Corporate Culture Is an Alarmingly Low Priority for Boards

By Erik van de Loo , INSEAD Affiliate Professor of Organisational Behaviour, and Jaap Winter , INSEAD Visiting Professor of Corporate Governance

There appears to be a significant discrepancy between what board directors believe and what happens in practice.

The importance of having a strong corporate culture has been well documented. From upholding ethics to driving innovation, organisational performance can be very much influenced by cultural aspects, such as values, mission, communication and the prevailing organisational atmosphere. It is therefore vital that boards understand the culture in their organisations so they can provide effective leadership and direction to the business. If the culture is suboptimum, they also need to be clear about what they desire it to be before they can chart a path towards achieving it.

But according to a research report by INSEAD, **Board Agenda** and **Mazars**, a worryingly small number of board directors are actually clear about what they desire from their corporate cultures. Even more alarmingly, the very discussion of corporate culture isn't getting the attention it deserves at board level.

The report includes a survey of 450 CEOs, CFOs, board chairs, executive and non-executive directors, risk officers and investment managers. Half of respondents say their board is reasonably clear on the desired culture, while a third are not very clear or say there is no discussion of the topic. Only one fifth “fully consider” their culture at board meetings.

Only one in five say they spend the right amount of time discussing culture, while 40 percent of board members believe they don’t devote enough time or that culture simply isn’t valued as a discussion topic.

So what do boards focus on? According to the study, the top two items on board agendas are strategy and financial performance. Culture trails in third in terms of importance. When culture is discussed, respondents say that the focus is on understanding the actual culture of the business, closely followed by the link between strategy and culture. Employees are seen as major targets for cultural change programmes with the goal to enhance employee motivation and productivity.

While culture is intangible in many respects, it can feed into risk. One need only look as far as Volkswagen’s “dieselgate” or the culture that put accounting firms under scrutiny during the financial crisis. Asked whether boards consider the risks associated with their culture (such as unethical behaviour), one third say these risks are fully embedded in an existing risk management system. Another third say cultural risks are not part of risk management but they are discussed at board level, while the remaining third say cultural risks are not routinely considered.

That’s the bad news.

Admitting the problem

Now for the good news: Board directors are fully aware of the impact that corporate culture can have on business performance. Only one tenth of respondents disagree with Peter Drucker’s famous assertion that “culture eats strategy for breakfast”. More than half believe that strategy and culture are interrelated.

When it comes to how boards can influence culture, 62 percent of respondents say that “setting the right tone from the top” is most important. The second most important aspect is ensuring the CEO is supportive of the desired culture. In third place comes recruiting similarly supportive board members and senior management. This suggests that directors believe that positive culture cannot be bought or taught. Instead, it is something inherent in those at the top. Strikingly, they do not believe that remuneration and incentives are key for setting the right tone at the top and influencing the corporate culture.

> “Culture in business is a key ingredient in delivering long-term sustainable performance. When there is a healthy culture, the systems, the procedures, and the overall functioning and mutual support of an organisation exist in harmony. This brings enhanced integrity, confidence, long-term success and, ultimately, trust. A poor culture is, in my view, a significant business risk in itself.”
>
> - Sir Win Bischoff, chairman of the Financial Reporting Council

Overall, these findings tell us that boards know where the problem lies, but that a large gap has opened up between knowing and doing. Despite the increasing awareness that tone at the top matters, it is rarely translated into effective new board practices.

Change at the top

Articulating corporate norms and values, conducting cultural surveys, or organising workshops or programmes are all important. The report recommends that organisations move culture from HR to the boardroom. Boards should also gather measurable data to take stock of where they are and decide where they want to be if the desired culture doesn’t match reality. Aligning culture and strategy is clearly a priority, while building more of a culture discussion into risk management will help.

Crucially, however, understanding and impacting culture is more than this. Boards need to build better expertise on culture, not just by bringing in external talent, but by understanding as a group the organisational atmosphere.

Common traps boards often fall into when confronting culture issues are to do so superficially, by reducing complexity, or too technically, changing culture with rules, regulations and policies. Sensing a lack of authenticity, many employees pay little attention, and those already disillusioned simply spot ways to circumvent new cultural practices.

A misunderstood area is the impact of incentive schemes on behaviour and culture, both at board level and in the corporation at large. We are therefore heartened by the fact that only 3 percent of respondents put executive bonuses at the top of their list of influencing methods.

Corporate culture starts with asking questions of the board and the board space itself: What kind of interactions, behaviour, language and data does one observe? How packed is the agenda with technical content? Are there too many topics to discuss? The best boards we have come across have an in-built ability to self-reflect. They organise pre- and post-board meeting reflection time where board members agree to discuss these things in addition to the regular board affairs so they can examine sentiments and anecdotal observations. Board evaluations could also include culture and behaviour as central items. Some 43 percent of respondents say that the culture of the board itself is seldom discussed at board meetings. This doesn’t align itself well with the previously stated admission that the top should set the tone.

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