Corporate culture and values: How can the board set the tone?

There is a growing awareness about the importance of corporate culture. However, creating a positive culture cannot be addressed with a "check the box" compliance approach. This article provides some guidance on how boards can tackle this challenge.

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A growing body of research highlights the importance of corporate culture and ethical values in developing companies for the long term. Senior managers understand that good values are an important source of trust and engagement among employees. They help shape behaviors and convey authenticity to shareholders and customers.

A key emerging question in corporate governance is the role of boards of directors in fostering a positive corporate culture. Key regulators such as the UK Financial Reporting Council and large asset managers, such as State Street or BlackRock, are asking boards to engage in assessing and monitoring corporate culture or purpose. Their intention is good, but if boards do not understand how corporate cultures emerge and develop, turning culture into one more area to be monitored with some KPIs is an initiative doomed to fail.

The experience in many companies highlights that a corporate culture has a great value when it helps engage people, fosters cooperation, places customers first, drives positive behavior across the organization and enhances values such as professionalism, integrity, transparency, accountability and trust. Over the past years, there has been an explosion of statements about corporate culture and values that describe good intentions but lack a real effect on the daily work of the employees. Many of them are void statements, words that mean nothing because organizations are led by senior managers who do not care much about them.

This observation has several implications. The first is that statements on culture and values that do not truly reflect the daily behavior of senior executives are completely useless. Moreover, they foster cynicism and tend to erode the firm's reputation. The second is that a corporate culture is set by myriads of small decisions, not just a speech or a text written on the wall. Among those small decisions, leading by example is essential.

If corporate culture is so important, boards of directors need to take the lead in setting the tone of it. Unfortunately, some recent suggestions for boards, such as "assessing" or "monitoring" culture may be insufficient or, even worse, misleading. There are two areas where the board can have a great impact on corporate culture. The first is the personal example of board members. Their professionalism, integrity, service and positive example — including moderate executive compensation — set the tone for the culture of the company. Board members may destroy a corporate culture by taking small decisions in the wrong direction. Setting a good example in those areas comes first. The second is to foster a culture of respect for each person, each customer, each shareholder and each stakeholder in any board discussion. Too many decisions at the board level are made taking into account only financial considerations. It is time for boards to think about the qualitative dimensions in board decision-making and consider the impact of their decisions on corporate culture and reputation.

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