Three Tools for Overseeing Corporate Culture

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Now is the time for boards to take culture risk seriously and begin to find ways to understand it in advance of a toxic culture truly damaging an organization. The recent examples of bankruptcy at The Weinstein Company and the rapid loss of $2 billion in market cap at Wynn Resorts only serve to underscore the close connection between leadership and culture and toxic leadership and toxic culture with reverberations and repercussions not only on shareholders but stakeholders of all types.

In this second part of this blog series addressing culture oversight, I suggest three practical tools for boards to exercise proactive oversight on culture issues to enhance discussions that may already be in process. Embedded in these tools are the top ten questions the board should ask management about culture, as well as some of the key dashboard metrics a board should consider getting.

Tool One: Arming the Board With the Right Information From the Right Members of the Management Team

Your chief ethics and compliance officer (CECO) and another executive (perhaps the chief learning, human resources or talent officer) are all good resources to report to the board from time to time and regularly on issues of culture. Indeed, an empowered CECO may be the best bet as she should be reporting to the board (or a committee thereof) on a quarterly basis anyway. His or her dashboard of ethics and compliance metrics should also include some of the key culture metrics described in tool two, below.

Moreover, the board or appropriate committee (audit, risk, compliance, regulatory affairs) should have regular executive sessions with the CECO and perhaps develop more informal methods of regular communication such as a phone call check-in between the CECO and the chair of the audit committee, for example, something I have done in my executive career and to great benefit of the organization.

When a company of a certain size, maturity, and complexity does not have an executive of the appropriate stature taking care of culture issues, it may indicate that the CEO doesn't think culture is that important. Moreover, if there is an executive who should be thinking about culture issues proactively but is not or is not allowed the ability and resources to do this (for example, budget for a culture survey), that presents another potentially serious culture red flag. Last, other red flags may emerge when senior executives are not able to provide the arguably correct answers to the top ten culture questions the board should ask (listed below).

The Top Ten Culture Questions the Board Should Ask:

1. For the CEO: What does culture mean to you, and what is the importance of culture to you personally as the leader of the company? How would you, as the CEO, characterize the culture of the organization? Is it healthy, improving, ailing, or under serious stress?
2. Does the company have an explicit culture program in place and, if so, what does it consist of? Is it intertwined and integrated with the company's mission, vision, values, and strategy?
3. If there is no current culture program in place, what is management's plan to deploy one? What is the plan's timing, budget, leadership, and details?
4. How do you measure culture at the company?
5. How do you keep management at the highest and middle levels accountable on culture issues?
6. Is there a member of senior management or the c-suite with an explicit remit to manage corporate culture?
7. Does the company's performance management program and incentive structure incorporate cultural considerations and metrics? If so, how? If not, what is the plan to incorporate such considerations?
8. What are the top culture issues at the company today (good, bad, or ugly)?
9. When there are difficult culture issues (the bad and ugly kind), how does management handle them?
10. Is management aware of investor, employee, customer, and other stakeholder concerns or perspectives regarding corporate culture? Has there been any stakeholder reach-out on this issue?

Tool Two: The Customized Culture Dashboard

The company's board should be reviewing a customized dashboard that is updated regularly. Such a dashboard should be unique to each organization but should include many of the following qualitative and quantitative considerations and metrics.

- Ethics and Compliance (E&C) Metrics
    - E&C risk assessments – key data, key topics
    - Helpline or hotline trends and key issues
    - Training and communications trends and topics
    - Pulse surveys on ethics and compliance program
    - Investigations – type, process, and outcome

    - Periodic internal and external evaluations of the effectiveness of the E&C program
- Employee and Culture Survey Metrics
    - Culture climate metrics geared at workplace issues including supervisory relationships
    - E&C program benchmarking against peers
- Human Resources Data
    - Intake interviews
    - Exit interviews
    - Performance management results (with financial and non-financial metrics, as well as environmental, social, and governance metrics, included)
    - 360 leadership assessments or the like

Tool Three: Benchmark Your Company's Culture and be Prepared to Intervene

Understand where your organization fits in the spectrum of workplace culture. An example of useful benchmarking may involve using the **Ethics Research Center's Global Business Ethics Survey**. Get a culture survey done. Slice and dice it, and work to understand its results. Ask management about the culture climate, the temperature and how it is reflected at different divisions, business units, and more. Do your company's culture surveys have consequences or are they merely window dressing? If the latter, why do them? If the former, what are the actual concrete consequences? Do "golden boys/girls" who are abusive get counseled, disciplined, or terminated when infractions occur? Or are they ignored or merely slapped on the wrist for things that get others fired?

If and when a culture issue threatens to suffuse the wellbeing of an organization and its leadership, the board must be prepared to intervene in a crisis—before or after it unfolds. The board's keeping its finger on the cultural pulse and temperature of the company is vitally important to the long-term viability and sustainable profitability of a company.

With Gloom Also Comes the Promise of Light

With all the doom and gloom that toxic workplace culture issues raise, I would also underscore a hopeful note to boards and executives struggling to deal with the organizational cultural issues so clearly brought to the fore in 2017. Unlike the regulatory responses to the excesses of 2002 (Sarbanes Oxley) and 2008 (Dodd-Frank), I would suggest that the appropriate response to cultural issues that are emerging is not new regulation but self-regulation, a voluntary upping of the corporate cultural ante by elevating the importance of ethics, compliance, and risk management within organizations, powered and driven by a strong culture of accountability and "walk the talk" from the top. This entails a voluntary, value-creation mindset at the executive and governance levels of an organization that aligns a strong and resilient culture with sustainable profitability and that likewise recognizes that a toxic culture will in the short and long run lead to value and reputational erosion and possibly destruction.

Thankfully, there are positive tales to be inspired by. A case in point: Microsoft Corp. Under its relatively new CEO, Satya Nadella, who recently wrote **a book** on the company's culture, has instigated culture change there that by all accounts has had dramatic and beneficial impacts on all stakeholders, internally (employees) and externally (customers) alike. Nadella's moves have also benefitted shareholders. When he became CEO in 2014, the share price was around $35; today, Microsoft's share price is at $92.

With all the negative news, 2018 represents a rare opportunity for management and boards to understand, acknowledge, and tackle workplace cultural issues head on and in a more systematic and conscientious way. Culture is the fabric of an organization and that fabric can either be healthy and sustainable, able to contribute to the development of resilience and creation of value, or brittle, weak, and toxic, leading to financial and reputational vulnerability, value erosion, or even ruin. It is the direct responsibility of leaders—both management and board—to make the right choices on workplace culture.

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