Culture is a critical element for high-performing boards to oversee and, if necessary, take action to address.

Corporate culture is the set of values, principles and standards of a company that informs and influences behaviors, actions and decision-making within a company. All organizations have a culture, even if it is unstated. Culture describes the human and business experiences within and delivered by a company. Culture also is informed by the perceptions and expectations of internal and external stakeholders.

**Culture’s effect on strategy**
- Culture translates into behaviors and ways of working, both of which affect strategy.
- People are loyal to the culture, as embodied by their leaders, not to the strategy itself.
- Culture is a source of energy in tough, disruptive times.
- Strategies can be copied, but no one can replicate your unique cultural DNA.
- Culture is your competitive differentiator – culture is your brand.
Conversations about corporate culture often include the assertion that “culture eats strategy for breakfast.” This quotation, attributed to management expert Peter Drucker, supports the theory that culture beats strategy. A good culture will defeat a bad strategy, and a bad culture will defeat a good strategy. As a result, culture emerges as an important driver of company performance and value.

A company’s culture can directly affect the reliability of financial statements, the effectiveness of internal controls, risk profile and risk management efforts.

Culture can also be an effective tool to drive change. To enhance performance, close gaps between actual and desired performance, or change direction, boards and executive management should look closely at culture and determine what cultural changes can drive desired new behaviors and ways of thinking.

Board and management contributions to corporate culture

A company’s culture is defined and embodied by its leaders. Executive management has the primary responsibility for communicating, maintaining and demonstrating day-to-day the right company culture. Boards share this responsibility through their own conduct and oversight of management, including by supporting management’s communication and demonstration of the company’s culture.

This combination of board oversight, executive management execution and both board and executive management modeling of the company’s culture is what sets a clear “tone from the top” from company leadership to each and every employee.

Boards already have significant involvement in key areas that are linked to company culture, such as:

- Company strategy and risk management, including business plans and compliance policies
- CEO selection and management succession planning
- Executive compensation programs
- Alignment of organizational structure to strategy
- The company’s code of business conduct and ethics

The board particularly has direct input in shaping the company’s culture when it selects a new CEO. In identifying the right candidate, the board determines the chief executive’s priorities as well as the leadership style that would be the best fit. The board also decides between promoting an internal candidate who may be more likely to continue the current culture and bringing in an outsider who could lead a more pronounced degree of change.

In performing these basic responsibilities and more, a board is already addressing highly important elements of the company’s culture. It follows that boards should expand, as needed, the scope of its review of corporate culture to see the whole culture picture in a clear and objective way.

Board evaluation and oversight of culture

As boards consider their oversight of the corporate culture, they should first fully understand the desired culture and how all cultural elements align within their organization. Some critical elements are:

- Company structure, practices and policies
- Management action, communication and compensation
- Employee retention, training, treatment and compensation
- Reputation among various stakeholders
- Stated company values, principles and standards
- Long-term company strategy and the corresponding risk management profile

Many boards also consider other cultural indicators for review and assessment, including:

- Employee engagement
- Employee turnover
- Training and development spending
- Diversity and inclusion initiatives
- Customer satisfaction
- Exit interviews
- Hotline calls (both internal and external)
- Lawsuits

To more fully assess culture, some boards conduct annual reviews of company culture. This review can be conducted internally, with use of data points such as those above, or by an external party.

Board members can also more closely assess company culture through more direct interaction with non-executive employees. This can include having mid- and front-line managers periodically present at board meetings, visiting company workspaces and facilities beyond their boardrooms, setting up opportunities for board members to directly see the business in action or simply by patronizing a retail location. Whatever the approach, getting out of the boardroom can help directors gain a better understanding of the company culture as it is lived every day.
Conclusion

Culture is critical to company performance and value, and boards should work closely with management to make certain that the corporate culture is appropriate for the company's goals. Where culture and strategy are closely aligned, companies are better positioned to realize their desired results and can achieve greater success while mitigating risk.

Boards can serve a compelling role in demonstrating and providing for effective leadership on culture, the right “tone from the top” and seeing that management communicates and exemplifies the right culture for the company.

Questions for the board to consider

- How does the board describe the culture of the company?
- What company strategies might call for cultural shifts? And what changes would be appropriate?
- What active, measurable steps is the board taking to make certain that the company's culture is actually being lived and experienced by all employees and relevant constituents?
- How thoroughly has the board considered the range of potential consequences of compensation structures on culture including desired behaviors and decision-making processes?
- What is the company's reputation among stakeholders, including employees, investors and business partners, and the communities where it does business? What is the company's reputation among peers, on social media and in the press?
- How is the business code of conduct and ethics communicated, monitored and enforced? How are violations of the code detected and managed, and under what procedures can a provision of the code be waived?
- What kinds of complaints, legal or informal through the company's reporting hotline, are communicated to the company about the way it does business? Are complaints commonplace or infrequent?