The Importance of Corporate Culture and the Board's Role

Seven separate Peer to Peer dinners were held for NACD Chicago corporate director members on April 12. In small group settings over a meal, attendees had the opportunity to enjoy networking and discussing the importance of corporate culture and the board's role. The following themes emerged as these groups engaged in this timely hot topic:

1. REPUTATION MANAGEMENT: In the context of recent corporate PR fiascos, participants discussed how a company's external communications provides a window into its culture, particularly in situations involving reputation, brand and crisis management. Directors should discuss PR and crisis reporting relationships to make sure messaging and crisis management activities are handled by the appropriate executive teams. Some companies may consider adding PR skills, in addition to industry expertise, on their boards.

2. CEO/SENIOR MANAGEMENT ROLE: Referred to by one group as "the shadow of the leader," corporate culture is clearly shaped by the CEO's values and actions; in fact, what all of senior management says and how they act matters. It was also noted that conflicting perspectives impacting the CEO's decision-making process must be viewed through the lens of balancing multiple stakeholder groups. One group also discussed the benefits that corporate leaders can receive through executive coaching.

3. CHRO ROLE: The CHRO is responsible for assessing the degree to which corporate values are exhibited in the performance management process; conducting and evaluating the results of employee engagement surveys, particularly in the context of historical results and corporate peers; and ensuring that performance measures "do no harm."

4. SPECIFIC CHALLENGES: Certain circumstances can pose particular difficulties in crafting, maintaining or changing a corporate culture, including when the CEO is also the founder of the company; when a CEO is hired from the outside, bringing new strategies, values and the potential need for new management; highly diversified companies or global operations where more than one corporate culture may develop; and mergers and acquisitions. Perhaps boards should be more diligent over areas in which a company is doing well – how was the success generated? In addition, it was noted that "cultural issues bubble up" when corporate performance flags, when the behavior of top performers/salespeople doesn't align with corporate values, or when executives caught in bad behavior still receive lucrative severance packages.

5. RECOMMENDED BOARD ACTIONS AND BEHAVIOR: Each of the groups discussed the question of how directors can effectively monitor corporate culture from the board level; even if corporate culture is well-defined, how can board members make certain the culture's core principles are enforced?
-- Board members have many avenues available to them to assess corporate culture including social and business interactions (without the CEO present) with CEO direct reports and two levels down; traveling with the CEO to evaluate his/her messages to employees; assessment of engagement survey results; review of turnover rates, with a particular focus on high performers, high potential talent and voluntary departures; using board committees such as Audit and Compensation to evaluate the corporate culture and to make sure pay programs incent desired behavior and values; and mentoring relationships between directors and members of senior management to foster direct channels of communication.

-- Processes should be established to identify actions that may violate corporate culture norms such as an annual review of HR hot line issues; notice of the verbal comments associated with employee surveys; and a regular examination of exit interview issues;

-- While the CEO "owns" the culture of the company, the Board is responsible for assuring that the culture is aligned with the business strategy and Board expectations. One group discussed the concept of "challenging" – what it means for a director to challenge senior management or his/her peers, how to challenge, and the personal attributes board members need to challenge effectively. Other groups suggested that the Board should discuss and assess the corporate culture during its annual strategic planning session.

-- Directors must model the desired corporate culture in their own interactions among board members as well as with members of senior management. Board and committee evaluations on a regular basis can ensure that board and company cultures remain complementary.

-- Changing the make-up of the board was discussed as a way to revitalize many aspects of a company's operations, performance and culture. Generational differences around issues such as preferred work style and environment can impact board and corporate culture.

-- Board members can have a direct impact on the corporate environment by using succession planning to match talent to the desired culture and by assessing CEO performance in the context of corporate culture. Board members should consider increased emphasis on people's backgrounds and early life experiences during the interview process for senior management positions.

The consensus was that boards can – and already do – discuss culture regularly in the context of strategy, risk management and compliance discussions, as well as during reviews of employee and customer satisfaction surveys, so there is generally not a need for a separate item on the annual board agenda addressing culture.

Lastly, one group recommended that NACD prepare a white paper on corporate culture, noting that a company with a mediocre strategy but an excellent culture will likely outperform a company with an excellent strategy but a mediocre culture.