ARTICLE

Getting on board with culture

Two core responsibilities of boards are performance and risk. A strong, positive organizational culture helps both. But too many boards don't make the links. As expectations rise—for corporations and their boards—that has to change.

Overseeing performance and risk are two core responsibilities of boards. A central foundation to strong corporate performance and to avoiding both operational and talent risk is a thriving culture. However, until quite recently, most boards have not been directly involved in organizational culture. Now, at the best companies, that is changing. In order to help shape thriving cultures that can support companies and leadership teams to meet society's ever-increasing expectations, there are several considerations boards and CEOs can use to work more effectively with each other.

The ways culture matters

Risk is the most obvious place where a core board responsibility and culture intersect. If an organizational culture does not support clear communication and problem solving, potential operational risks can get buried before they're identified. If the culture prizes performance over purpose, problems may be ignored or swept under the rug, creating room for low standards or ethical lapses. Activist investors often leverage such issues to make the case for deeper organizational change.[1] Boards, therefore, need to be aware of potential issues arising from a misaligned or dysfunctional culture—and be able to address the root culture causes—before such problems grow past their control and become a commercial, regulatory, or reputational fiasco.

More broadly, other research we have conducted into business performance shows that companies that see culture as important, link it to their strategy, and focus on shaping their culture demonstrate stronger financial performance than others.[2] One example is the consumer conglomerate Helen of Troy, whose culture work we'll describe below. It reached $2 billion in sales in 2021, a significant increase from the time it began to focus on culture. Another company we're familiar with saw a significant increase in both revenue and EBITDA over the first two years of its culture journey, without laying anyone off. Leaders attribute these successes directly to their culture work.

In the boardroom

We have written elsewhere about how boards should think about their composition and review their own performance to build an inclusive, positive board. To ensure they are able to make the best decisions and focus on the right topics while appropriately challenging long-held organizational beliefs, chairs and directors today must prioritize facilitating the right conversations, building cohesive, inclusive teams, and finding common ground to manage conflict.[3] And a periodic, rigorous board review can pinpoint a board's strengths and development areas, which will likely include expertise and balance but typically goes far beyond that, into process, governance, dynamics, and culture.[4]

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Boards need to stand on a foundation of trust and collaboration to deliberate and make decisions about the complex, intertwined problems that all organizations face. And yet reviews we have done with a number of boards in several countries show a certain erosion of trust and collaboration, particularly through these years of remote working. Rising shares of new board appointments in many countries[5] also mean that many boards need to revamp processes or norms to fully integrate these new members, particularly to ensure the full

1 Boards that evaluate themselves and their organization's executive leaders as activists might (and before the activists do), focus on the board's specific purpose in strategic planning and implementation, and stay in touch with their other major shareholders have the best chance of providing stability as activist activity ramps up again. For more, see John S. Wood, "Why boards should think like activists," Heidrick & Struggles, heidrick.com.

2 Rose Gailey, Ian Johnston, and Andrew LeSueur, *Aligning Culture with the Bottom Line: How Companies Can Accelerate Progress*, Heidrick & Struggles, heidrick.com.

Increasingly, factors such as having an organizational purpose that is based on a positive contribution to society and a genuine interest in employee wellbeing are seen as key performance indicators by corporate stakeholders, particularly employees.

board is building the relationships that create open and transparent dialogue. Furthermore, boards with poor cultures are less likely to attract or retain the new members they need. In particular, board candidates with diverse experiences and backgrounds typically have more board opportunities than they can accept: a positive culture will attract them, a dysfunctional one will not, therefore putting the board itself at risk of not having the expertise it needs to effectively oversee the organization or address its culture problems.

For example, a European fast-casual restaurant had a dysfunctional board made up of two factions that hated each other, as well as a toxic company culture owing to an old-fashioned CEO with a command-and-control leadership style. A new chair led a complete restructuring of the board, reshaped the board culture, and replaced the CEO. When the new CEO came in—during the height of the pandemic—he had to manage and support a lot of frightened people as well as build a whole new culture. But he had the backing of a collaborative board to do so. Today the company has improved its culture as well as financial performance.

In addition, at a time when there is greater uncertainty and increasing risk given the global economy and geopolitical conflict (among other factors), a lack of transparency with stakeholders about leadership and governance succession planning and associated risks is in itself an increasing risk for companies, with potential implications for reputation and access to capital. Yet too many boards are still opaque and reactive in their planning.

And there are other aspects of transparency and accessibility that matter just as much. Increasingly, factors such as having an organizational purpose that is based on a positive contribution to society and a genuine interest in employee wellbeing are seen as key performance indicators by corporate stakeholders, particularly employees. Culture is the foundation on which both of those will thrive or fail. Millennials (that is, people roughly between the ages of 27 and 41) and Gen Z (the oldest of whom entered the workforce just prior to the COVID-19 pandemic) in particular want to work for an organization that stands for something that matters and, at the very least, is not engaged in activities that are harmful to the planet, for example.

As more is expected of corporations and more stakeholders expect access, a culture of transparency—and accessibility—is crucial to corporate success, and it starts with the board.

Starting to make culture a priority

Sometimes, as with a spin-off or merger of equals, leaders have the ability to shape the board and the organization together. In situations like these, it is possible to consider how to build the board in a way that enables it to support the new organization most effectively and honor the legacy of all the positive elements of two distinct company cultures as they become one. The chair of a newly spun-out global business thought this was so important that he wanted the board to drive the culture development itself, so they would own it. Additional benefits included a similar board culture and executive team culture, and the process of forming the culture was in itself bonding—a way of bringing the company together, not only around the strategy for forming it but also around who they would be as an organization.

3 Alice Breeden and Richard Jolly, "Building better board dynamics," Heidrick & Struggles, heidrick.com.
4 For more, see Alice Breeden and David Hui, "A board review that accelerates competitiveness," Heidrick & Struggles, heidrick.com.
5 Heidrick & Struggles' annual *Board Monitor* reports track new public-company board appointments in 25 markets around the world, examining trends in demographics and industry experience. For a full list of and access to the reports, see "Board Monitor 2022: Around the Globe," Heidrick & Struggles, heidrick.com.

More often, a sitting board will start to prioritize culture only after a call to action: an unseen risk causing a crisis; a CEO wanting to focus on the organization's culture; a board chair seeing a CEO get misaligned with organizational culture; a new chair, CEO, or activist investor causing a reset of the relationship between the board and the executive team; a corporate accident or scandal; or a significant shift in strategy that requires major organizational restructuring.[6]

We have seen these dynamics play out in a number of organizations. One is the oil and gas company Exterran, where the chair realized a risk to the organizational culture because the new CEO was not casting a positive shadow.[7] The chair instituted check-ins for the CEO with the board on culture progress, and the company's leaders are now working together in a healthy way. There here are many examples of companies that have faced the disastrous consequences of a leader or team who have either permitted or promoted an inappropriate internal activity. Sometimes too late, the board was forced to realize that a dysfunctional culture needed to be addressed.

There are also positive spurs for leaders to begin culture work, most often a goal to attract and retain the best employees. Even before the pandemic, many executives were seeing that a thriving culture could provide a competitive edge in innovation, employee attraction and retention, and agility, among other areas. A survey of CEOs we conducted in 2021 found that increasing employee engagement was second only to improving financial performance among the goals CEOs around the world named for their focus on culture as a key priority over the past three years.[8] The results of a 2022 survey we conducted of 420 executives from companies in eight countries show that employees are at the center of why diversity, equity, and inclusion (DE&I) matters to companies as well as how it contributes to business performance—ahead of customers, external factors, or anything else. And at the companies leading the way on DE&I, the survey indicates, board members more often play a role in communicating about the company's efforts than at other companies.[9]

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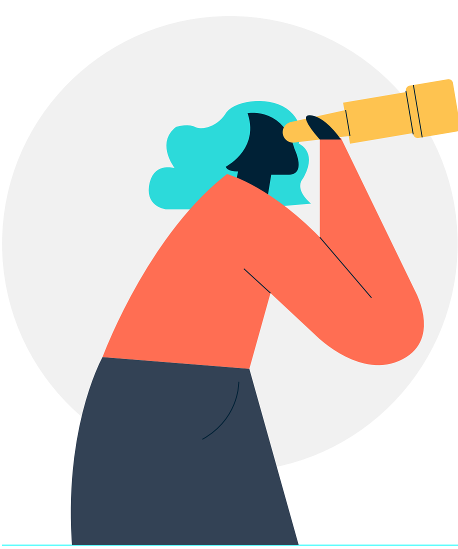
In 2017, the British aerospace company Meggitt launched a high-performance culture initiative, aimed at aligning and improving culture across the group. In the 2018 annual report, Sir Nigel Rudd, the chairman, wrote that the board was pleased with the progress made and that the board would have the opportunity to experience a high-performance culture session with employees the following year.[10] Three years later, he followed up with a positive report on the company's ongoing culture work, which now includes monthly culture briefings for leaders and an annual Inclusion Week to help connect employees across Meggitt to eight Employee Resource Groups. According to Rudd, membership across the resource groups is now more than a thousand.[11]



6 For more on organizational restructuring, see Jeremy Hanson, "Restructuring with purpose: Leading through disruption to build long-term strength," Heidrick & Struggles, heidrick.com.

7 According to Dr. Larry Senn, organizations are shadows of their leaders. Purpose-driven leaders who are intentionally committed to the organization and its culture cast a long shadow of positive influence. For more, see Rose Gailey and Ian Johnston, *Future-Focused: Shape Your Culture. Shape Your Future*, Chicago: Networlding Publishing, 2021.

8 Rose Gailey, Ian Johnston, and Andrew LeSueur, *Aligning Culture with the Bottom Line: How Companies Can Accelerate Progress*, Heidrick & Struggles, heidrick.com.

9 Jonathan McBride, *Employees at the Center: What It Takes to Lead on DE&I Now*, Heidrick & Struggles, heidrick.com.

10 *Enabling the Extraordinary: Annual Report and Accounts 2018*, Meggit, March 25, 2019, p. 9, meggit.com.

11 *Enabling the Extraordinary: Annual Report and Accounts 2021*, Meggit, April 8, 2022, p. 9, meggit.com.

When Helen of Troy, the consumer conglomerate, embarked on its culture journey, one of the measures its leaders paid closest attention to was top performer retention, and that increased once the company began focusing on culture. Most organizations are paying attention to recruiting and being an employer of choice, but Helen of Troy also looked specifically at the land rate for its first-choice candidates; once they started focusing on their organizational culture, that metric rose by over 20 points.

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Finally, when a board and a CEO are aligned on the importance of culture, there are a few common tactics they should use to shape and maintain a thriving culture. One of these is assigning specific responsibilities at the executive team level for giving clear messages about the focus on culture. The executive team has to visibly support the defining, shaping, and communication about the culture and why it matters to the company. The executive team and the board give credibility to the importance of the issue through their visible support and attention. In this way, companies can keep culture from falling to the wayside when it is not a burning issue. It has to be owned by the board and the executive team.

Whether the impetus is positive or negative, adding yet another priority to the board's remit is no easy undertaking. To get started on the right foot, boards can:

1. **Make culture impact, including impact on a broad range of DE&I, environmental, and community-facing responsibilities, a significant element in CEO succession planning**
2. **Make reviewing culture metrics a part of their regular schedule, and make improving those metrics a performance metric for the executive team**
3. **Set high-level culture aspirations for the company and communicate them clearly to both internal and external stakeholders**
4. **Use regular pulse surveys on culture and engagement to make an overt link between culture and business performance**

How CEOs can lead on culture change

As CEOs seek to help their companies thrive, a thriving culture will be a crucial tool. With the board engaged, our four principles of culture shaping—purposeful leadership, personal change, broad engagement, and systemic alignment—suggest how they can drive change throughout the organization.[12]

Purposeful leadership: Key aspects of being purposeful as a leader are being inclusive, leading with influence instead of authority, and adapting leadership approaches to the way people work. Inclusive leaders also foster collaboration by involving many people in implementing new ideas, instead of operating in a silo and dictating change.[13]

Personal change: Leaders should be role models to live the culture and challenge others—including board members—to do the same. Leaders who don't currently make the links between culture and financial performance will benefit from shifting their mindsets in that direction. Once they think of culture as a strategic asset and connect the missing links between culture and financial performance, they can be role models for and encourage other leaders to do the same.

12 Rose Gailey, Ian Johnston, and Andrew LeSueur, *Aligning Culture with the Bottom Line: How Companies Can Accelerate Progress*, Heidrick & Struggles, heidrick.com.

13 Karen Rosa West and Megan Herbst, "What inclusive leaders do—and don't do," Heidrick & Struggles, heidrick.com.

Broad engagement: Ensuring employees at all levels of the organization are appreciated and challenged can help drive broad engagement. The more energetic and communicative leaders are about the culture-shaping process, the more likely momentum will spread throughout teams.

Systemic alignment: Along with recognizing that culture shaping must be reinforced across all parts of the organization, leaders must ensure that talent development and review processes, onboarding, and training include ways to develop and bolster the aspects of culture that are most important to driving financial performance; this includes board member onboarding and reviews. We have seen companies be most effective when they use balanced scorecards that include financial performance and culture performance metrics to regularly assess progress.

For example, when Carolyn McCall was appointed CEO of easyJet in 2010—a female CEO, unusual in the aviation industry—she wanted to transform the company to align its teams and focus on the customer, and so she rebuilt much of her top team. This highlights that, although recognizing the need for change is imperative, role modeling change and ensuring systemic alignment are just as crucial to lasting change, even when it takes actions as tough as changing team members.

Linking culture and strategy

A global survey of CEOs we conducted in 2021[14] shows that the companies most successful at linking culture and financial performance did the following:

- Had a **strong personal belief** that culture was very important or crucial to the financial performance of the business
- **Linked culture to business strategy,** underscoring the centrality of culture to performance today as an organizational attribute that was once marginalized, or at least, left until later
- **Put their own people first in their design and approach:** they focused more often on collaboration and trust, for example, than did other companies, and put culture efforts front and center. They made sure those important qualities were prevalent in their own cultures and clearly communicated—all the way down to the front lines.
- **Took the time to develop fully committed leaders**—perhaps not all, but a core group who lead a sustained effort
- **Made room for meaningful communication to sell the message to employees:** they showed appreciation for employees far more often and held two-way dialogues and large-scale discussion of culture issues

14 Rose Gailey, Ian Johnston, and Andrew LeSueur, *Aligning Culture with the Bottom Line: How Companies Can Accelerate Progress*, Heidrick & Struggles, heidrick.com.

Looking ahead

Despite the clear links between organizational performance and a thriving organizational culture, too many boards do not do as much as they could to prioritize culture. As expectations rise—for corporations and their boards—boards must recognize that culture is just as much their responsibility as it is that of the CEO and leadership team. The best boards focus on trust, transparency, and collaboration; set high-level aspirations for the company and communicate them clearly to both internal and external stakeholders; make seeing and reviewing culture metrics a part of the board's regular schedule; and make improving those metrics a performance metric for the executive team. In the same way that a culture has to be authentic to thrive, a company's commitment to it must be authentic, sustained, and systemic in order to have the effect on employees that it does at the best companies. Culture and brand, both internal and external, can, it is clear, support one another in a virtuous cycle.

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