



The role of culture in crisis prevention

By Jose R. Rodriguez

Crisis prevention has taken on greater urgency for management and boards as corporate crises—often self-inflicted—continue to make headlines. In these situations, one question quickly moves front and center, particularly if warning signs went unheeded or corporate culture was to blame: Where was the board? Could it have done more to prevent the crisis?

The starting point for boards and management teams in preventing crisis situations is to make sure the fundamentals are in place, visible, and working: tone at the top, an ethics and compliance program, a whistle-blower hotline, employee training, a robust risk management process, etc. Yet, as a number of recent corporate crises have made clear, while these fundamentals are essential, they must be supported by the right culture. We had the opportunity to hear from a number of seasoned directors on what “good” culture looks like in the context of crisis prevention. The following are a few of the main themes we heard.

First, beyond setting the tone and walking the talk, the company should create a culture in which it is safe for people to do the right thing. The CEO and senior leadership need to be visible and approachable with the goal of creating an open and relaxed atmosphere that encourages people to come forward and speak up. Are people comfortable asking questions, disagreeing, and raising difficult subjects? To that end:

Recognize the power of performance targets.

Most people want to do the right thing, but generally speaking, they will aim for the targets they’re given. Management needs to put the right targets in place.

Create a culture of accountability. People pay attention to who gets hired, fired, and promoted. There’s no substitute for being objective about leadership, holding those people accountable, and paying them for performance. It enables all employees to get a sense of what is expected and rewarded.

Emphasize values and purpose in the decision-making framework. If your company involves lower-level employees in decision-making processes, be clear that the company will stand behind employee decisions that are grounded in the company’s values—whether safety, customer service, or good citizenship. Also, recognize that corporate loyalty is less of a motivating factor than it once was. Incoming generations of employees tend to care more about the larger purpose behind their work, which is values-based, not company-based.

Second, monitor culture and incentives across the enterprise with a healthy skepticism. What’s driving behaviors and results? What gets rewarded? Spotting yellow and red flags requires a combination of probing dialogue in the boardroom, applying an audit lens, and on-the-ground exposure to the everyday culture of the company:

Audit incentive programs. Is pay driving too much risk-taking or the wrong behaviors? A formal risk assessment or audit of compensation incentives down through the organization can help determine whether incentives are working as intended.

Focus on outliers—negative and positive. How did an individual or a business unit get such phenomenal results this quarter? How did we triple our performance over that of our peers? If it sounds too good, ask more questions. Insist that the board be informed about anomalies—good and bad. Be skeptical.

Ask the auditors what they’re seeing. Auditors are naturally attuned to the pressures facing employees and business units, e.g., lack of resources, tight deadlines, and tough growth targets. Interactions with internal audit can be particularly helpful in understanding the general attitude in the organization, and when and where things are getting lax or are running well.

Spend time outside of the boardroom and beyond headquarters. There's nothing better than spending unstructured time visiting company plants and facilities. A few hours with the local management team and line employees can give the board a better firsthand feel for the reality on the ground. Does it line up with what you're hearing in the boardroom?

Understand the criteria for hiring and promotions. Review hiring criteria and shortlisted candidates—particularly at the senior level—for alignment with the company's values. What criteria and philosophy is human resources using for hiring, promotions, and succession planning two or three levels down the line?

While there is never a failsafe approach to managing culture-based risks, the board's ability to assess company culture at all levels of the organization can go a long way in preventing a full-blown crisis.

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