

Culture Moves Up the Board Agenda

By JIAT-HUI WU



Boards influence organisational culture through their every action. They can ensure their impact is positive by giving more deliberate attention to culture. It is no coincidence that the world's most valuable and successful companies tend to have highly distinctive cultures.

Thriving culture is about much more than corporate persona and perks. Organisational culture is a unique differentiator that drives operational performance. It sets the context for goals such as innovation, customer-centricity and transformation. It enables a company to realise its mission and achieve its purpose, attract and retain talent, and ultimately create long-term value.

Without purpose and culture, an organisation is ultimately a hollow shell.

On the other hand, corporate culture can be both strong and toxic. Ensuring it is a force for good requires constant attention.

A 2021 survey of 500 CEOs worldwide by Heidrick & Struggles shows that companies that place high importance on culture achieve better financial results than those that don't. Where CEOs assume the role of culture accelerators and successfully cultivate a positive culture, revenue growth was more than twice that of other organisations in the survey sample. Nearly half of these leaders who fit the description of a "culture accelerator" also prioritise efforts around diversity, equity and inclusion.

Across Asia-Pacific, leaders are reassessing their companies' cultures to make them more inclusive. Some other research has shown that when employees can express their views freely and are heard at the top level, the organisation is eight times more likely to achieve the business outcomes it is looking for.

Not just for executives

Despite the evidence that building and maintaining a thriving culture is vital to commercial success and resilience, boards tend to take a back seat on the topic of culture, leaving the responsibility to the CEO. In a recent roundtable discussion with board members in Asia, one participant commented that culture was a concern "for executives". Increasingly, a number of companies in Singapore and regionally have started to recognise the need to bridge that disconnect.

The CEO and other members of the leadership team serve to drive culture and connect it to business priorities and results. Although the board is not actively involved in shaping or transforming culture, it exerts a heavy influence on culture through its very existence.

Board composition is indirectly a reflection of organisational culture. C-suite candidates are increasingly scrutinising board composition to determine whether there is cultural alignment before they sign their offer letter. Employees will also observe whether or not the board embodies the values the organisation stands for.

Similarly, if an organisation wants to achieve digitalisation, the board should include members with corresponding credentials. This understanding recently led a large Singaporean financial institution to carry out a targeted search for a board member who had previously been key part of a digitalisation journey.

In the ideal scenario, a leader has the opportunity to shape the board and the organisation concurrently, for example, in the case of a spin-off or merger of equals. This can establish a foundation to fully support the company's goals. In one example, the chair of a newly spun-out global business wanted the board to drive culture development so that they would own it. The process of forming the culture alongside the executive team was in itself bonding and resulted in increased alignment between the board and executive team, which was valuable in setting the company up for future success.

The role of board dynamics

Effective cultural governance – identifying potential issues and stopping them from developing into problems – starts with the board assessing its own culture.

The board should be collaborative and conducive to challenging, constructive discussion and feedback within the boardroom. The dynamics of the board set the tone for the organisation. Positive dynamics energise and help gear the organisation up to adapt to change – for example, when a CEO is replaced. Poor dynamics and mismatched personalities can present an inconsistent image that saps morale.

Boards that become set in their ways create risk. Too much conservatism and systematic rejection of new ideas from the executive team discourage innovation and can cause the business to stagnate. With a weak culture, a board will struggle to attract or keep the members it needs to function effectively. Periodic rigorous reviews and member refreshments are important to ensure the fitness of the board's own culture and maintain balance.

Trust and transparency in the hybrid age

Trust, transparency and collaboration are foundational qualities in effective organisations and in boards. Boards must redouble their efforts to be transparent with stakeholders around issues from leadership succession planning to their contribution to society and employee wellbeing.

The advent of hybrid working models – with the arrival of remote work – has created opportunities for greater efficiency and diversity at the board level by reducing the need for members to be physically present in a single location. Yet this decentralisation can also result in weaker trust levels and collaboration. Building strong bonds in the hybrid format is a challenge, and boards should find a middle ground that allows the best of both worlds – increased diversity with continued trust and collaboration among members.

Ensuring that a culture of transparency permeates the organisation starts with the board. See box, “Making Culture a Priority”, for steps boards can take to put organisational culture on the board agenda.

Getting closer to organisational culture means engaging with people on the ground and understanding their goals, challenges and concerns. This can be difficult when there is a pronounced generational gap between board members and regular employees.

From anecdotal evidence, the two groups tend to have different viewpoints on topics like diversity, support for working parents, work-life balance, transformation and innovation, to name a few. Ensuring that the board resembles the broader organisation in terms of demographics, gender, and age is important in bridging this gap.

Making Culture a Priority

Typically, organisational culture becomes a board focus only after a major event: at worst, a crisis, and at best, a leadership change.

There are many examples of companies in the region that have encountered reputational issues or suffered financial consequences of a leader or team who has either permitted or promoted inappropriate internal activity and questionable labour practices.

Sometimes too late, the board is forced to realise that a dysfunctional culture needs to be addressed. In order to avoid spending unnecessary time fixing problems retrospectively, boards should dedicate time alongside the executive team to shape the organisation's desired culture.

For boards looking to make culture a priority, there are several ways to begin.

First, the board should seek alignment and maintain dialogue with the CEO.

Second, corporate culture impact can be a major part of CEO succession planning.

Third, the board can set high-level culture aspirations for the organisation that are prominently visible internally and externally.

Finally, the board can work to form a clear link between culture and business performance.

Culture metrics should be subject to ongoing measurement, review and adjustment – and part of the executive team's performance metrics.

As the board becomes an integral part of the cultural conversation, directors should make culture an ongoing priority instead of addressing it reactively.

Another way for board members to better understand the dynamics on the ground is to understand the underlying business and its key drivers.

A frequent CEO lament is that board members fail to keep abreast of business priorities and strategy. A step further to enhance the understanding is for board members to spend physical time in the field, as executives often do, interacting directly with employees, whether in the office or factory, to better appreciate the organisational culture.

Within the board, a domineering chair can stifle different perspectives as well as dissent. This can lead to an imbalance that sees other board

members reduced to rubber stampers, which can have serious implications for wider organisational culture. In the ideal scenario, every board member has an equal share of voice, is readily accessible to other members and executives, and is open to discussion, debate and feedback.

An effective board is driven by alignment on purpose rather than ego. It works in the interests of the organisation and sets a positive cultural precedent to follow. ■

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