Culture and ESG Governance: Inseparable In the #MeToo Era

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While I am not sure that it should be a radical idea, the following concept seems radical to some: internal organizational culture and external environmental, social, and governance (ESG) matters are, and should be, intimately and inextricably interconnected. They're two sides of the same coin. I believe that it is not only time for boards to get cracking on internal culture governance, but that it is also a core part of good modern governance for directors to know the key ESG and corporate responsibility issues relevant to their companies. By tying the two together, boards can proactively and carefully oversee management's efforts to act on these often siloed, disparate, or even ignored and untreated parts of a more resilient organization.

#MeToo, #TimesUp, and #NeverAgain

In the first and second installments in this series, I discussed these movements, context around them for corporate governance, and what directors might do to best oversee these risks. It has grown apparent that these movements also are related. So, what do the #MeToo, #TimesUp, and #NeverAgain movements have in common? Beyond simply being hashtags, they are movements that emerged in reaction to perceived and real decades of troubling policies, behaviors, and practices in both the private and public sectors. They represent both external stakeholders' reactions as well as potential reputation risk and attendant financial losses to companies and their leaders (including boards).

These movements also represent a singularly contemporary phenomenon which both management and the board should proactively respond to: the intricate and deepening interrelationship of internal corporate culture and external ESG and stakeholder issue management. These two aspects of running a business have been long ignored or sidelined as not important to a business, but they are now emerging and, arguably, merging before our eyes. It is the job of management and the board to understand, manage, and oversee these governance imperatives effectively.

Mini-Case Studies

A company's treatment of external stakeholders is a mirror of its culture. The following four cases offer stark examples of the two extremes of how companies treat their stakeholders.

Cautionary Tales

- **The Weinstein Company** The toxic culture spread by its CEO and founder Harvey Weinstein was ignored, supported, tolerated, and proactively encouraged by its executives and board for many years. **Take a look at this "Frontline" documentary** to understand the full extent of the actions that led to the bankruptcy of this Hollywood film powerhouse. This case illustrates the intertwining of toxic culture on the inside with no sense of corporate responsibility. It also demonstrates disrespect for outside stakeholders such as established and aspiring actresses and other key third parties.
- **Wynn Resorts** The news out of this company affords another example of a long-standing toxic culture initiated and vitiated by the CEO and apparently supported or ignored by his handpicked board. Key stakeholders such as employees and third parties were adversely affected. Now the **ex-wife of the deposed CEO and chair is leading the charge** to create positive change at both management and board levels with an aggressive plan to cleanse and grow a healthy culture from the boardroom down into the organization.
- In both of these cases it's likely that neither board ever asked the CEO or management questions about internal culture or exercised oversight of ESG and stakeholder issues. It would not be surprising in both cases to learn that the board actively or passively ignored culture and responsibility issues while focusing exclusively on the financial bottom line.

Model Responses

- **Merck & Co**. The pharmaceutical company has for decades had a succession of great CEOs who have led the company to financial success while building a strong culture of integrity and social responsibility. Witness the crisis management of the complicated Vioxx case by former CEO Ray Gilmartin who voluntarily withdrew the medication, in contrast to Merck's competitor with equivalent challenged medications. The explanation? Merck did not want to adversely affect their most important stakeholders: customers and patients. Current Merck CEO, Ken Frazier, continues their long-standing tradition of having both a strong internal culture and being a leader on **cutting-edge ESG issues externally.**
- **Starbucks** A company with leadership that for years was known for having an enlightened corporate culture and for proactively managing its

corporate social responsibility (CSR) initiatives may weather its current Philadelphia store racial incident better than most because of this close interrelationship. Starbucks' ingrained, demonstrated care for its stakeholders were like muscle memory, allowing their management team to respond in lockstep with their lived values. How else does a company's reputation survive this kind of incident and go further than probably any other company would by shutting down 8000 stores country-wide for a day for implicit bias training?

The Role of the Board

In the face of this challenge and opportunity, what should boards do? First, they should oversee the internal culture of the organization which we talked about in **part 2 of this series**, and which the ***NACD Blue Ribbon Commission Report on Culture as a Corporate Asset*** discusses at length.

Second, boards must get much more involved in overseeing and ensuring that management has the right ESG and stakeholder relations program in place. The right program will embrace the interests of important stakeholders like customers, regulators, the media, suppliers, and current and future employees, among others.

And third, any discussion at the board level of culture or ESG should connect the two topics. Culture is part of ESG, and ESG is part of culture.

Crises that are not well managed can mean the difference between value creation and value destruction. Organizations need to forge a culture that is consistent both on the inside and the outside. When something critical happens, an organization that has forged a robust and resilient culture on the inside is more likely to weather the storm than a company that has paid little or no attention to laying a sound culture of values. Indeed, such enlightened companies may even have a reputation and value creation advantage, as I have discussed at length in my book ***The Reputation Risk Handbook: Surviving and Thriving in the Age of Hyper-Transparency***.

Seven Critical Questions the Board Should Ask Management

As boards wrap their minds around the oversight of internal and external culture, they should consider asking the CEO and management the following critical questions:

1. Does the leadership (CEO/C-Suite) ever discuss culture?
2. If so, is it only culture talk (nice speeches, pretty pictures, glad-handing) or does it include culture walk (budgets, resources, reports)?

3. Is there at least one high level executive who has “culture” explicitly included in his or her portfolio of responsibilities? If not, why not?
4. Is there at least one high level executive who is in charge of managing ESG issues that are critical and important to the mission, vision, values and strategy of the company? If not, why not?
5. Have ESG issues been identified as core and critical to the wellbeing of shareholders and key stakeholders (employees, customers, regulators)?
6. When there has been a crisis involving ESG issues (e.g., a chemical spill, an allegation of executive harassment, an accusation of corruption) what is the track record of the company in handling that crisis? Were they prepared or did they manage the crisis by the seat of their pants?
7. Is there an effective integration of key roles on ESG issues between human resources, legal, ethics and compliance, risk, public relations, and others that are relevant? Or is the management of such issues siloed, fly-by-night, or otherwise non-existent?

The answers to these and additional questions will lead to a holistic look at the culture of the organization, and will allow the board to understand what buttons need to be pushed to help the organization attain consistency, synchronicity, viability, transparency, and value in the marketplace.

The way a company treats its external stakeholders starts with its internal culture. And the internal culture of an organization starts and ends with leadership. The greatest responsibility of the board at the end of the day is to hold the CEO and the executive team responsible and accountable for all aspects of strategy—not just financial results.

#TimesUp for boards that are ignorant, negligent, or oblivious to these central issues.

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