NACD NATIONAL ASSOCIATION OF CORPORATE DIRECTORS

Catalysts for Transforming Culture Risk into Culture Value

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It seems recently that one can't escape reading stories about poor leadership gone wrong. It's time for action from the boardroom, and it's no longer good enough to ask unstructured questions about a company's helpline. Nor is good enough to rely on one's own experience, instinct, and blind spots in the boardroom to hold management accountable for a healthy culture.

Trust-but-verify culture might be a good way for boards to move forward. While it is critically important to have trust in the CEO, blind trust can only lead to blind alleys where bad cultures can fester and become toxic. The board needs to be equipped with a way to periodically and in a customized and simultaneously adaptable manner understand the company's culture.

The need for directors of companies to get under the skin of the culture of their organization has never been greater—or more necessary and daunting. Witness the many culture disasters we have recently seen from Uber, Wells Fargo & Co., The Weinstein Co., and Wynn Resorts. Over the past 25 years as a corporate executive, advisor, and board member, I have witnessed and advised on responses to similar instances of culture gone wrong—the good, the bad, the ugly, and, in one or two cases, the uglier. And I have also seen what a good culture can do to propel a company to greater reputational and financial heights (and returns).

It is important to share some of the tools, lessons learned, and insights on how the board can peel back the layers of the culture onion to begin to understand what is going on inside their companies, above and beyond the surface that boards are usually privy to. We start with a look at what happened in 2017 to understand the workplace culture maelstrom that the #MeToo moment has ushered in and crystallized.

A Year in Culture Dysfunction

2017 was a year filled with tales of organizational culture gone wrong. We learned about negative and destructive behaviors in the workplace, mostly perpetrated by powerful leaders, causing serious human, economic, and reputational costs for people and organizations. The toxic workplace cultures extended from the pinnacles of political power to the front lines of manufacturing facilities.

Powered by the ubiquity and raw reach of social media, the #MeToo story quickly became universal—told first by the more glamorous denizens of Hollywood and then extending to the most vulnerable hotel, restaurant, and factory floor workers. All of them were victims of a toxic workplace culture of abuse of power, shame, and lies. Worse still, many victims are submitting to terrible work conditions, are sidelined from needed jobs, or are permanently derailed from pursuing desirable careers and professional passions.

Time magazine's choice for the 2017 Person of the Year, the "Silence Breakers," said it all. Though sparked by the Weinstein exposé, the #MeToo story represents the culmination of decades of pent-up workplace silence, lies, cover-ups, manipulation and anger. The overwhelming impact of the #MeToo phenomenon can only be explained by the explosion and maturation of social media, which has led to the amplification and acceleration of reputation risks tied to workplace culture.

Why 2017 Stands Out

Two other relatively recent periods of corporate cultural moments, if we can call them that, come to mind: 2002 and 2008. The downfall of Enron, WorldCom, and others resulted in an uproar about financial accountability and the adoption of Sarbanes–Oxley in 2002. Nearly six years later, we witnessed the downfall of financial giants Lehman Brothers Holdings and Bear Stearns Cos., leading to the humiliation of the U.S. financial sector in general for the massive mortgage and derivative-related scandals, leading to social awakenings such as Occupy Wall Street and the adoption of the Dodd-Frank Act.

While these two watershed moments were important, 2017 was arguably the most momentous year yet for matters of corporate culture. In both the 2002 and 2008 cases, the cultural issue revolved around financial malfeasance. The cultural issue of 2017 is qualitatively different. Challenges are being made against toxic personal behaviors in the workplace perpetrated mainly by leaders against their subordinates, and those actions demand a qualitatively different approach to oversight that is more proactive and requires the ability to look behind the numbers and the dashboards.

By 2017 we had also arrived at the convergence of two other significant developments not fully present or developed before:

1. the rise of the importance to business of environmental, social and governance (ESG) issues (especially in the US, as Europe has long focused on ESG); and

2. the acceleration and amplified impact of reputation risk associated with ESG risk (which includes workplace cultural issues) because of the age of social media and hyper-transparency.

Companies can no longer reactively manage their reputation in this hyper-transparent environment. Companies have to earn it proactively and watchfully, and getting to the bottom of the culture of their organization is of paramount importance for the C-suite and board.

Culture: A New and Urgent Focus for Boards

As the ***NACD 2017 Blue Ribbon Commission Report on Culture as a Corporate Asset*** was prescient in addressing, boards and executive teams must immediately focus on understanding the culture of their workplaces as part of the value chain and strategy. But they must also understand how to get to the root of any workplace culture dysfunction that may exist.

In this era, the excuse that only shareholders matter no longer holds. Boards and management are responsible to all of their stakeholders for ESG results as well (shareholders, employees, customers, and beyond), which include proactively maintaining and nurturing a healthy workplace culture. In the age of hyper-transparency, it does not pay to turn a blind eye or to wait for a crisis to hit. The rapid-fire downfall of not only Harvey Weinstein but of his entire company, including its damaged board and board members, is the cautionary tale of the day.

On the positive side, there is plenty of evidence that while a toxic culture destroys value, a strong and resilient culture fully championed and embodied by the very top of the organization (read: CEOs and directors) can and will add long-term sustainable value to the company's reputation and financial bottom line. Such values protect the organization from the crises that will inevitably come and add bottom line financial value, as the famous Johnson & Johnson Tylenol case first demonstrated.

Is our Current Culture Moment Fleeting or Momentous?

We are certainly witnessing a cultural moment. The real question is this: will this moment pass with no more than a whimper, or will it become momentous?

The 2017 stories have definitely awakened awareness at the very top of corporate leadership—at least for now. In one day in December at two major governance gatherings sponsored by NACD in New York City—at Leading Minds of Governance and the NACD Director 100 Gala—this author witnessed how the #MeToo movement was top of mind for directors in general and dominated discussions both public and private throughout that day. Energized directors and experts who were present underscored the importance of action in this moment for the boardroom, and how this topic must be addressed in the long term as part of the board's responsibility.

Thus, I would argue that this moment is not a fleeting one. The importance of this moment cannot be over-emphasized. It's one that will be captured by responsible leaders and boards. Indeed, this is a unique time for leaders to step up to their responsibility for creating and owning a healthy workplace culture and for boards to acknowledge and embrace their responsibility: exercising proactive oversight of—and holding management accountable for—creating and maintaining a healthy workplace culture.

The Culturally Attuned Board

The culturally attuned board is one that is organized to understand the company in depth and to leverage that understanding for the success of all its stakeholders. What does that mean in real terms? It means, first, that the board has the tools necessary to understand what the culture really is—to peel that onion to get to the heart of what the tone is not only at the top (in the C-Suite), but also at the grass roots—including among entry-level employees. Second, it means that the board is aware of the red flags that might tip them off to a culture issue or problem. And third, it means that the board does not rest on its laurels but makes the culture conversation a permanent fixture of its work with the CEO, C-suite, and employees generally.

The next blog in this series will describe three specific tools that boards should implement, as well as the ten questions the board should ask to dig deeper and what should be on the board's culture dashboard.

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