having had 24 successful missions prior to this space shuttle programme, all eyes were on NASA and the agency was caught in a "go fever" of getting the scheduled missions off on time and getting more missions going. This type of regimented thinking played a significant role in the disaster, whereby Challenger exploded because of the problems that had piled up internally. Despite having been repeatedly warned about the risk of low temperatures early on by engineers, NASA managers and officials ignored the red flags and insisted on going ahead with the scheduled launch, covering damaged parts up as "an acceptable flight risk". This left employees confused, with no choice but to follow suit, against the company's purpose of pioneering the future in space exploration through excellence. Following this incident, President Reagan ordered NASA to implement the Rogers Commission's recommendations and widespread policy changes were made.

**"We could have prevented that from happening. That's why it's important that we always, always ask questions and listen."**

**- Robert Cabana**

Former NASA astronaut and director of the Kennedy Space Center on the Challenger disaster

# TWO: CULTURE MEASUREMENT



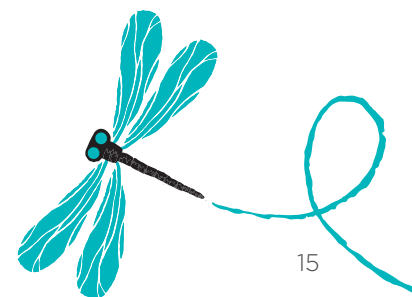
Culture measurement provides an early warning system for culture misalignment. Therefore, it is important to identify clear indicators of culture and to set targets against those indicators to steer the organisation in the right direction.

#### WHY IT IS IMPORTANT

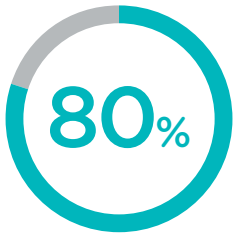
Reporting on culture-related issues helps determine if there is a misalignment between culture and strategy, which will allow stakeholders to make better-informed decisions. Increasingly, investors and stakeholders are looking beyond financial indicators, and towards sustainability and Environmental, Social and Governance (ESG) indicators. This does not simply help them to gain a better understanding of a company's future prospects, but also helps to assess whether a company's culture is in line with their investment philosophy.

#### WHERE WE ARE NOW

Culture measurement among Malaysian companies generally has a positive outlook. However, a lot more has to be done to allow stakeholders to get a good glimpse of a company's culture. Most KLCI30 companies discussed their strategic priorities and initiatives taken to achieve them, and identified non-financial key performance indicators (KPIs), but fell short in providing targets in relation to embedding values.



## TWO: CULTURE MEASUREMENT



80%  
of companies  
discussed their strategic  
priorities / objectives



73%  
of companies identified  
non-financial KPIs



3%  
of companies provided  
targets in relation to  
embedding values

### GENERAL OBSERVATIONS

#### Discuss strategic actions in detail

External stakeholders, especially investors, want to know the plans a company has in place to manage market risks and opportunities. Companies that are more transparent will commit to reporting on strategy beyond the surface, providing action points, targets and performance against targets. The more information a company provides about their strategy, the greater the likelihood of a culture of transparency. In terms of reporting, 80% of KLCI30 companies identified their strategic priorities / objectives, while 63% provided information on initiatives / actions the company had taken to fulfil the strategic priorities identified. A mere 7% identified targets for each of their strategic objectives / focus areas identified, leaving much room for improvement.

#### Disclose non-financial KPIs

The Listing Rules require companies to explain the performance of both financial and non-financial indicators. Companies should therefore disclose a mixture of financial and non-financial KPIs to provide a holistic overview of its culture and performance and communicate the fact that it is not purely financially driven. Among the KLCI30 companies, 73% identified non-financial KPIs. Of this, a respective 13% and 3% identified KPIs relating to culture and values.

#### Demonstrate intent to embed values

An organisation's values can be said to be its moral radar, determining the way business is run. In order to win the trust of stakeholders, it is crucial that a company demonstrates intent to embed its values. Our research however, showed that much is to be done in this respect, with only one company, or 3% of the KLCI30 companies, providing targets in relation to embedding values.

#### What does the future hold?

Based on our research, despite scoring well in terms of identifying their strategic priorities / objectives and non-financial KPIs, most companies still have room for improvement in the disclosure of targets relating to these objectives as well as embedding values. In light of the soon-to-be-enforced provision by the MACC to prosecute companies involved in corruption, it is crucial that companies see the importance and value of measuring and reporting on culture, to ensure alignment of culture and strategy. We expect that the quality of culture measurement can only improve from hereon.

14%  
of companies had KPIs  
relating to anti-bribery /  
corruption



## Overly focused on financial KPIs

Pressure cooker sales culture is not a new phenomenon for businesses, where employees fear losing their jobs if they do not hit sales quotas. If left unchecked, this sole focus on performance and hitting targets tends to fester into a culture of toxicity, ethical breaches and battered employee morale.

### CASE STUDY ON THE WELLS FARGO CONSUMER FRAUD

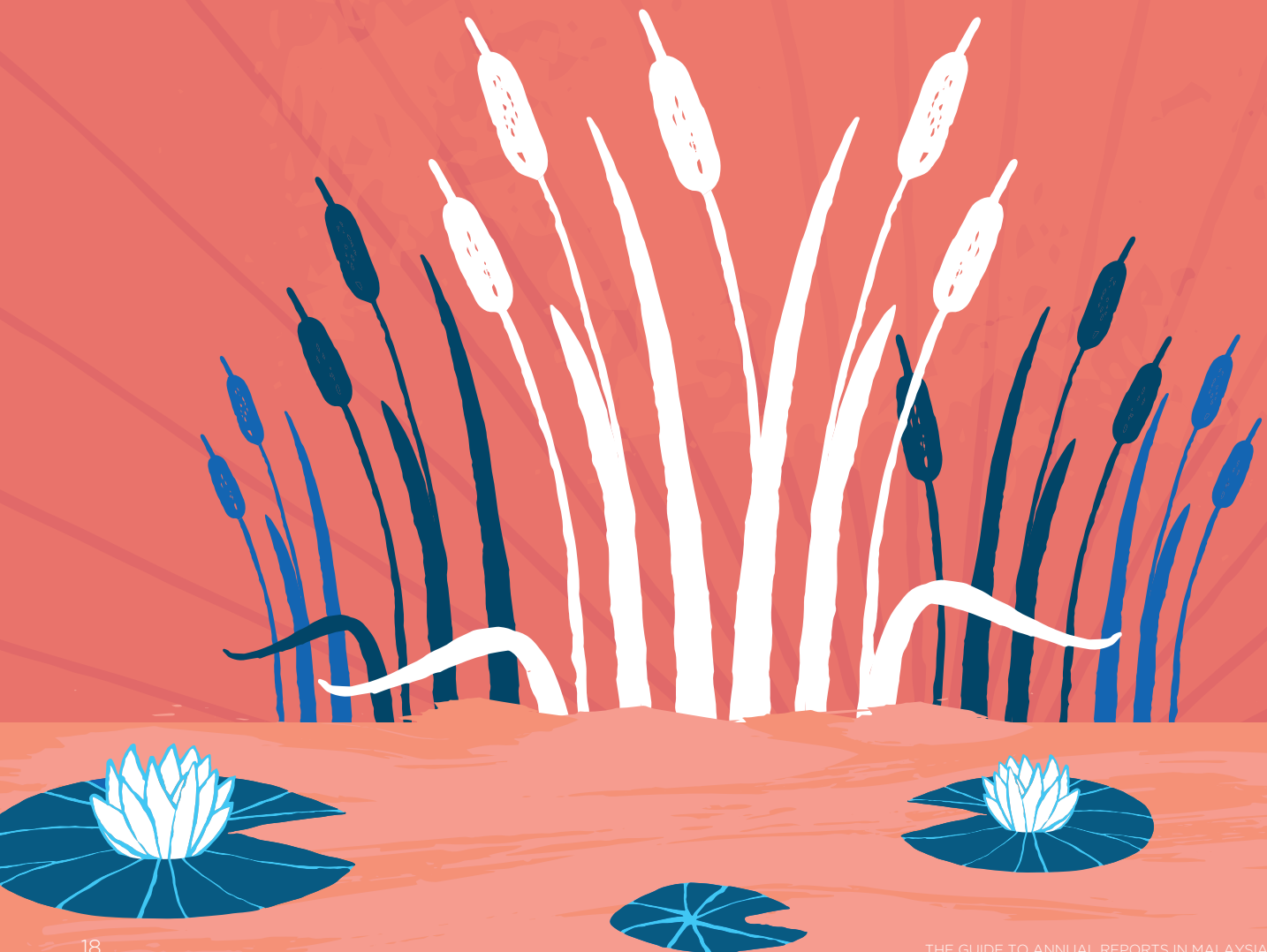
In 2011, Wells Fargo - the leading American multinational financial services company and the fourth largest bank in the US, was fined \$85 million for selling higher interest rate mortgages to customers who should have qualified for lower rates, and falsifying loan applications. Less than five years later, it announced that it had reached an agreement with the Consumer Financial Protection Bureau (CFPB) to the tune of \$185 million in fines for opening deposit accounts and transferring funds without customers' consent. This settlement caused a landslide of commentary, calls for deeper investigation, increased regulation in the banking industry and questions around how such unethical behaviour might become the norm of acceptable behaviour across an entire organisation.

It was discovered that all this stemmed from Wells Fargo's pressure cooker sales culture, whereby employees were threatened to be fired, should they not hit quotas. Regional bosses required hourly conferences on each branch's progress towards daily quotas of opening accounts and selling customers extras such as overdraft protection. Employees who lagged behind had to stay late and over the weekend to meet targets. According to employees who were interviewed, they were constantly told that they would end up working for McDonald's, if they did not make quotas and had to stay for what felt like after-school detention, or report to a call session on Saturdays. To meet quotas, employees even begged family members to open ghost accounts. Over time, this culture battered employee morale and led to ethical breaches, customer complaints and lawsuits.

“If we did not make the sales quotas... we had to stay for what felt like after-school detention, or report to a call session on Saturdays.”

- Rita Murillo  
Former Wells Fargo branch manager

# THREE: CULTURE IMPLEMENTATION



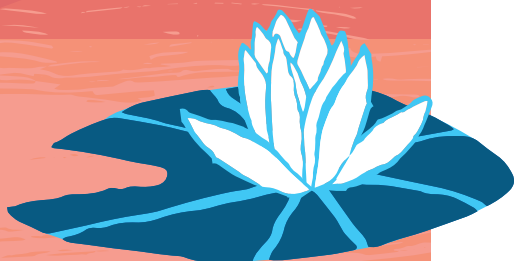
Culture implementation demonstrates how companies are embedding culture within the organisation through its policies, mechanisms, and processes. It defines the efforts in ensuring linkages between corporate culture, and the decisions made within the company, be it at management or employee level.

#### **WHY IT IS IMPORTANT**

Proper implementation of culture in reporting would allow a company to convince stakeholders that it is able to create long-term value in a sustainable manner. It is an indication of the alignment between strategy and the company's culture, purpose and values.

#### **WHERE WE ARE NOW**

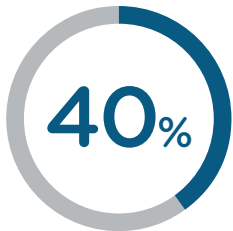
Culture implementation among Malaysian companies as a whole is still rather weak, with many opportunities for advancement. Approximately two-thirds of KLCI30 companies have incorporated a sustainability focus in their strategy section. However, less than half showed clear linkages between strategic information in the annual report and checked for alignment of their culture, values or purpose by disclosing these information.



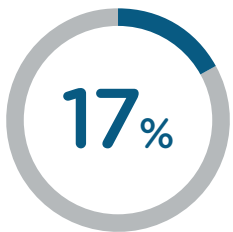
## THREE: CULTURE IMPLEMENTATION



of companies incorporated a sustainability focus in their strategy section



of companies showed a clear link between strategy and culture or values



of companies provided a disclosure of performance appraisals aligned with corporate culture or values

### GENERAL OBSERVATIONS

#### Highlight the focus on sustainability

Increasingly, it has been acknowledged that growth cannot be sustainable without the consideration of culture. 64% of KLCI30 companies have recognised that and have focused the lens on sustainability from a strategic perspective. 17% of these companies took it to the next level and showcased key strategic priorities focused entirely on sustainability issues, clearly showing how they have embedded sustainability into their corporate culture.

#### Show clear linkages in the annual report

Creating distinct links between content in the annual report increases connectivity. Values encourage desired behaviours, which collectively forms corporate culture. A company's culture is how it conducts itself towards achieving its strategic goals and ultimately the wider purpose. 40% of KLCI30 companies showed a clear alignment between strategy and culture or values. Our research also shows that 20% of companies conveyed a connection between strategy and purpose. Apart from discussing the alignment with culture and purpose in the strategic sections of the report, companies should also consider communicating how their unique culture permeates through the organisation, such as decision making in risk management, or how they create value through the business model.

#### Check for culture alignment

Communication is crucial when it comes to ensuring that a company is on the right track with its implementation of culture and values within the organisation. However, not enough companies are disclosing this in their annual reports, with only 17% of KLCI30 companies indicating they check that their employees are aligned with the company's culture, and values during performance appraisals. Knowledge that employees are acting in sync with what is being espoused provides affirmation of culture alignment within the company.

#### What does the future hold?

Given the number of companies currently reporting their focus on sustainability, we expect more companies to follow suit as sustainability continues to take front and center as an integral component of a company's success. However, more still remains to be done in terms of adequately reporting on the relevant policies, mechanisms and processes that help shed light on alignment of culture within the organisation.

**53%**

of companies reported on their anti-corruption policy

## Failing to check for culture alignment

Complacency is a silent and insidious killer of culture. It stems from a sense of success and continues living on long after the success that created it is gone. When the leadership of a company grows complacent, they fall into a mindset of “if it ain't broke, don't fix it”. This sets a dangerous precedent when it comes to having misaligned values and mindsets in the organisation.

### CASE STUDY ON THE DEEPWATER HORIZON OIL SPILL

The Deepwater Horizon oil spill is the largest marine oil spill in history, and was caused by an explosion on the Deepwater Horizon oil rig while drilling a BP-owned well in the Gulf of Mexico on 20 April 2010. A surge of natural gas blasted through a concrete core installed over the oil well, which was too weak to withstand the pressure from the gas and fractured. The gas ignited, killing 11 workers and injuring 17 others. The Deepwater Horizon capsized and sank two days later, causing a massive amount of oil to be discharged into the gulf. An estimated 60,000 barrels of oil per day escaped before the well was finally sealed five months later, causing irreparable damage to the environment and ecosystem. BP was widely condemned for operating under a culture of complacency. It did not take potential risks seriously enough due to a corporate culture that did not promote safety, and it was discovered that a chain of bad decisions had led to an otherwise avoidable disaster. Due to their gross negligence and reckless conduct, BP was ordered to pay US\$18.7 billion in fines, the largest corporate settlement in US history.

**“The problem is that there was a culture that did not promote safety and that culture failed. Leaders did not take serious risks seriously enough and did not identify a risk that proved to be fatal.”**

**- Bob Graham**

Former Florida governor and former senator on the Deepwater Horizon explosion

# FOUR: CULTURE EVALUATION



Culture evaluation is the measure of culture alignment within the company, and is a litmus test of their effectiveness in committing, measuring, and implementing culture. Companies may not be willing to disclose negative evaluation outcomes due to concerns of adverse perception. While it may be a challenge to discuss culture evaluation in reporting, we firmly believe that the most successful organisations understand the importance of portraying an accurate reflection of the company.

### **WHY IT IS IMPORTANT**

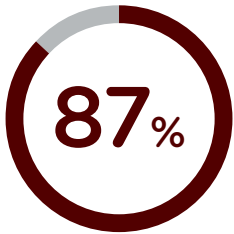
There is a saying, what got you here won't get you there. As a company grows and evolves, so should its culture. Companies should continuously assess its organisational culture in response to changing business needs and market environments. This kind of foresight and adaptability lends credibility to evidence of long-term sustainable growth.

### **WHERE WE ARE NOW**

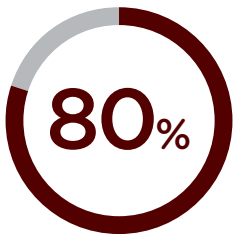
Malaysian companies have performed admirably in terms of reporting on culture evaluation, showing an understanding of the need to provide quality information. Most companies were able to effectively disclose their efforts in aligning and embedding culture throughout the organisation. In terms of evaluation of board effectiveness, there is still much room for improvement, with most companies adopting a "tick-the-box" approach when it comes to discussing board performance. With more detailed reporting in this area, there will be a deeper understanding of the board's role in monitoring and measuring culture, and how the board contributes to the long-term growth of the company.



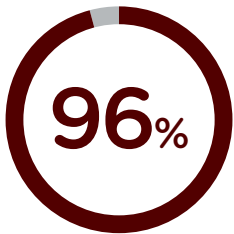
## FOUR: CULTURE EVALUATION



**87%**  
of companies  
discussed the process  
for identifying material  
sustainability issues



**80%**  
of companies  
discussed their  
stakeholder engagement  
plans and processes



**96%**  
of companies  
mentioned conducting  
a Board evaluation  
process during the year

### GENERAL OBSERVATIONS

#### Define material issues

87% of KLCI30 companies were able to discuss their materiality approach for identifying sustainability issues. Of these, 40% went beyond the surface by analysing the ranking of material issues via a materiality matrix based on level of importance to stakeholders and impact on the business. 60% of KLCI30 companies also discussed the link between their risk management policy and material issues. Provision of such information in the annual report helps to provide external stakeholders with the assurance that companies are aware of potential risks and are making attempts to mitigate these risks. It also lends weight to evidence that there is a culture of self-reflection within the company, an essential ingredient in ensuring long-term value creation.

#### Engage with stakeholders

Stakeholder engagement is essential for sustainable growth. By understanding the needs and interests of stakeholders, companies can remain relevant and evolve their strategic priorities to meet their expectations. 80% of KLCI30 companies discussed their stakeholder engagement plans and processes. Of these, 54% elaborated on their plan to respond to the feedback gathered from their engagement activities. One key area for improvement is on internal stakeholder engagement. 53% discussed an employee survey, but just 20% provided the results of the survey. Companies are encouraged to include such discussion as this receptiveness to feedback alludes to a culture of collaboration and accountability within the company.

#### Evaluate the performance of the Board

The Board plays a very important role as it collectively decides and sets the strategic direction for the company, as well as establishes the type of culture and values that should be adopted. Proper evaluation and detailed reporting of the Board's performance is an indication of good corporate governance. 96% of KLCI30 companies mentioned in their annual report that they conducted an internal or external board evaluation during the year. However, a mere 17% of companies went on to report on their progress against outcomes or objectives resulting from the evaluation. Given the importance of the role played by the Board, more in depth discussion is needed on the Board's performance.

#### What does the future hold?

In recent years, how companies operate and businesses are conducted is very much in the public eye. Companies that purposefully consider and evaluate their policies, procedures and processes in the annual report give a clear indication to stakeholders that they are invested in moving in the right direction. Further improvements can be made through more meaningful insights on stakeholder engagement and evaluation of the Board's performance.

**10%**  
of companies conducted  
regular reviews of their  
anti-corruption programme

## Lack of culture evaluation and stakeholder engagement

A culture of fear in the workplace refers to an environment where employees are afraid to speak up, take risks or accept responsibility. A fear-based culture typically originates from the top, when leaders use fear as a 'motivation' to get things done. Employees may resort to unethical behaviour when "failure is not an option", leading to repercussions that far outweigh the short-term benefits of ruling by fear.

### CASE STUDY ON THE DIESEL DUPE

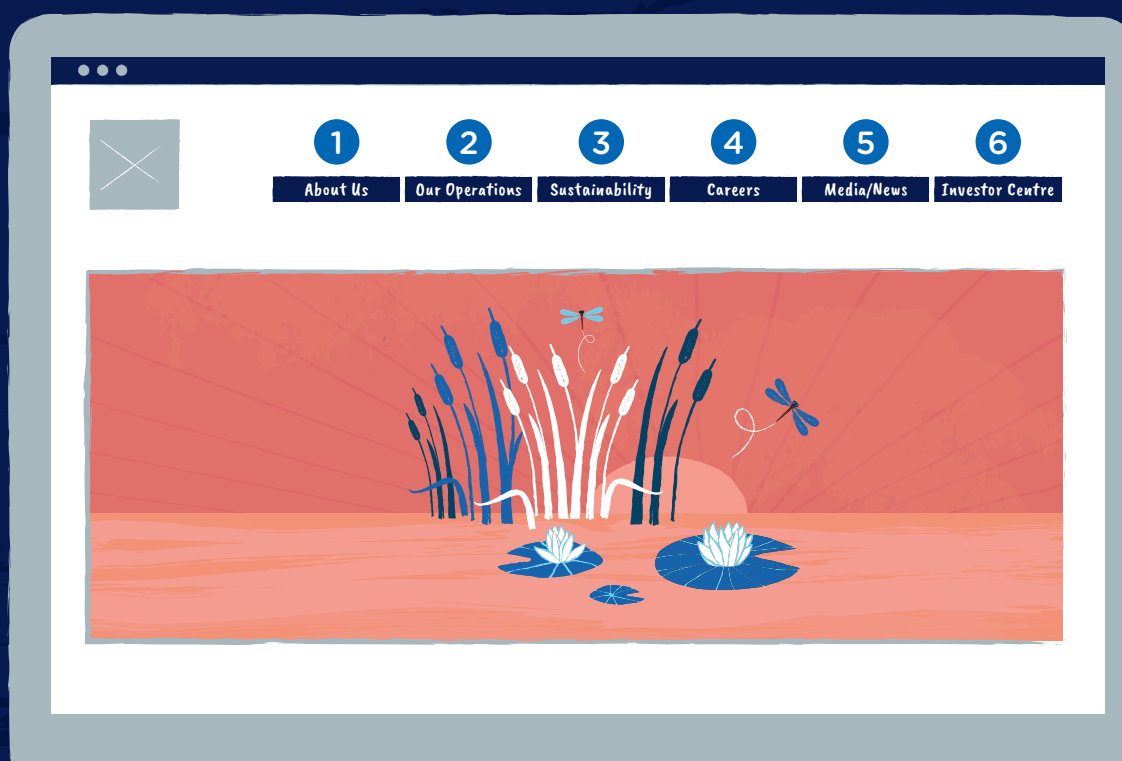
In 2015, the Environmental Protection Agency (EPA) discovered that many Volkswagen cars sold in America contained software (nicknamed "defeat devices") in diesel engines that cheated emissions tests in the US. These engines emitted pollutants of up to 40 times above what was allowed in the US. The German car giant later admitted that about 11 million cars worldwide were fitted with the defeat devices. Volkswagen was ordered to pay a US\$2.8 billion fine and its former CEO, Martin Winterkorn (who resigned immediately after the scandal had gone public), was charged with fraud and conspiracy. Many felt that the culture at Volkswagen was the main reason behind the emissions scandal. Former employees described a management style that fostered a climate of fear and an environment where problems were hidden from superiors and no one dared to challenge the status quo, ultimately leading to a culture of that encouraged cheating and fraud. When the new CEO, Herbert Diess of BMW fame, took over, he called for a culture of "constructive dissent" that would increase mutual responsibility and promote accountability after evaluating the prior culture and management style of the company.

**"We need a culture in which it's possible and permissible to argue with your superior about the best way to go."**

- **Bernd Osterloh**  
Chairman of Volkswagen General Works Council

# CULTURE REPORTING IN

As the user-journey spans across multiple communication channels, companies are increasingly realising that websites are one of the most important channels for them to articulate their corporate story coherently and compellingly. An organisation's corporate website is the first place potential investors, partners, employees and even the general public would go to for information on a company's activities and offerings. It is also the main outlet for a company to communicate its tone at the top, strategy and corporate information. In this section, we showcase some of the key areas where companies can talk about culture in their corporate websites.



# CORPORATE WEBSITES

1

## About Us

This section can provide insights into a company's vision and mission, purpose and values. Leadership statements may also be showcased here to offer clarity on the company and its corporate culture. Some companies also use this section to provide a high-level insight into their strategic focus.

2

## Our Operations

This area demonstrates an opportunity for companies to indicate key information related to operations such as their business model, strategy, KPIs and related risks. Alignment of key information with culture and values on the website would help build up corporate trust in the eyes of stakeholders.

3

## Sustainability

This section can be utilised to showcase the sustainability focus of companies in their overall corporate strategy. Through the use of specific case studies and stories on sustainability, the audience can be actively engaged and see how the corporate culture is brought to life in these stories.

4

## Careers

This portion of the website is an important avenue for companies to attract future talent and should not be neglected. It should clearly articulate the reasons why people should work for the company and be accentuated with employee testimonials and stories to showcase the corporate culture of the company.

5

## Media/News

This component can be used to display a diverse range of topics such as industry specific updates and sustainability stories that venture beyond a company's operations and finances, instead shedding light on news and thought pieces that highlight the transparency of the company.

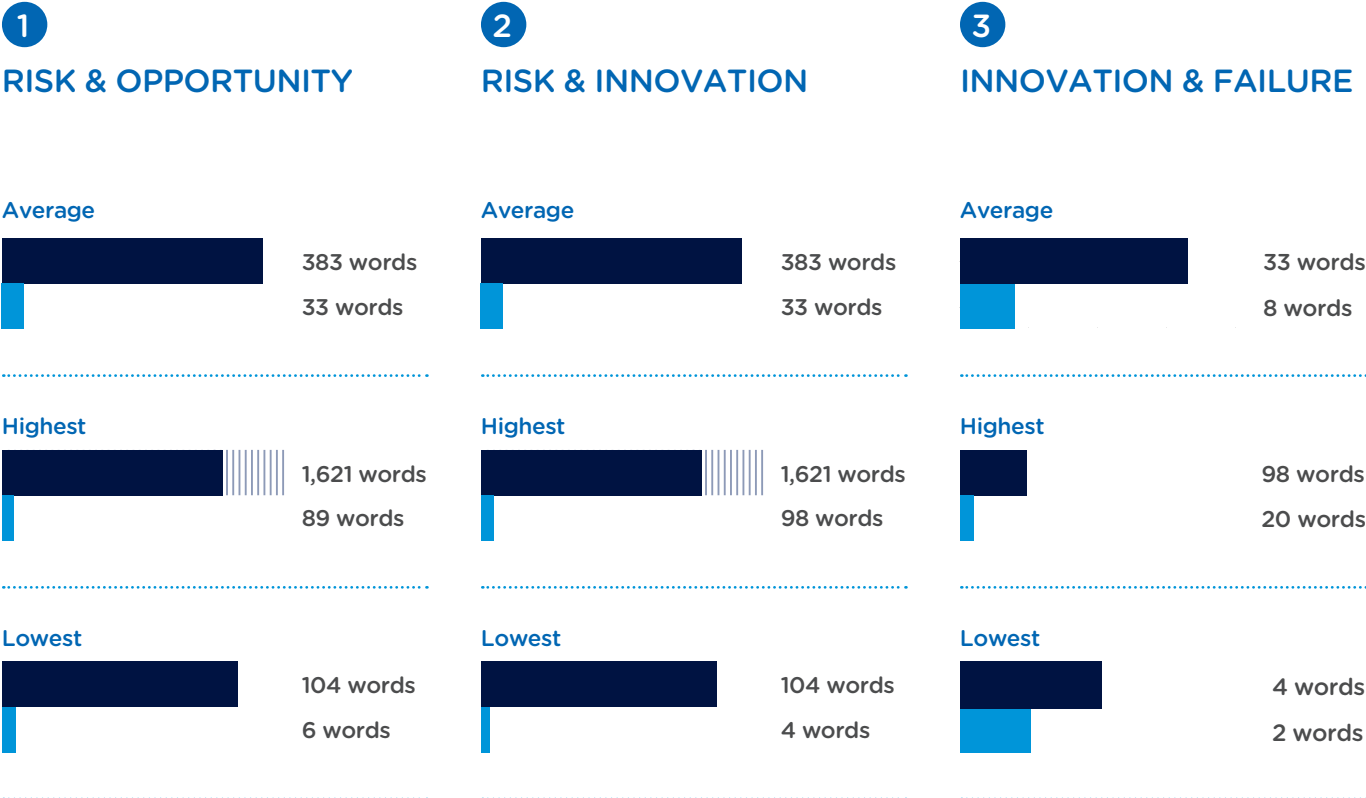
6

## Investor Centre

The company's financial and non-financial performance, accompanied with historical data comparisons, should be succinctly described here. It should also be able to direct the audience to relevant content found elsewhere on the website. It is also important to maintain a catalogue of easily accessible content such as archives of investor presentations and analyst reports. By providing easily accessible information, it enables the reader to easily understand and determine the culture and values of the company.

# KNOW THE WORDS

## CULTURE-RELATED PAIRINGS



A lot of discussions in reporting are focused around identifying and managing business risks and ways to mitigate them. Companies should instead take a more balanced approach and discuss how they are turning these risks into potential opportunities.

Innovation is considered by many to be the lifeblood of business, but the push for innovation must be also considered as a risk for companies. Discussion of proper risk management policies to establish appropriate risk appetites provides reassurance that the company does not overextend and innovate beyond its means.

Discussing innovation and failure sheds light onto a company's risk appetite and willingness to adapt and reinvent in an era of disruption. Companies have the tendency to mention innovation and shy away from discussing failure. A balanced discussion would allow stakeholders to get a better glimpse of the company's culture of innovation.

■ RISK  
■ OPPORTUNITY

■ RISK  
■ INNOVATION

■ INNOVATION  
■ FAILURE

In this section, we showcase some of the key word pairings that share an inextricable relationship with culture and the quality of culture reporting. The figures obtained are extracted from a summation of the actual word and its derivatives that appear in the annual reports of the KLCI30 companies.

**4**  
**CULTURE & PURPOSE**



Culture and purpose are integral in defining a company's identity and setting a clear strategic focus. Most companies have taken a balanced approach in reporting on culture and purpose, however, further discussion would help build greater trust with stakeholders.



**5**  
**CULTURE & VALUES**



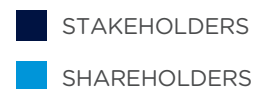
The relationship between values and purpose is often discussed, but rarely so for culture and values. Instead of just focusing on corporate values, companies should take a step back and discuss their culture from a big-picture perspective.



**6**  
**STAKEHOLDERS & SHAREHOLDERS**



Stakeholders and shareholders are equally important for business success and continuity. Companies have the tendency to prioritise the latter more than the former and should address the information needs of stakeholders and shareholders in a balanced and holistic way.



# METHODOLOGY

Black Sun's year-on-year benchmarking review of the KLCI30 annual reports tracks trends and best practice in the light of the evolving regulatory requirements and reporting landscape.

The purpose of this report is to assess the information KLCI30 companies are providing in the narrative sections of their annual reports.

## BENCHMARKING APPROACH

This is the 2<sup>nd</sup> iteration of our annual KLCI30 research. Our review has been developed and updated by Black Sun's Insights Team, which encapsulates the Bursa Malaysia Main Market Listing Rules on reporting, its accompanying practice notes, the 2017 Malaysian Code on Corporate Governance and the IIRC Integrated Reporting Framework. The focus of our review is on the narrative section of the annual report, to assess how effectively companies have communicated information about their business to their investors and wider stakeholders.

Our evaluation does not cover financial statements or notes and we do not use the study to evaluate the accuracy of the information, compliance with industry regulations or financial performance.

## SAMPLE GROUP

Our sample consisted of companies within the KLCI30 as at June 2019, encompassing annual reports prepared for FY 2018/2019. We assessed the reports against more than 50 data points.

## LEGISLATION AND REGULATION

The criteria for our analysis are aligned with legislation, regulation, guidance and good practice standards as set out by the Securities Commission Malaysia, Bursa Malaysia and the IIRC.

### Useful websites:

#### Malaysian Code on Corporate Governance

<https://www.sc.com.my/>

#### Bursa Malaysia Main Market Listing Rules

<http://www.bursamalaysia.com/market/>

#### International Integrated Reporting Council (IIRC)

[integratedreporting.org](http://integratedreporting.org)



# DATA FILE

Company	Annual Report				Online Format			
	Financial year end	Total number of pages	Number of narrative pages	% of narrative content	PDF	Flip-book	One-page scroll	Full microsite
AmBank Group	March	225	182	81%	✓	-	-	-
Axiata Group	December	90	75	83%	✓	-	-	✓
CIMB Group Holdings	December	206	175	85%	✓	-	-	-
Dialog Group	June	88	75	85%	✓	-	-	-
Digi.Com	December	161	77	48%	✓	✓	✓	-
Genting	December	233	90	39%	✓	-	-	-
Genting Malaysia	December	177	78	44%	✓	-	-	-
Hap Seng Consolidated	December	315	124	39%	✓	-	-	-
Hartalega Holdings	March	163	69	42%	✓	-	-	-
Hong Leong Bank	June	348	117	34%	✓	-	-	-
Hong Leong Financial Group	June	246	68	28%	✓	-	-	-
IHH Healthcare	December	316	137	43%	✓	✓	-	-
IOI Corporation	June	236	94	40%	✓	-	-	-
Kuala Lumpur Kepong	September	219	113	52%	✓	-	-	-
Malaysia Airports Holdings	December	260	198	76%	✓	-	-	-
Malayan Banking	December	136	113	83%	✓	✓	-	✓
Maxis	December	237	94	40%	✓	-	✓	-
MISC	December	388	205	53%	✓	-	-	-
Nestlé Malaysia	December	72	63	88%	✓	-	-	-
Petronas Chemicals Group	December	138	125	91%	✓	-	-	-
Petronas Dagangan	December	282	166	59%	✓	-	-	-
Petronas Gas	December	308	177	57%	✓	-	-	-
PPB Group	December	210	87	41%	✓	-	-	-
Press Metal Aluminium Holdings	December	262	92	35%	✓	-	-	-
Public Bank	December	287	245	85%	✓	-	-	-
RHB Bank	December	248	224	90%	✓	-	-	-
Sime Darby	June	330	110	33%	✓	-	-	-
Sime Darby Plantation	June	351	138	39%	✓	-	-	-
Tenaga Nasional	December	318	147	46%	✓	-	-	-
Top Glove Corporation	December	217	87	40%	✓	-	-	-

# ABOUT BLACK SUN

Delivering inspiring communications that engage and connect with stakeholders

Headquartered in London for over 25 years and operating in Singapore for 10 years, Black Sun has been helping clients deliver corporate stories that build trusted relationships with their stakeholders.

The world is moving faster, and there has never been greater expectations on businesses and we see corporate reporting as an opportunity for more effective stakeholder communications.

Insight forms the foundation for our work and by understanding trends and regulatory developments, we advise on how they impact reporting, moving clients towards best practice and authentic reporting. By also understanding our clients' business, we help them to better communicate with their stakeholders, presenting their long-term value creation story. We know that audience requirements are constantly changing, and through developing inspiring content using creative communications, we help bring a company's story to life throughout not just the report, but all relevant channels: corporate website, social media, film and animation.

By pushing ourselves to understand the world around us, we provide practical but powerful communications solutions.

## OUR REPORTING SOLUTIONS

- Annual and integrated reporting
- Sustainability communications and reporting
- Corporate websites
- Digital content and moving image
- Bespoke training, workshops and seminars
- Benchmarking and gap analysis against reporting frameworks
- Best practice advice and guidance

This research is part of Black Sun's Horizon Series which annually identifies best practice and emerging trends in corporate communications, across key channels and geographies. What began as a survey of corporate reporting trends of the FTSE 100 in 2005 has grown into a truly holistic measurement of companies' communication across their key 'storytelling' channels – print reporting, digital and social media, giving the complete picture for communication professionals.

We are committed to ensuring that insights, research and thought leadership are an integral part of our approach. This informs our development of authentic communications solutions which connect the right message, with the right audience, at the right time, on the right channel.

Please visit [www.blacksunplc.com/horizon](http://www.blacksunplc.com/horizon) to find more insights.

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H R I Z O N  
S E R I E S

If you would like to understand more about the trends in corporate reporting or would like to find out how your reporting compares against the KLCI30 companies, contact us today.

We would be delighted to help you on your corporate communications journey.

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