

2019 • REPORTING • STI30

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



THE IMPORTANCE OF CULTURE REPORTING

THE GUIDE TO ANNUAL REPORTS
IN SINGAPORE 2019

3RD EDITION



Welcome to the 3rd edition of The Guide to Annual Reports in Singapore, 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 Straits Times Index (STI30) through an audit format of 45 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



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TWO: CULTURE MEASUREMENT

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



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THREE: CULTURE IMPLEMENTATION

A discussion on how culture is embedded throughout the organisation



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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 Singapore 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 STI30 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. Culture reporting has also started to take root in the updated 2018 UK Code of Corporate Governance that 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

At present, where do companies stand on culture reporting? Since 2017, we have been publishing our annual study on the

trends of corporate reporting among the 30 companies of the Straits Times Index (STI30), with this year's focus on uncovering the breadth and depth that culture is being reported on by the STI30 companies.

Overall, there is much room for improvement for culture reporting in Singapore, with companies scoring a total average score of 36%. Out of the four main indicators of culture, most companies did better at culture commitment and measurement, which had an average score of 38%. Culture implementation and evaluation lagged slightly behind with average scores of 30% and 34% respectively. 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 culture 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 here on.

AREAS FOR IMPROVEMENT

We have identified three 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 stakeholder engagement and its involvement in decision making

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.

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.

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 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.

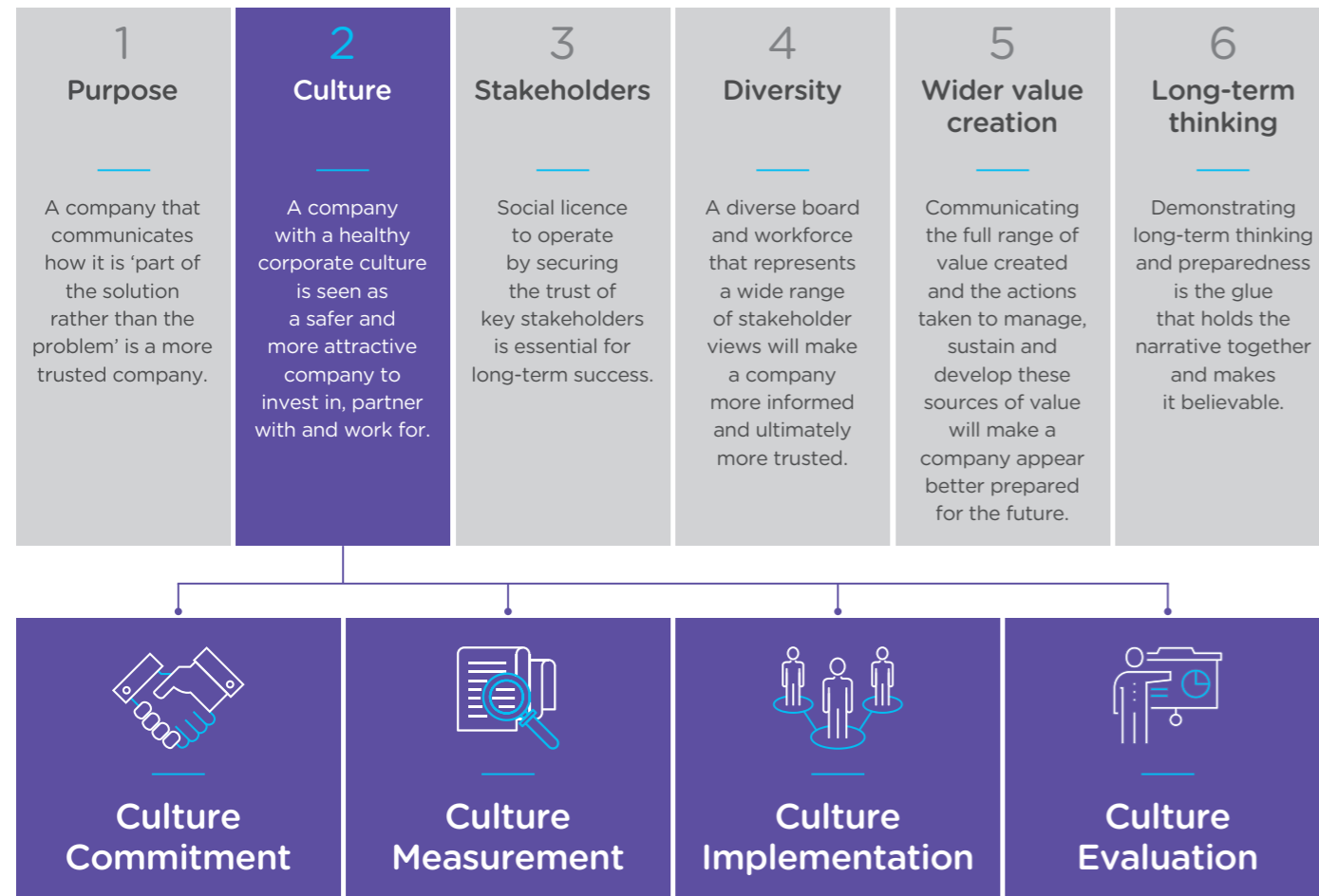
CASE STUDY ON SAMSUNG

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.

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

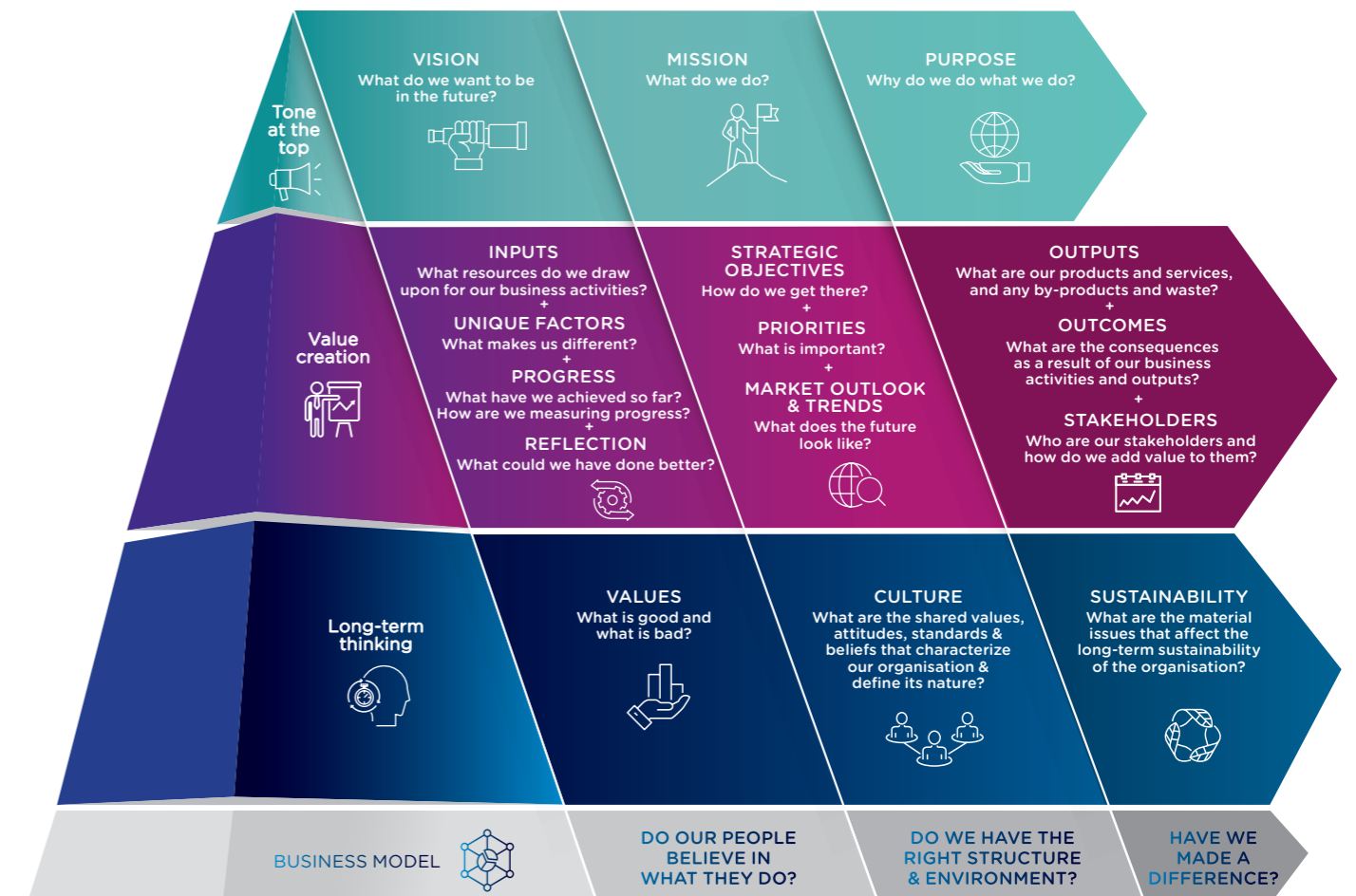
last year was to explore the principles of trust in reporting, and we have identified six fundamentals that individually and collectively contribute to corporate trust. This year, we have chosen to focus on one of the six principles, culture.



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.



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.

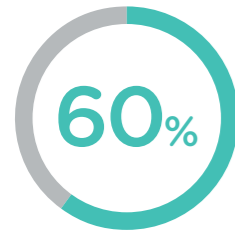
WHY IT IS IMPORTANT

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 Singapore companies is at a preliminary yet promising stage, with three in five companies outlining their organisation's purpose in their annual report. However, less than half of the STI30 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.

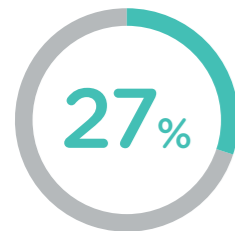
ONE: CULTURE COMMITMENT



60%
of companies outlined their purpose



22%
of companies mentioned culture in their Chairman / Chief Executive statements



27%
of companies identified principal risks relating to culture and values

GENERAL OBSERVATIONS

Define the company's purpose

Defining the company's purpose sets a clear focus and direction for both internal and external stakeholders. By clearly defining its purpose, a company will be able to determine its values, which will lead to the implementation of desired behaviour and culture. A company with a healthy, publicly known culture is more likely to have policies and practices that are aligned with the company's purpose, strategy and values. 60% of STI30 companies outlined their company's purpose. However, only 17% explicitly used the term 'purpose', as the rest had their statement of purpose covered in their vision or mission.

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 STI30, only 22% of Chairmen and Chief Executives mentioned culture in their leadership statements. Out of the companies with a joint Chairman and CEO statement, 13% and 20% covered values and culture, respectively.

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 27% of STI30 companies' principal risks related to culture and values, while 40% 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. With the tone at the top setting the drumbeat of corporate culture, companies who do not have a well-defined commitment and 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.

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



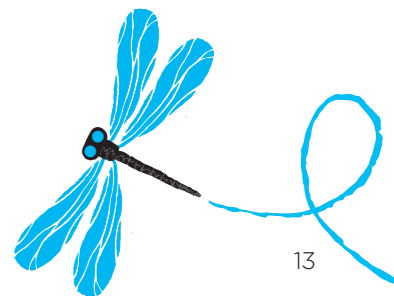
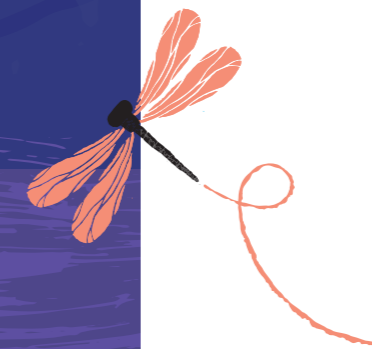
The measuring of culture provides an early warning system for culture misalignment. Therefore, it is important to identify clear indicators of culture and to set targets against those indicators to steer the organisation in the right direction.

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

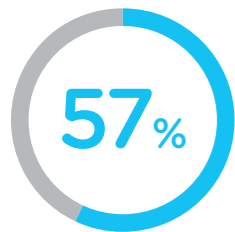
Culture measurement among Singapore companies generally has a positive outlook. However, a lot more has to be done to allow stakeholders to get a good glimpse of a company's culture. Most STI30 companies discussed their strategic priorities and initiatives taken to achieve them, and identified non-financial key performance indicators (KPIs), but fell short in providing targets in relation to embedding values.



TWO: CULTURE MEASUREMENT



of companies discussed their strategic priorities / objectives



of companies identified non-financial KPIs



of companies provided targets in relation to embedding values

GENERAL OBSERVATIONS

Discuss the 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, 90% of STI30 companies identified their strategic priorities / objectives, while 73% provided information on initiatives / actions the company had taken to fulfil the strategic priorities identified. A mere 30% identified targets for each of their strategic objectives / focus areas identified, leaving much room for improvement.

Disclose non-financial KPIs

The revised Singapore Code of Corporate Governance (SCCG) introduces the concept of value creation where the Board's role is to set strategic objectives which include an appropriate focus on value creation, innovation and sustainability, going beyond financial indicators. This provides a glimpse into the organisation's culture and communicates the fact that it is not purely financially driven. Among the STI30 companies, 57% identified non-financial KPIs. Of this, a respective 10% and 0% 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 0% of the STI30 companies providing targets in relation to embedding values.

What does the future hold?

Based on our research, a large percentage of companies have done well in identifying their strategic priorities / objectives and the initiatives / actions taken to achieve their objectives. However, there is still room for improvement in the disclosure of clear, concrete targets relating to these objectives. Slightly more than half the companies identified non-financial KPIs, which is a promising step forward. With the revised SCCG encouraging companies to "incentivise the right behaviour and values", much is to be done with respect to discussing KPIs relating to culture and values, as well as providing clear and actionable targets in relation to embedding values across an organisation.

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.

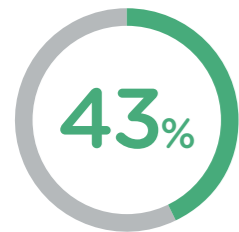
WHERE WE ARE NOW

Culture implementation among Singapore companies as a whole is still rather weak, with many opportunities for advancement. Approximately two-thirds of STI30 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 and values by disclosing these information.

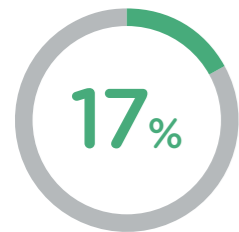
THREE: CULTURE IMPLEMENTATION



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

GENERAL OBSERVATIONS

Highlight the focus on sustainability

Increasingly, it has been acknowledged that growth cannot be sustainable without the consideration of culture. 60% of STI30 companies have recognised that and provided an outline of their sustainability focus in the strategy section of the report. 10% 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. It helps to demonstrate alignment between values & culture, with strategy & purpose within the organisation. 43% of STI30 companies showed a clear alignment between strategy and culture or values. Our research also shows that 33% of companies conveyed a connection between strategy and purpose. Apart from discussing the alignment with culture and purpose in the strategic sections of the annual report, companies should also consider featuring this in other key areas of the report such as in 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. Only 17% of STI30 companies indicated that they check that their employees are aligned in terms of culture, values and behaviours which support these values during performance appraisals.

What does the future hold?

In our research, we have found that companies are not doing enough to disclose the relevant policies, mechanisms and processes that help shed light on the relationship between the company's strategy and its culture and values. More can be done to increase the connectivity of information in the annual report as well, and it is as simple as cross-referencing relevant sections.

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.

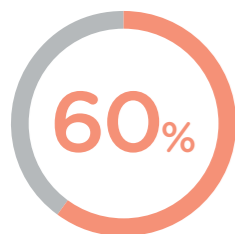
WHY IT IS IMPORTANT

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.

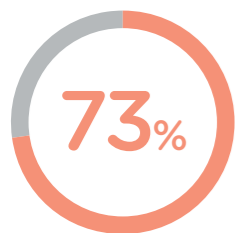
WHERE WE ARE NOW

Culture evaluation among Singapore companies remains at an exploratory stage, and leaves much to be desired in terms of disclosing the effectiveness of a company's efforts in aligning and embedding culture throughout. Most companies were successful in defining their material issues at the most basic level and discussing stakeholder engagement plans. These are areas that are easily measurable and could be further improved through more detailed reporting.

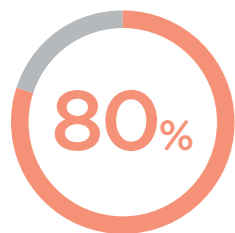
FOUR: CULTURE EVALUATION



of companies discussed the process for identifying material sustainability issues



of companies discussed their stakeholder engagement plans and processes



of companies mentioned conducting a Board evaluation process during the year

GENERAL OBSERVATIONS

Define material issues

60% of STI30 companies were able to discuss their materiality approach for sustainability issues in the annual report. 17% of these companies provided an even more detailed explanation, including ranking of material issues via a materiality matrix based on level of importance to stakeholders and impact on the business. 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 and companies need to work in partnership with a wide range of stakeholders. By understanding and defining the needs and interests of stakeholders, companies can ensure they remain relevant and evolve their strategic priorities to meet their expectations. This receptiveness to feedback alludes to a culture of collaboration and accountability within the company. In terms of reporting, 73% of STI30 companies have shown their commitment and discussed their stakeholder engagement plans and processes. However, there is still room for improvement as only 27% go on to deliberate how they plan to respond to the feedback gathered from their engagement activities.

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. It is therefore important to evaluate the Board's performance, and a more detailed reporting is an indication of good corporate governance. 80% of STI30 companies mentioned in their annual report that they conducted an internal or external board evaluation during the year. However, our research showed that that no company went on to report on their progress against outcomes or objectives resulting from Board evaluation. Given the importance of the role played by the Board, there is much room for improvement in terms of reporting on the performance of the Board.

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.

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

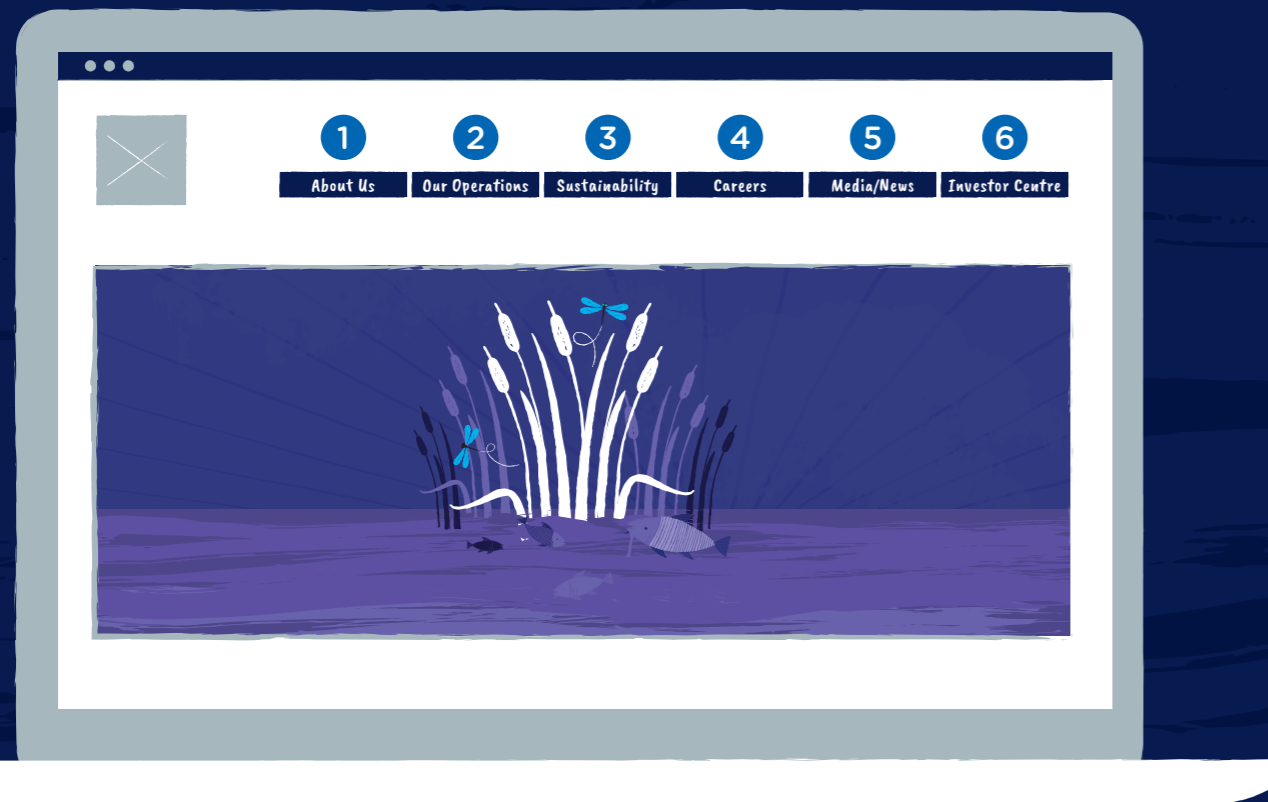
In 2015, the Environmental Protection Agency (EPA) discovered that many Volkswagen cars sold in America contained software (nicknamed "defeat devices") in diesel engines that cheated emissions tests in the US. These engines emitted pollutants of up to 40 times above what was allowed in the US. The German 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 CORPORATE WEBSITES

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.



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.

METHODOLOGY

Black Sun's year-on-year benchmarking review of the STI30 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 STI30 companies are providing in the narrative sections of their annual reports.

BENCHMARKING APPROACH

This is the 3rd iteration of our annual STI30 research. Our review has been developed and updated by Black Sun's Insights Team, which encapsulates the SGX Mainboard Rules on reporting, its accompanying practice notes, the Code of Corporate Governance 2018 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 STI30 as at June 2019, encompassing annual reports prepared for FY 2018/2019. We assessed the reports against approximately 45 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 Monetary Authority of Singapore, the Singapore Exchange and the IIRC.

Useful websites:

Code of Corporate Governance 2018

www.mas.gov.sg

SGX Rulebook

rulebook.sgx.com

International Integrated Reporting Council (IIRC)

integratedreporting.org

Securities Investors Association Singapore (SIAS)

sias.org.sg

DATA FILE

Company	Financial year end	Annual Report			Online Format			
		Total number of pages	Number of narrative pages	% of narrative content	PDF	Flip-book	One-page scroll	Full microsite
Ascendas REIT	March	236	135	57%	✓	✓	-	-
CapitaLand	December	301	124	41%	✓	-	-	✓
CapitaLand Commercial Trust	December	233	126	54%	✓	✓	-	-
CapitaLand Mall Trust	December	233	140	60%	✓	✓	-	-
City Developments Limited	December	304	96	32%	✓	✓	-	-
ComfortDelGro	December	209	92	44%	✓	-	-	-
Dairy Farm	December	131	55	42%	✓	-	-	-
DBS Bank	December	225	101	45%	✓	-	-	✓
Genting Singapore	December	131	42	32%	✓	-	-	-
Golden Agri-Resources	December	208	68	33%	✓	-	-	-
Hongkong Land	December	95	26	28%	✓	-	-	-
Hutchison Port Holdings Trust	December	147	75	51%	✓	✓	-	-
Jardine Cycle & Carriage	December	181	53	30%	✓	-	✓	-
Jardine Matheson Holdings	December	141	35	25%	✓	-	-	-
Jardine Strategic Holdings	December	133	27	20%	✓	-	-	-
Keppel Corporation	December	233	109	47%	✓	-	✓	-
Oversea-Chinese Banking Corporation	December	309	118	38%	✓	-	-	-
SATS	March	197	84	43%	✓	-	✓	-
Sembcorp Industries	December	352	136	39%	✓	-	✓	-
Singapore Exchange	June	177	93	53%	✓	-	-	-
Singapore Airlines	March	221	76	35%	✓	-	-	-
Singapore Press Holdings	August	217	92	43%	✓	-	-	-
Singtel	March	255	115	45%	✓	-	-	✓
ST Engineering	December	295	116	39%	✓	-	-	-
Thai Beverage	September	307	144	47%	✓	✓	-	-
United Overseas Bank	December	325	144	44%	✓	-	-	✓
UOL Group Limited	December	241	81	34%	✓	-	-	-
Venture Corporation Limited	December	221	47	21%	✓	✓	-	-
Wilmar International	December	205	72	35%	✓	-	-	✓
Yangzijiang Shipbuilding Holdings	December	203	48	24%	✓	-	-	-

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 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 STI30 companies, contact us today.

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

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