



Gauging corporate culture

Board perspectives



The #MeToo movement and headlines announcing sexual harassment scandals and allegations have rightly put the topic of corporate culture front and center in the boardroom. Culture—what a company does and how it does it—is both a risk and a driver of long-term performance, and clearly demands attention from the board and management.

At the 2018 KPMG Board Leadership Conference in January, much of the discussion focused on the need for directors to be comfortable that they have a clear line of sight into the company’s culture, and the various ways they can gain that line of sight.

While it’s clear that culture starts at the top, the culture at other levels of the organization—the mood in the middle and the buzz at the bottom—is also critical but may be tougher to gauge from the boardroom and C-suite. In a survey conducted during the conference, more than half of attendees who responded said they viewed culture and behavior in the middle of the organization as the aspect of culture that’s most difficult to assess.

Conference speakers and attendees discussed various ways that directors can gain an understanding of the company’s culture at all levels. Suggestions included many commonly used tools—such as data from whistleblower hotlines, employee exit interviews, engagement and satisfaction surveys, input from internal auditors, employee turnover rates, and spending time at locations outside of headquarters—as well as less traditional methods for gathering critical “boots on the ground” input.

Those ideas included attending town hall meetings, spending a day before board meetings holding director office hours where all employees are welcome to engage with board members, and walking the floor at trade shows to get a sense of the company’s reputation.

The discussions also highlighted the importance of considering feedback from a variety of external sources to help confirm what directors hear from management—or to highlight gaps that may require additional attention. For example, engaging with sell-side analysts whose recommendations have recently changed to understand the basis for their negative view of the company, complaints and feedback from customers, and comments posted on recruiting websites by current and former employees and job seekers can offer valuable insights and should be part of the mix of information to help supplement the board’s view.

In our conversations with directors, we’ve heard a lot about leveraging internal audit as the ears and eyes of the audit committee to conduct a culture audit and create a culture dashboard to be presented regularly to the board. Five takeaways emerged from the discussions that we believe all boards may want to think about.

Keep culture front and center in the boardroom.

Making culture a regular agenda item can help sharpen the board’s focus and sends a strong message to employees, customers, investors, and other stakeholders.

Understand the actual culture and whether it’s driving the strategy.

The corporate values posted in the breakroom may not reflect how things actually get done day to day (the “unwritten rules”). Understanding the behaviors that are essential to executing the company’s strategy, the incentives that can drive those behaviors, and whether those behaviors are actually occurring is essential to leveraging culture as a source of competitive advantage.

Tone at the top is often easier to detect than the mood in the middle and the buzz at the bottom.

In line with the discussions we heard, directors

responding to our conference survey were confident that they understand the risks posed by tone at the top, but the data suggest that the picture is less clear lower down in the organization. Understand the risks posed by pressures and incentives at the top, middle, and lower levels of the organization.

Ways to gauge culture are expanding—and you should use them all. Employee surveys, visiting facilities, input from internal auditors, and whistleblower hotlines continue to be the most common ways to spot red and yellow flags, but customers, vendors, social media, analysts, and other external sources can help provide a fuller picture. Consider asking internal audit to create a dashboard with leading and lagging indicators of the company's culture.

Take a hard look at the board's own culture. Does the board espouse the company's culture? Do directors feel free to challenge management's assumptions and share independent or dissenting perspectives? Are directors willing to address conduct and behavior risks at the highest levels in the organization?

This article was originally published in the March/April 2018 issue of NACD *Directorship* magazine.

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