How board governance and company culture intersect

Few issues of organizational effectiveness and performance have moved so decisively to the front burner in recent years as culture. **By David Boehmer and Mike Marino**

Most directors today are accustomed to thinking about culture and its profound effect on business performance in the organizations they lead or have led. As sitting or former CEOs, divisional presidents, or functional heads, they have likely led culture change. But as independent directors of other companies, they may devote little, if any, time to understanding the cultures of the organizations they oversee and the impact — positive or negative — that culture has on company performance.

When urged to do so, they typically raise any of several objections, beginning with the fact that the day-to-day functioning of the culture is largely inaccessible to directors. Culture does not show up in the financial documents or other materials they review, and directors have only limited contact with the organization and its leaders. "How can you address what you cannot see?" they ask.

On the other hand, despite limited contact, some directors say that they have an instinctive grasp of the company's culture and silently factor it into their thinking already. Still other directors believe that wading into culture, regardless of how accessible it is, might be seen as meddling, crossing the line between overseeing the enterprise and managing it.

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— David Boehmer

Culture is as culture does

In answer to the first objection, culture does not have to, and should not, remain invisible to the board. Directors oversee strategy and are held accountable for shareholder value — and they must address impediments to achieving those goals. Because culture can directly affect performance and business results, understanding how the organization manages and measures culture should be a part of the board's mandate.

Numerous straightforward methods exist for taking the cultural temperature of a company. The board can begin with the company's existing set of values. These will, of course, differ from company to company. However, the ultimate goal of any culture remains the same: high performance against the measures the board and the executive leadership team have established to enable and gauge long-term success. In our experience, cultures that generate high performance do share many essential values. In the top quintile of such organizations, boards and leaders typically emphasize and hone these characteristics:

- Strategic thinking
- Integrity
- Results
- Collaboration
- Customer focus
- Innovation
- Optimism and confidence

Based on the company's values, a cultural diagnostic can be conducted with senior leaders. The diagnostic would ask those leaders the extent to which they encounter specific, relevant behaviors that align with those values, as well as troubling behaviors that may need to change. With innovation, for example, leaders can be asked to what extent they agree with a series of descriptive statements: *The organization is open to change. Creativity is welcomed. People are agile and flexible.* These statements, and others like them, would together cover the many behaviors that innovation encompasses. Other values to be assessed would receive similar treatment.

In responding to the diagnostic, leaders need not act as anthropologists and analyze the rituals, unspoken norms, folkways, beliefs, assumptions, attitudes, and myriad other factors that figure in culture. They need only judge the extent to which people in the organization exhibit the behaviors that characterize each of the values and the desired culture those values frame. And it is behavior — what people actually *do* — that determines the extent to which the desired culture is a reality.

The eye of the beholder

At the opposite end of the spectrum stand those board members who believe that the culture of the company is readily visible, at least to them. They reach this conclusion any number of ways: interactions with management, comparisons with other companies they've known, assumptions about the typical culture of the industry, and 'gut feel.' In any case, the characterization of the culture remains largely anecdotal and personal. Further, assessing culture through intuition and instinct can produce perceptions and misperceptions that vary widely, depending on the beholder.

Even when the individual members of the board agree about the nature of the company's culture, they can quite simply be mistaken. For example, the board of a leading health services organization believed that the organization's culture was, among other things, highly collaborative. In a field where lives are at stake and optimal outcomes depend on input from multiple sources, the board understandably placed a high value on collaboration. But when senior leadership was surveyed about relevant behaviors, the board was surprised to learn that leaders encountered less mutual support, cooperation, and teamwork than the board had assumed was the case.

In both cases — widely varying perceptions and mistaken consensus — the absence of objective, empirical evidence

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leaves the board with little basis for discussion other than opinions and conjecture. As a result, it will be unable to achieve what should be the ultimate objective in addressing company culture: making better governance decisions.

Gaining an edge in governance

As the third of the three objections above asserts, the board certainly should not address culture with the aim of micromanaging it. However, a judicious use of real knowledge about the culture can give a thoughtful board an extra edge in addressing some of its chief governance responsibilities: CEO succession, compliance, and risk management. A number of highly progressive boards are already addressing culture, not with the aim of micromanaging it, but to take culture appropriately into account within the bounds of the board's oversight role. In fact, the board of the health services organization cited above undertook its look at culture in order to fine-tune its search for a new CEO. Board members believed that an objective view of the senior leadership team's operating culture — its attitudes, beliefs, and behaviors — could enhance the overall selection process and decision.

The board's behavioral survey of leadership had turned up not only less than desirable alignment with the ideal of collaboration but also with another of the board's essential values — innovation — which the board believed was becoming increasingly critical for the organization's continued success. With these findings in hand, the nominating committee made it a point to explore the historical ability of the CEO candidate finalists to promote collaboration and innovation, giving more weight to both attributes in the hiring decision.

The cultural exercise was not a substitute for the job profile and search criteria that the board had been using in the succession process, but served as an additional helpful tool. The profile and the search criteria already included collaboration and innovation as key aspects of the role, and all of the finalists possessed competency in both, as well as in the other values that

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constituted the board's desired culture. Otherwise, those candidates would not have advanced so far in the winnowing process. However, not all of the finalists possessed those cultural competencies to the same degree. By revising the weighting of qualifications in light of the behavioral survey, the board was able to make a more finely calibrated decision. They chose not just an excellent candidate but an excellent candidate who was also likely to make a real difference to the culture.

A similar dynamic holds for compliance and risk management. Cultural assessment can reassure the directors that they are unlikely to face surprises in compliance or it can raise red flags that put the issue near the top of the board's agenda. Similarly, assessment can help determine whether the degree of risk-taking that leaders perceive in the culture is in line with the board's tolerance for risk. But it is no substitute for policies, processes, and controls designed to assure compliance or manage risk. Nevertheless, by uncovering the extent to which behavior reflects such overarching values as accountability, integrity, and results, the board does not have to wait until a failure of compliance or a setback due to carelessness — or recklessness — signals that something is awry in the culture. In fact, it may be too little, too late, when a real crisis surfaces that could cause serious reputational and financial damage.

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The next frontier

Few issues of organizational effectiveness and performance have moved so decisively to the front burner in recent years as culture. Only two decades ago, insistence on the importance of culture often drew blank stares and, occasionally, amused contempt. Few leaders now doubt the relevance of culture to company performance, employee retention, corporate reputation, customer loyalty, and a host of other areas that contribute to competitive success. Board governance is now shaping up as the next frontier in this extraordinary progress as boards increasingly recognize that accurate knowledge of company culture can enhance governance decisions — putting values in the service of the value directors are obligated to protect and enhance. ■

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