# Corporate Culture Calls For Board Oversight

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Culture — defined as the way people in an organization behave and the attitudes and beliefs that inform those behaviors — is inextricably linked with strategy (intent) and operations (action). Culture involves the selection and assessment of senior leaders. It impacts a company's growth and risk. It influences its competitiveness.

Therefore culture is a strategic management responsibility — to be spearheaded by the chief executive officer, led by operational leaders, stewarded by every manager in the organization, and overseen by the board of directors. The need for responsibility among this last group, boards, has grown significantly.

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Culture deserves board-level attention now more than ever because of today's unprecedented business climate:

1. **Greater risk**— More information is readily available about corporations and their leaders today and has the potential to spread faster and more widely, so culture can increase or decrease a company's risk. The boards of companies including The Weinstein Company, Uber, and even GE have been called into question for their oversight, or lack thereof, of their organizations. Culture oversight by the board before scrutiny arises may offset the need for crisis management after the fact. In fact, the Corporate Executive Board found that companies with weak ethical cultures experience 10 times more misconduct than companies with strong ethical culture.
2. **Increased scrutiny**— Organizations are scrutinized more regularly by customers, as well as investors, regulators, and other stakeholders. Culture not only impacts the value each of these groups perceive the organization to create (e.g., customers seek out businesses that share their values) but also helps meet their demands for more transparency and increased integrity.
3. **Strategic activity**— As global M&A activity has heated up, attention to culture has risen as well. Culture's role as one,  if not the most, critical factor in the success or failure newly combined organizations has been well-established.
4. **Workforce diversity**— Changes in workforce composition — diversity of ages, ethnicities, and backgrounds — impact the relationships within an organization and increases the need for deliberate approaches that ensure cohesiveness and alignment. Boards must enforce accountability for developing and skillfully executing human capital strategies that address these new requirements.
5. **Competitive pressure**— According to the Financial Reporting Council (FRC), culture plays a strategic role in the corporation. Culture is seen by many FTSE chairmen as the enabler, the differentiator, and a source of competitive advantage.

Given these demands, boards can no longer relegate their responsibility for culture-building. Board oversight of culture requires a proactive, active stance and a disciplined, deliberate approach. oards can begin to fulfill this requirement through five actions:

1. **Increase the salience of organizational culture as a topic in board meetings.** Today, only one of the 24 executives interviewed by the FRC reported that culture is a full board agenda item and three said their board discusses culture less than once a year or never. While it might not make sense to compartmentalize culture into its own discussion, directors should ensure it is regularly and explicitly woven into discussions about strategy, risk, and performance.
2. **Hold the executive committee accountable for measuring culture.** Board members must insist that culture be assessed and tracked, and that conclusions and implications from assessments are translated into actions and goals that are reported on.
3. **Connect with functional leaders beyond the board.** Given the widespread implications of culture, directors should reach down into organizations to enlist functional leaders such as head of human resources, risk officers, marketing and customer officers, and communications leaders in their culture-building efforts. And they should utilize these relationships to gain insight into the cultural dynamics at every level of the organization. The 2017–2018 NACD Public Company Governance Survey found that

most board members say their boards understand the health of their organization's culture at the top, but 50% reported low understanding of the health at lower levels.

4. **Leverage CEO selection to convey cultural priorities.** The selection of the CEO may be the most influential and visible means in which the board impacts culture. Through it, it can prioritize certain values, signal a desired change in culture, and demonstrate an organization's commitment to culture. To do so, culture leadership must be prioritized in assessments of candidates' performance.
5. **Attend to other often-overlooked aspects of culture development and practice.** Organizational culture is shaped through many influences including

- risk-management processes
- compensation
- succession planning
- whistle-blower reporting
- crisis preparedness
- diversity and inclusion
- social responsibility and environmental impact
- ethics and code of conduct
- audit and compliance
- board governance
- board composition, culture, and operating principles

All of these should be on the radar screens of board members.

Corporate directors are in unique position to be more objective about an organization's culture, given their independence and distance from the day-to-day operations. Also, they bring outside perspectives on the cultural practices of other organizations and can assess culture health relative to others. As such, their oversight is not only imperative, it's invaluable.