Insuring an organisation's culture

in the Food, Agribusiness & Beverage sector

Empower Results®

Culture is fundamental to driving better business outcomes

Culture refers to an organisation's operating environment (or how work gets done), which is made up of three parts—beliefs, or what's important to business; behaviours, or how people behave and interact; and decisions, or how choices are made.

Creating a winning culture requires leaders to influence people's beliefs and behaviours, regularly described as winning 'hearts and minds'. Changing a culture is no easy task and often companies, like the people in them, actively resist change.

Executives are often confused by culture because it is intangible, and much of it is anchored in unspoken behaviours, mindsets and social patterns. Many leaders either let it go unmanaged or delegate it to HR, where it becomes a secondary concern for the business.

A leading culture is a valuable business asset. At Davos in 2020, Goldman Sachs called for companies to step up their efforts to increase boardroom diversity. From 2021, Goldman Sachs will only underwrite IPOs in the US and Europe of private companies that have at least two diverse board members[1].

And the 'so what' for the Food, Agribusiness & Beverage (FAB) industry? In a global industry exposed to multiple forms of financial volatility, access to affordable capital is fundamental. A company's culture and Equality, Diversity & Inclusion strategy is a key differentiator in securing capital. Top companies for gender, ethnic and cultural diversity among their directors and officers can be up to 25% more likely to financially outperform less diverse competitors.

Boards and leadership teams whose composition more closely mirrors the demographics of the general population can more effectively reach key decision-makers among their stakeholders and shareholders. In the UK, 80% of purchasing decisions are made by women and according to McKinsey, by 2025 women are estimated to own 60% of all personal wealth and control £400mn ($510mn) more per week in expenditures than their male counterparts. But only 23% of companies in the FTSE 250 and 19% of companies on the S&P 500 had one or more women on their Board in 2019.

Without a strong culture, organisations will always be at risk. If the culture of an organisation is weak, then the people, processes and technologies that are implemented to identify, assess, quantify and manage enterprise risks are unlikely to be effective.

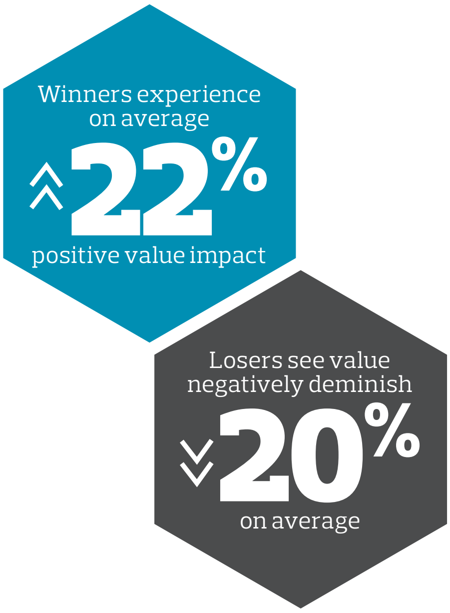
A diverse, inclusive and positive culture with genuine integrity at its core is the foundation for an effective risk culture.

[1] *https://www.goldmansachs.com/what-we-do/investing-and-lending/launch-with-gs/pages/commitment-to-diversity.html*

The impact of culture on the bottom line

Organisations need to take a strategic approach when considering how actions today will affect future financial, talent and enterprise risks. Aon has recently commissioned Pentland Analytics to conduct independent specialist risk research and analysis that focusses on brand and reputational risk.

The study has identified 270 organisations who have faced a major crisis event and then tracks who has come out the other side as either a winner or a loser - in terms of impact on shareholder value. Winners on average experience an average positive value impact of 22%, and conversely losers see their value diminish negatively by an average of 20%. Poor governance / business practices have been identified as the cause of over one third (36%) of the reputational crisis events. Poor governance can be viewed as a proxy for poor decision making by business leaders.



A culture built on foundations of Inclusion and Diversity strategy leads to better business outcomes. Analysis conducted by McKinsey[2] highlights this:

- Companies in the top quartile for racial and ethnic diversity are 35 percent more likely to have financial returns above their respective national industry medians.
- Companies in the top quartile for gender diversity are 15 percent more likely to have financial returns above their respective national industry medians

"When you align your **strategy** and your organisation, you can effectively execute your **strategies**. To keep the good times rolling, you need to embed all you **do** into a **culture** that supports your **strategies**. **Culture** supports **strategy**. **Strategy follows culture**.."

Peter Drucker, Management Consultant and author of: Culture eats strategy for breakfast

[2] *https://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters*

How can FAB organisations win when it comes to culture?

- Organisations who have a diverse board of directors and leadership team, with high aspirations and a desire to succeed remain key factors. If a company can show it has board diversity and a view on what's coming down the track, new opportunities can be seized and it's a win-win situation for the company, its directors, its employees, its shareholders and suppliers alike.

- Organisations where good is never good enough. Where they are always pushing to go further, and faster and be better - and it's not always driven by the short term financial performance or gain. It's about building something valuable, memorable and lasting.

- Companies with high performance cultures also focus their energies externally on delighting customers, beating competitors and caring for their local communities. This can be seen where employees are empowered to take personal responsibility for the overall business performance and are encouraged to be themselves whilst being continually supported to develop to their full potential.

- Good cultures also thrive on passion and energy where there are 'doers' not talkers and the board continually keep an eye on where the value is to ensure all actions will enhance it. And, of course, all of these elements feed into an organisation's risk register and governance strategy - both of which insurers take into consideration when making their underwriting and pricing assessments.

"Diversity and inclusion is quickly gaining importance when assessing D&O risk for PLCs. There is a clear link between diversity of people leading to diversity of thought – which in turn helps with good governance."

Louise Kidd, Berkshire Hathaway Specialty Insurance

Key trends driving an increased focus on a diverse and inclusive culture in the food, agribusiness and beverage sector

1

Board culture is in the spotlight more than ever before. Investors, consumers, and employees expect diverse boards and business leadership teams. Boards are expected to set the tone for an organisation's culture and a poor culture may increase the likelihood of Directors and Officers (D&O) insurance claims.

2

In the digital world, judgement in the court of public opinion is instant. With social media, reactions and opinions are delivered faster and to a wider audience than ever before. This adds pressure to leaders to make the right business decisions, often in a short timeframe and to an exposed public arena.

3

A failure of boards to recognise, manage and mitigate emerging risks may negatively impact investor sentiment, and may lead to contentious and very public D&O claims. Such enterprise risks include cyber, protection of intangible assets, brand and reputational resilience, and addressing climate change. There have already been incidents where investors have sued boards for a lack of oversight following cyber events.

Is there a link between a diverse and inclusive culture and insurance market pricing for the food, agribusiness and beverage industry?

In our experience, yes. Market conditions for D&O are more challenging than they have been for many years. There is competition for capital in the current hardening market where there's already a reduction in overall capacity, more restrictive conditions and a less flexible approach taken by insurers.

Across EMEA, the D&O insurance market in the FAB industry has experienced material double digit rate increases. The following are indications of the quantum of rate increases:

Ownership structure	Range of market price increase
Private	20% – 30%
Public (no US presence)	25% – 50%
Public (US presence)	50% – 100%+

Distressed D&O risks in countries such as the UK, Netherlands, Spain, Italy and Belgium are being negotiated on a case by case basis, and in some cases the quantum of increase is more than double the previous renewal.

A 'risk culture' reflects the way attitudes and beliefs are displayed when individuals in an organisation ignore, accept, or manage the risks. We have certainly entered a new era of management exposure, with the increasing dominance of reputation, intellectual property, talent, M&A, cyber and diversity being key concerns for D&O. Climate change, sustainability and community impact are also areas of growing concern for directors and officers. There is growing evidence of regulators holding senior managers to account for financial risks associated with climate change.

The COVID-19 outbreak has amplified the risk of litigation against D&O as shareholders forensically scrutinise the way a board navigates a company through the crisis. There has been a marked increase in companies buying standalone cyber, M&A and reputational covers to supplement existing D&O.

Directors are in the firing line not only for their own behaviour, but for failing to do more to drive widespread good conduct throughout their organisations. The corporate culture of an organisation needs to match the stated values and prioritise both good behaviour and compliance. Both have to be supported by a transparent and well managed culture, strengthened governance and risk capability which together set the 'tone from the top'. Given the ever-growing list of personal liabilities that directors now find themselves exposed to it makes sense to review how better decisions can be made so an element of pre-loss crisis management can be employed.

"The way an organisation operates drives its employer brand, helping to attract and retain talented people who want to be part of a great place to work, and who will in turn thrive in the business.."

The Chartered Institute for Personnel Development (CIPD)

How Aon can help

Trends in economics, demographics and geopolitics – compounded by the rapid pace of technological change and the impact of COVID-19 – are creating unprecedented volatility. Here at Aon, we have an understanding of the risks organisations face. We work closely with our clients by taking a holistic approach to risk advisory, risk transfer and structured solutions that help better identify, quantify and manage today's evolving risk exposures.

Our EMEA Food, Agribusiness and Beverage Industry Vertical is a team of 40+ senior colleagues across the region, specialising in industry risk, including insurable, uninsurable and emerging risk. At Aon, we connect the capital to the risk by working with our clients to identify, assess, quantify, finance and manage risk.

We can support you with:

- Strategic D&O broking strategy
- Reputational risk analysis
- Hiring assessment solutions – including workforce attraction and retention strategies and background checks
- Gender pay gap reporting
- Employee engagement – including pensions, health and benefits

"We pride ourselves on fostering an inclusive work environment where opportunity and success are defined by one's character and capability. We share a conviction that cultivating an inclusive culture – where diverse views and experiences are welcome and where everyone has opportunities to grow – is directly related to our ability to win in the market."
Greg Case, CEO, Aon

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

About Pentland Analytics

Pentland Analytics provides advanced analytics and advisory services to the executive management of the world's leading companies. The firm converts puzzling business questions into mathematical models and translates the output into clear, practical recommendations. The results inform strategic decisions and help to build clients' resilience, reputation and long-term owner value.

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