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Behind the boardroom door

Behind the boardroom door: Corporate culture

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Each day seems to bring a new headline of corporate and organizational cultures that have either failed or been ineffective, to the point of being irrelevant. The impact can be fatal to careers, financially painful for the bottom line and damaging to the reputations of those involved — not to mention the impact on those hurt in the process. NACD New England Chapter's April 10 program will discuss the role of the board in establishing, building and maintaining a company's culture, how to best work with management leadership and how to recognize when the culture may look and sound good on paper but may be losing its relevance.

The panel will also discuss the linkages of the corporate culture to the reward and recognition systems, its business strategy as well the company's operating style and Bob Gore, former partner, Towers Perrin reputation - internally and externally. The discussion will cover examples of both public and private companies as well as not for profit organizations. The topic is increasingly in the public eye and an important issue for every board member.

The following is a glimpse into the insight to be shared by panelists Lucinda Doran, founder, Corporate Advisory Group; Bob Gore: Former Partner, Towers Perrin; Jim Mullen, former CEO, Patheon and Biogen; and Anne Szostak: Director, IDEXX Labs.

What role should the board play in setting a company's culture?

Lucinda Doran: There are three top jobs of the board in setting culture. The first is setting and holding itself and senior management to the behavioral standards and practices desired throughout the organization. The second is to make sure that the right CEO — who possesses the values and behaviors important to the organization— is in place. The third is keeping the topic of culture on the table by asking thoughtful, open-ended questions that ensure board members understand not only whether consistent policies, reward systems, structures and practices that support the desired culture exist but also how well management understands and engages in what is happening at all levels throughout the organization.

Anne Szostak: Board members should counsel the CEO in shaping and guiding the company's culture. The intent is to help the management team run a successful business with a meaningful purpose for key stakeholders.

Jim Mullen: The board should evaluate if the described culture aligns with the mission and the strategy of the company in addition to the bare minimum standards of behavior required by law or regulation. Elements of the culture should consider the ability to attract and retain the profile of employees most needed to execute the strategy.

Bob Gore: It is absolutely essential that the board establish a clear and well-communicated statement of culture and values for the entire organization. Everything else should either flow from this or complement. Often under-appreciated is the need for the board to articulate its own culture, which of course should not be all that different from the entire organization. Needless to say, this is not a one-time event but something that needs to be revisited as needed. The data manipulation and statistical tools available today make it very easy for senior management and the board to have a clear idea about how well the culture and values are being followed and supported. Likewise, these tools can be used to identify problems early on.

What are some warning signs that the culture a company claims is disconnected to actual day-to-day operations?

Doran: The most glaring, of course, are crises that lead to public headlines like those we've been seeing. Voluntary behaviors which can be tracked like turnover, tardiness, petty crimes and decreased engagement rates, increased whistleblowing (or lack thereof) and discrimination or hostile work environment complaints are warning signs. Cynicism and low morale, in particular, occur when blind eyes are turned on management behavior or when stated values are inconsistent with policies and practices.

Szostak: If things look too perfect, they probably aren't. All organizations have challenging times, even with good management. Don't be afraid to ask questions in good times.

Mullen: It is difficult for directors to evaluate the culture in detail because of the limited amount of time spent in the company and the limited exposure to many levels and locations. However, there are some warning flags. High turnover is a flag. Numerous lawsuits regarding employment conditions, wrongful discharge etc. An ineffective reporting and investigatory system — if the hotline is nonexistent or never used, you likely have problems. Examples of unacceptable behavior of senior employees that is not swiftly dealt with. And you can learn a lot just some walking around observing employees' interaction, body language, who has decision power, special perks for certain employees or classes of employees. Partners, competitors and suppliers can be an important source of feedback as well — companies have reputations.

Gore: Other warning signs that need to be carefully considered are the star performer who is consistently crossing the line and in trouble. This is a highly visible form of cancer as these people are very visible and their issues are well known. If they are not addressed then the value of the culture is deeply discounted if not rendered meaningless.

From an employee recruiting and retention standpoint, how important is culture as compared to salary, stock options, or other financial incentives?

Doran: Reward systems and financial incentives are an inherent part of culture and can either be consistent or inconsistent with a desired culture. They can send very clear messages about what is expected, valued and rewarded. Because rewards can be seductive, they can draw recruits in and those who value the rewards most may stay, even when rewards and culture are inconsistent. Those for whom the work environment is more important are more likely to leave, especially when the labor market is more fluid.

Szostak: Culture is extremely important for both the company and the executive. If the executive is comfortable with the culture, the chances of growing and thriving are much, much greater. Salary and stock options will then follow.

Mullen: The No. 1 reason employees seek to join an organization is the reputation of the company as a place to work. This includes culture, development opportunities, and of course salary and other benefits. The No. 1 reason people leave a company is their supervisor. This runs the gamut of issues from poor supervisory and leadership skills, lack of recognition, to feeling mistreated. The leaders set the tone of the culture.

Gore: All these systems and programs need to be compatible and reinforcing. If there is a major disconnect with what the pay program offers versus the culture statement, the pay program will win just about every time. These issues are not lost on employees who are increasingly aware and interested in the company they work for, what it stands for, and how they will be rewarded. Looking down the road, I would not be surprised to find analysts looking at a company's culture statement and reward system, broadly defined and raising issues if there are apparent inconsistencies.

What culture lessons can corporate boards teach nonprofit boards or vice-versa?

Doran: In an effort to become more effective, non-profit boards are beginning to adopt the structures, standards, policies and practices of corporate boards. This helps to set in appropriate governance parameters, boundaries, and oversight for the non-profit. Alternately, mission-driven non-profits can help corporate boards in that a clear mission can act as a guide star which can be held front and center and from which desired culture can be articulated and norms and practices established.

Szostak: It takes courage and leadership to sit on any board, corporate or not-for-profit, and to ask the difficult questions which encourage a dialogue among the board members.

Mullen: Good intentions do not equate to good culture. The same elements exist in nonprofits as for-profits; flawed human beings (everyone), power, money and sex. However, the governance structures are often more diffuse and less developed. The risk of negative culture issues is at least as high in nonprofits. Those boards, which are typically larger, should probably have a committee that focuses on issues of culture.