

## Is Corporate Culture on Your Agenda?

With no shortage of corporate crises in the headlines, now more than ever boards need to recognize that they play a key role in overseeing the cultural tone

As Peter Drucker once said: “Culture eats strategy for breakfast.” Recent high-profile corporate scandals – from Wells Fargo and Volkswagen to Uber and United Airlines – have highlighted that corporate culture is an integral part of any company’s success (or failure) and should be an important item on every board’s agenda.

The role of an independent director in overseeing corporate culture is evolving as boards become increasingly engaged and active stewards of their companies, but the thinking among directors on this topic is not homogenous. Should the board be focused on oversight of the CEO and company strategy, or should it be taking a more active role in driving the organization’s culture?

Hugessen Consulting’s *Camille Jovanovic* and *Steve Chan* sat down with three seasoned directors to get their perspectives on the board’s role in overseeing corporate culture.

**Nora Aufreiter** is a member of the board of Bank of Nova Scotia, Neiman Marcus Group, Kroger Co., and Cadillac Fairview Corp.

**Barbara Allen** serves on the board of RLI Corp. Her past directorships include Maytag Corp., Converse Inc. and Tyson Foods.

**Gianna Manes** is the president and chief executive officer of Calgary’s Enmax Corp. She serves on the boards of the Canadian Energy Association and the Energy Council of Canada.

### *What is the relationship between corporate strategy and corporate culture?*

**Nora Aufreiter:** Corporate culture is hard to separate from strategy, and when culture is strong it can be a strategic asset. Particularly in consumer- service companies, sometimes with tens of thousands of employees, culture is essential in aligning behaviours towards a successful strategic implementation and execution. This type of execution can't be mandated or regulated. To align a broad employee base with a set of behaviours that will allow the company to execute and deliver the value you hope to, a company must be able to attract, retain, and motivate talent consistent with what you are trying to accomplish. This must be accomplished through culture. You must win the hearts and minds of employees. However, companies with negative cultures can put their corporate reputations at risk.

**Barbara Allen:** Culture influences everything, from the highest-level strategic thinking and priorities to everyday behaviour, decisions and actions – or inactions. A strong culture keeps an organization alive and well, and has a major influence on how it operates. But culture is a living organism. It is not static and it changes as leadership changes, and as the world changes.

**Gianna Manes:** Culture is the thing that can determine the success or failure of any strategy. It may be thought of as a “soft” thing; however, it shows itself in a company's tangible results. For example,

I lead a company where a focus on safety is absolutely critical – if we're not careful, people don't get to go home at the end of the day. And with regard to safety, I've learned there is a difference between a culture of compliance and a culture of inspiration, accountability and results. Compliance is not enough. The highest-performing organizations are successful because of their culture.



*Barbara Allen*

### *What is or should the board's role be in overseeing corporate culture?*

**Nora Aufreiter:** The board's role in culture, like strategy, is to understand it, question it and ultimately to ensure decisions are supportive and consistent with that culture. Hiring new talent such as the CEO and other top executives is a critical way boards can influence culture, and any hiring must consider a candidate's values, personal behaviours and style fit with the existing, or desired, culture. Boards also need to ensure compensation and evaluations reinforce desired behaviours and that there are clear processes to

protect the company culture and manage reputation risk. For example, I sit on two boards where a focus on the customer is a key component of the desired culture, and customer satisfaction metrics have been incorporated into the compensation programs. One of these boards also has the chief risk officer review key executives' evaluations to ensure excessive risk was not taken to achieve business results.

**Gianna Manes:** I think it is imperative that board members validate, support and challenge their management teams. This requires getting a little closer to what is going on at the company – and this includes culture, not just financial results. The board should not only look at results, but how they got there, and whether the company is prepared to adjust, manoeuvre and adapt – and culture underpins all of this. This takes a more informed board, but not necessarily a more “hands-on” board, if I can make that distinction. There has to be a line: Management has to be

able to run the business, but the board should be there to support them and hold them accountable.

### *So how do you go about understanding the corporate culture of an organization when you join a board?*

**Barbara Allen:** To me, when I try to think through culture, there are four key dimensions I try to understand:

1. How is vision, strategy and the concept of building value understood through the organization?
2. What is the organization's perception of pay for performance? What is the

personal accountability to deliver results, and how are “results” defined?

3. What are the expectations and actions related to ethics and integrity? How do people perceive this, and how do they talk about it?

4. How are people respected and valued?

I believe these dimensions exist in every culture – although there is probably an unbelievable range of how they look from company to company.

*What can directors do to assess the culture of an organization – not just what it should be, but what it is?*

**Nora Aufreiter:** Direct exposure to employees beyond the most senior management team is important, especially the next few layers below the C-Suite. These interactions can give directors a real sense of what employees feel is important, and what the culture is like.

I sit on one board where meeting locations are rotated so that individual directors are paired with an executive and a regional leader for field visits the day prior to the board meeting. This has allowed me to spend substantial one-on-one time with management in the field and engage with front-line employees. It helps deepen directors’ understanding of what the facilities are like across the entire country, what’s important to employees and customers, how employees interact with customers, and what kind of conversations they have.

**Gianna Manes:** We often bring in managers from each business line to talk to the board about what is happening on the front line. We also try to take

members of our board on tours and give them the freedom to explore facilities and ask questions – not necessarily in a formalized environment. It’s also a positive interaction from the employees’ perspective – they see that the board is supportive, engaged and interested. Don’t underestimate the power of inquiry, and of giving the board access to people at all levels of the organization.

tougher questions to make sure the right processes and behaviours are in place. It is also important to observe top management – they are role models for the culture. If top management isn’t open to challenge, or willing to accept and listen to alternate points of view, that can be a worrying signal. You don’t want bad news to be suppressed or concerns not to be raised for fear of a “bully culture.”



**Barbara Allen:** In today’s rapidly changing and volatile environment, there is always potential that an individual or group might act outside of the company’s code of conduct or business standards. This can happen despite strong communication by management and the board regarding ethics, standards and policies.

A board’s focus should be on setting and reinforcing a strong tone at the top. The board should also consistently and routinely ask questions, listen, and look at processes. For example,

if whistleblower reports don’t make their way to the board level, ask why not. When a business unit has had a strong performance, rather than just moving to the next agenda item, have a conversation about what could go wrong, what the risks might be, and whether we understand the drivers of the good results.

**Gianna Manes:** One of my concerns as a CEO and ultimately as a board member, is ensuring the message that you are trying to communicate is clear, and doesn’t get filtered as you go deeper into the organization.

*There have been some recent high-profile cases of major cultural problems deep within corporations. Any thoughts on what boards and management teams can learn from these experiences?*

**Nora Aufreiter:** I think it is imperative for boards to understand how results are achieved, and if a company might be performing well ahead of its peers, directors need to ensure they know why and ask, “How are we achieving our results?” The onus is on boards to question when things are going “too well” – if we are far outperforming the industry, we need to ask some of the

You want to avoid the unintended consequences of employees acting in a manner that you don't endorse. But it can be challenging for a board to spot these things. I think establishing a culture of accountability and transparency can go a long way with this. The concept of establishing a "gracious space," where employees can bring forward concerns and issues without worrying about facing consequences for raising them, is important in order to alert the board to issues and to prevent serious missteps.

*Is culture something a board can measure?*

**Nora Aufreiter:** Engagement surveys and exit interviews are important tools. I know of at least one chair who personally conducts exit interviews with departing executives to ensure the board has the benefit of any key themes or concerns without any "filtering."

**Barbara Allen:** I think of the board's role as monitoring culture as opposed to measuring it. I have been on boards where they routinely hold "executive sessions," during which a committee brings in managers from throughout the organization to have conversations and ask questions where there is no other management present. These one-on-one meetings allow directors to ask questions such as, "Are there things going on that you are uncomfortable with? How are people being treated in the field? How are your customers feeling?" We reassure the employees that if they feel they have something that warrants discussion, it will be addressed by the board in a way

that doesn't "point the finger" back at this individual. Not only does this practice educate the board, but it also delivers the message that the board is interested in what is happening throughout the organization and that how things get done matters. This reinforces the "tone from the top."



*Gianna Manes*

Whistleblower types of hotlines, as well as employee-engagement surveys, are another important means for directors to get an unfiltered and different view into the organization. Boards should have full access to the raw information in order to get a different lens into employee beliefs.

*Do you think tying compensation directly or indirectly to culture can be helpful in driving a high-performing culture?*

**Gianna Manes:** I think it is very difficult to just "carve out" and define culture and incent people based on this. I think compensation needs to be a balance between the results that were achieved, and how they were achieved – this kind

of balance can often be reached by the board exercising some discretion in terms of determining payouts. This would be assessed in multiple ways and is somewhat subjective, but boards can collect evidence through tools such as employee-engagement scores, safety scores and the like.

*How dependent is corporate culture on the company's current CEO? Should culture change with a new CEO, or should an incoming CEO be beholden to the company's existing culture?*

**Barbara Allen:** I think it depends on why the new CEO is brought in. If he or she is joining a company that requires significant change in performance, then a culture shift will most likely be part of the new CEO's plan. However, if the CEO has been brought into a successful organization, I think he or she would be wise to learn and understand the

culture, and work to build on that. Even an internal CEO successor stepping into the role, who would already be familiar with the culture, has the opportunity and obligation to identify areas for enhancement; it's about continuous improvement. ■

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