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Why Directors Should Place Culture Front And Center

By **Douglas Chia and Gary Larkin***

When it comes to having a keen sense of corporate culture, too many boardrooms have a reactionary game plan. Something big goes wrong and directors revive the issue; but more often than not, it then goes back to the backburner after the fire subsides. It also doesn't help that culture sometimes comes off as one of the more "squishy" elements of corporate governance – something hard to put a finger on, with blurred benefits at best.

Skeptics say issues surrounding culture rest mainly with management. But the naysayers overlook key factors that well-position directors to engage in this realm. As just one example, directors often sit on multiple boards, working simultaneously for three, four, sometimes even five companies. Each has its own unique culture, providing directors with a perspective through various lenses. So, they see first-hand what works. Just as important, they see what doesn't work – and in some cases, how culture has inflicted real damage to a company. They can then take a pro-active approach by imparting this knowledge to their other companies, helping them either avoid or embrace similar fates.

How can directors start moving culture to the front burner? One way many do it is by walking through the halls, stores and factory floors to meet rank-and-file employees. Taking boards on trips to company sites and giving them unfettered access to company facilities can be very effective ways of giving directors the experience of engaging in-person with employees below the senior ranks. It also sends the message to the rank-and-file that the board cares about what goes on outside of corporate headquarters.

But, that's really only a start.

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As the old adage attributed to Peter Drucker goes, "you can't manage what you don't measure." For that reason, directors must make metrics a staple of any plan to start monitoring culture. Dashboards allow directors to look at associations between a host of different data, to help identify trends that create opportunities for change. Key metrics include employee engagement, employee satisfaction, employee retention rates, diversity, reporting of company code of conduct violations, and anonymous HR hotline complaints on incidents such as harassment.

For the most part, the information for such a dashboard comes from internal employee surveys, management reports on leadership and strategy, and reports from whistleblower complaints sent to the audit committee. However, we live in the "big data" age; boards should challenge management to mine the vast amounts of data they have about themselves for trends that may raise cultural red flags. For example, customer satisfaction data can tell you a lot about a company's culture. These days companies have access to reams of customer feedback.

Some of it they have asked for. And some of it they can find on consumer sites and social media, but only if they make the effort. Beware that, when looking at trends, data aggregated on an enterprise level can hide a lot, so directors need to ask for information broken down by segments such as key businesses, regions, and departments.

To reference another *Druckerism*, "culture eats strategy for breakfast." Yet only about one in 10 global companies say their organizations are excellent at driving desired culture. For directors who have yet to make culture a fixture of the board's strategy, just consider some of the ethical and economic issues making headlines these days. The #MeToo movement has exposed more than 400 prominent executives and employees and counting. Boards need to understand from the #MeToo movement – the boiling over of a long-simmering workplace issue – that they can no longer afford taking a reactionary approach to monitoring corporate culture. And on the financial front, corporate profits now stand at a near-record high. Sustaining those gains will hinge on avoiding complacency and continuously stepping up one's game – something only culture can foster.

Finally, the overwhelming majority of boards would agree that today's tight labor market has heightened the battle over talent. With employees having more options than they've had in years, establishing a top-tier culture will go a long way toward attracting and retaining the workforce's best and brightest.

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