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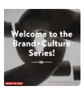


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# Culture Oversight -- A Mandate for Boards of Directors

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Company culture is inextricably linked with strategy and operations. It involves the selection and assessment of senior leaders. It impacts a company's growth and risk. It influences its competitiveness. And as such, culture should be overseen by the company's board of directors.

Regulators in the United Kingdom agree. A [revised corporate governance code](#) that applies to UK-listed companies was instituted at the beginning of the year.  It places emphasis on "businesses building trust by forging strong relationships with key stakeholders" and states that the board's duty is to "establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned."

Given the professional misbehavior, ethical lapses, and compliance failures that continue to plague U.S. companies, it's likely that U.S. regulators will follow in the U.K.s' footsteps. The Federal Reserve Bank of New York has already hosted worksho[p]s on reforming culture and behavior and the Financial Industry Regulatory Authority has delved into firm culture and its effect on compliance and risk management practices. So wise directors have already started to take note of culture's impact on their organizations.

To fulfill their responsibility for culture, board members must adopt a proactive, active stance and a disciplined, deliberate approach. Boards can begin to fulfill this requirement through six actions:

1. **Increase the salience of organizational culture as a topic in board meetings.** In research conducted by the Financial Reporting Council (FRC), only one of the 24 executives interviewed 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 among the top executives, 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, and board composition, culture, and operating principles. All of these should be on the radar screens of board members.

6. **Ensure tight alignment between external brand identity and internal culture.** Perhaps most importantly, board members should be champions and monitors of the state of brand-culture fusion within the organization. If the company claims it embraces certain values or attempts to embody a particular competitive position but actually operates in ways that conflict with those aspirations, it opens itself up to significant risk and loss of

trust. Customers and other stakeholders are likely to discover the disconnects, discontinue their relationships with the company, and damage the company's reputation by calling it out.

Corporate directors are in unique position to be 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.

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