



# Driving corporate culture from the top

**KPMG Board Leadership Centre**  
Global Boardroom Insights



# Foreword

**Businesses are operating in a climate of volatility and uncertainty resulting from a broad range of factors, from Brexit and the U.S. presidential election to the unprecedented pace of technological change, disruption, geopolitical risk, and slow economic growth. In such an environment, cultivating a strong corporate culture from the top level all the way down through the organization is key. It is a topic high on the agenda of business leaders and regulators.**

One of the fundamental roles of leadership is to create and maintain a culture that reinforces the company's core values, encourages employees to do the right thing, and helps drive the company's long-term strategy. Culture, done well, can be a powerful driver of organizational performance.

Given the importance of maintaining a healthy corporate culture in a challenging business and risk environment, the Audit Committee Institute interviewed directors and subject matter experts from around the world to gather their perspectives on the board's role in helping to reinforce, assess, and oversee the corporation's culture.

In this edition of *Global Boardroom Insights*, we share their insights, which we hope will help you to facilitate robust boardroom discussions about the challenges and opportunities related to corporate culture oversight in your own organizations. While their individual views offer varying perspectives, some universal takeaways emerged from the discussions that should be worthwhile for all boards to consider. By making culture a regular item on the board agenda and asking the right questions, directors can help to ensure that culture supports business strategy.

**Timothy Copnell**  
United Kingdom

**David Leahy**  
Kenya

**Dennis Whalen**  
United States

**Sidney Ito**  
Brazil

**Wim Vandecruys**  
Belgium



# Key interview insights



## **Culture is not simply a once (or twice) a year discussion.**

Corporate culture should be part of the board's agenda and ongoing conversation throughout the year.

## **Strategy, risk, and culture should be tightly connected.**

Culture needs to be embedded in the company's decision-making processes, including strategic thinking, risk management and compliance, performance, and the incentives driving these activities.

## **Culture should start at the top and cascade down through all levels of the organization.**

In addition to its monitoring role, the board plays a critical role in helping shape the tone at the top by modeling the behaviors leadership wants to drive.

## **Make sure the board is getting an unfiltered view of the company's culture.**

Ensure robust reporting processes are in place, including capturing red and yellow flags as well as indicators of "good" culture.

## **Leverage internal audit to help assess and monitor culture.**

Consider incorporating a culture/values assessment in the annual internal audit plan to help measure whether/how employee behavior and practices reflect the company's culture and values.

# Interviewees

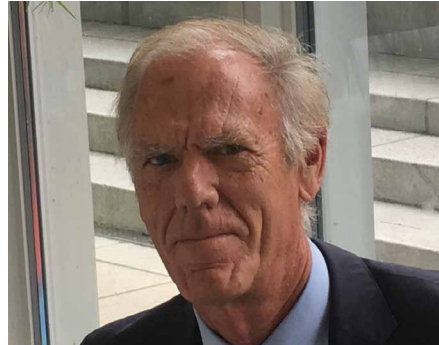


George Anderson  
(U.S.)

**“Culture is not the aspirational values posted on the break room wall, but the 'unwritten rules' that actually drive the thousands of decisions employees throughout the company make every day.”**

George Anderson leads Spencer Stuart's Board Effectiveness services in North America. He advises clients whose boards are undergoing transitions in governance, composition, and leadership.

He has created and led multiple director networks, including Spencer Stuart's New Director Program and groups of audit committee chairs, compensation committee chairs and lead independent directors.



Thomas Wescott  
(Tanzania)

**“Strong, appropriate cultures can be used to help build significant competitive advantage.”**

Thomas Wescott currently is an independent director on the board of Eximbank Tanzania – a regional commercial bank based in Tanzania with subsidiaries in Uganda, Djibouti, and Comoros – where he is chairman of the bank's board audit and risk committees. He worked for more than 25 years as a senior banker and executive director with HSBC Equator Bank – a subsidiary of the HSBC Group focused exclusively on sub-Saharan Africa.



Tessa Bamford (UK)

**“Culture and strategy go hand in hand and a misalignment between the two spells trouble. It starts with a clear understanding of the strategy, the existing culture and the culture required to deliver the chosen strategy.”**

Tessa Bamford is a non-executive director at Wolseley plc and Barratt Developments plc and is a consultant at Spencer Stuart. She was formerly a founder and Director of Cantos Communications, the online corporate communications service provider (2001 to 2011). Previously, she was a Director of J Henry Schroder & Co, where she worked for 12 years in a number of roles between 1986 and 1998. Prior to that, she worked in corporate finance for Barclays de Zoete Wedd.



## James Lam (U.S.)

**“The design of performance measurement and incentives is probably one of the most important levers of culture. People don’t do what you tell them to do, they do what you pay them to do.”**

James Lam is president of James Lam & Associates and a director of E\*TRADE Financial, where he chairs the risk oversight committee and serves on the audit committee. Lam is an NACD Board Leadership Fellow and a member of the COSO ERM advisory council. He previously served as founder and president of ERisk, as a partner of Oliver Wyman, the chief risk officer of Fidelity Investments, and chief risk officer of GE Capital Markets Services. Lam was named Risk Manager of the Year by the Global Association of Risk Professionals in 1997 and one of the “100 Most Influential People in Finance” by *Treasury & Risk* magazine in 2005, 2006, and 2008. Lam is the author of *Enterprise Risk Management: From Incentives to Controls*.



## Inês Correa de Souza (Brazil)

**“Culture should be considered the most important value in any organization, as it will drive the way a company does business and establishes relationships with all of its stakeholders, including the government and regulatory bodies.”**

Inês Correa de Souza is founding partner of Latitude Gestão e Finanças. She is also director at Magazine Luiza, Manserv Investimentos e Participações, and Stogas, where she serves a member of the audit and finance committee. She is also co-chair of the Rio de Janeiro chapter of Woman Corporate Directors.

## Additional insights on cultural change...



## Antony Jenkins (UK)

**“The board should positively champion the desired culture all the time. The behaviors board members exhibit set the tone for the whole organization. Every action you take will be acutely observed.”**

Antony Jenkins held the post of Group CEO of Barclays from 2012 until July 2015. In 2013, he launched a comprehensive program of cultural change at the bank.

It was recently announced that Jenkins has joined the board of the fast-growing fintech start-up Blockchain.

## Should the organization's culture be a regular discussion item on the board or audit committee agenda? And if so, what's the scope and nature and frequency of that discussion?

### **George Anderson:**

Organizational culture should be discussed as needed and aligned with other activities and issues that the board is addressing. For example, the board can use the opportunity of the annual strategy retreat or strategy review to review the ways the organizational culture supports or hinders the company strategy. Similarly, as the board plans for CEO succession—whether defining the profile of the next leader or assessing succession candidates—it should include a discussion of company culture. The arrival of a new CEO, a crisis, a new strategy, or merger (especially) are all situations when the board should ensure that it understands the corporate culture and its impact on performance.

### **Thomas Wescott:**

Definitely. Boards have a responsibility to regularly monitor and assess a company's culture, while executive management is accountable for driving the culture. Boards should hold the CEO and senior executives accountable for doing this. Where boards become aware that the CEO or other senior executives are not demonstrating the desired behaviors, the board should take action.

Audit, risk, nomination and remuneration committees should take the lead in addressing culture. Internal audit should incorporate a values assessment in the annual audit plan that reviews the extent to which the company's culture and values are evident in the behavior of employees. Internal audit's positioning, reach, independence, and accountability ideally position it to identify areas of potential weakness. Risk and remuneration committees are well placed to evaluate the alignment of incentives, values, and behaviors.

**Tessa Bamford:**

It is often said that “culture eats strategy for breakfast” so yes it should be very high on the board agenda. Strategy away-days are important and perhaps the starting point for any discussion around culture—that’s where the big picture starts. But equally it is important that culture is addressed when discussing other board issues whether that be the risk agenda, CEO succession or technology. It’s not just a once a year conversation.

“Boards have a responsibility to regularly monitor and assess a company’s culture, while executive management is accountable for driving the culture.”

**James Lam:**

I believe the board should monitor and discuss organizational culture on an ongoing basis, including event-driven discussions and a formal review at least annually. The scope of the review may encompass the overall organizational culture or may target a specific element, such as the sales culture or risk culture.

As an example, at E\*TRADE we have been very focused on our “risk culture” over the past four years. We have established an effective and robust risk culture program. The program includes executive town halls to set the tone from the top, customized risk training and workshops by function, alignment with performance management and reviews, as well as an annual all-employee survey to gauge overall risk awareness. The Risk Oversight Committee, which I chair, reviews the program execution and survey results annually. Over time, we have seen steady and material improvements in the level of employee engagement and openness, understanding of individual accountabilities, and effective challenge with respect to risk management.

**Inês Correa de Souza:**

Certainly the organization’s culture should be a regular discussion item either at the board level or at the audit committee. The organization’s culture should be considered the most important value in any organization as it will drive the way a company do business, establish the relationship with all its stakeholders, including the government and regulatory bodies. As such it should be transmitted to all levels of the organization, and the board must act in accordance with such culture providing guidance to the whole organization. The discussion should occur whenever it is appropriate, depending on the circumstances and the level of awareness within the organization.

## What are the signs of “good” corporate culture? What are some red flags when there’s a bad culture?

### George Anderson:

Cultural patterns can produce innovation, growth, market leadership, ethical behavior, and customer satisfaction. On the other hand, a damaged culture can impede strategic outcomes, erode business performance, diminish customer satisfaction and loyalty, and discourage employee engagement. However, in general, the issue may be less about having a “good” or “bad” culture and more about ensuring that the culture is aligned with strategy and performance objectives.

### Thomas Wescott:

Positive signs include an enjoyable, stimulating, supportive place to work; minimum office politics, a results-oriented atmosphere where everyone cares for and is respectful of each other, and employees see the company as an excellent place to learn and grow. In the best company cultures, employees trust management, have a sense of pride in their work, enjoy their colleagues, and the culture serves the business’s strategy.

Research has shown that the key components of a strong, positive corporate culture include vision—a mission statement that guides the company’s values, defines its purpose, and provides a strong foundational element for its culture; values—a company’s “DNA”—the guidelines on behaviors and mindsets required to achieve the vision; and practices, meaning that those values must be embedded into the day-to-day activities, practices, and operations of all employees. The other components of a strong culture are people, place, and narrative. All employees must share and embrace the company’s core values. Recruitment must be focused on finding not just the most talented employees, but those best suited to the company’s culture. Place can also shape culture. Office location and design can affect employee behavior and values. For example, open plan



office design can encourage collaboration. Finally, the company's narrative can be a key core element of culture creation. A good narrative/story can be important in defining and shaping the ongoing development of a company's culture.

Red flags could include high employee turnover; poor morale; employee surveys showing that people feel reluctant to speak for fear of retribution, don't feel trusted to do their job, or don't see how their personal work contributes to overall company goals. Other warning signs might be compliance issues with regulators, a high number of customer or supplier complaints, and poor business performance.

**Tessa Bamford:**

Culture is difficult to measure but it is as important as a sound strategy, robust controls or a good supply chain. Good corporate culture might be reflected in innovation, growth and positive customer and employee satisfaction data. One red flag to watch out for would be executives who don't like their non-executive colleagues getting out into the business and 'walking the floors'. Constructive information gathering – whether through talking to staff or maybe a 'mystery shopper' exercise should always be welcomed in businesses with a good culture.

“Cultural patterns can produce innovation, growth, market leadership, ethical behavior, and customer satisfaction.”

**James Lam:**

In a typical corporate culture, people will do the right things when policies and controls are in place. In a good culture, people will do the right things even when risk policies and controls are not in place. In a bad culture, people will not do the right things regardless of risk policies and controls.

Consider the investment banks that went bankrupt or nearly so during the 2008 financial crisis. I am not sure if those same banks would have gotten into such perils if they were still under the partnership structure and culture, when the partners' capital and reputations were on the line. Under a corporate structure and culture, even with more sophisticated risk models and controls, those banks took on excessive risks.

Another clear sign of the health of an organization's culture is how good people vote with their feet. If top performers are leaving the company, or rejecting competitive offers to join the company, a poor culture could be the reason.

**Inês Correa de Souza:**

A good corporate culture is based on trust, transparency, and ethics. People enjoy working for any organization with such values, and with a positive organizational climate. Therefore a sign of good corporate culture will be the ability the organization has to foresee its future with creativity, to anticipate changes and to search for innovation. I would consider red flags to be: high turnover of personnel, compensation practices that are not very clear, poor communication top down, poor quality of management and high level of work accidents.

## How can the board get its arms around the connection between organizational culture and **strategy** (innovation, customer satisfaction, etc.) and **risk** (health and safety, ethics/compliance)?

### **George Anderson:**

It starts by gaining a clear understanding of strategy, followed by an understanding of the current culture and the culture required to achieve the strategy. This requires a framework for diagnosing organizational culture.

Boards also should assess whether the CEO and executive team have the cultural fluency needed to define the company's culture, and ensure that they are attentive to culture and its impact on business performance. To this end, boards may decide to consider an executive's ability to manage culture as part of individual performance reviews and the succession planning process. Just as they evaluate the soundness of the business strategy and challenge its underlying assumptions, boards should be willing to spark discussion about the need for cultural change when necessary.

### **Thomas Wescott:**

Strong, appropriate cultures can help build significant competitive advantage. Research suggests that the best-performing companies have well-aligned strategies and cultures that typically share attributes such as high integrity in all interactions with employees, customers, suppliers and other stakeholders; a focus on performance management with compensation closely tied to performance; strong individual accountability and ownership; agility and adaptivity; and innovativeness.

**Tessa Bamford:**

Culture and strategy go hand in hand and a misalignment between the two spells trouble. It starts with a clear understanding of the strategy, the existing culture and the culture required to deliver the chosen strategy. The most important thing to think about when diagnosing the culture of the organization is how the organization responds to change and how it thinks about the contributions of its people, both as individuals and in groups. A further complication might be that the organization wants different cultures within different parts of the business – perhaps a caring and sharing culture to achieve one strategic objective and a dynamic thrusting culture to deliver another. This is achievable, but it requires a joined up approach from the top of the organization.

**James Lam:**

Strategy and risk management are critical drivers of organizational culture. At the onset, there must be alignment between the overall business strategy and the risk appetite statement that defines acceptable risks. The selection of key performance metrics and targets also influences culture and behavior. For example, if the targets for sales and profits are too aggressive, that may motivate excessive risk taking. During the execution of the strategy, there may be natural conflicts between strategic goals and risk management constraints. How does management resolve these conflicts? The board should be concerned not only about what business results are produced, but how they were produced.

Finally, the design of performance measurement and incentives is probably one of the most important levers of culture. People don't do what you tell them to do, they do what you pay them to do.

**Inês Correa de Souza:**

If a company has a sound organizational culture all stakeholders easily identify its vision and values. It serves as the foundation for strategic thinking about the future of the organization, understanding challenges, threats and opportunities, and identifying risks.

“It starts by gaining a clear understanding of strategy, followed by an understanding of the current culture and the culture required to achieve the strategy.”

Beyond a company's stated corporate values, many see culture as the "unwritten rules" of the organization. How do you go about getting a sense of what those "unwritten rules" are?

**George Anderson:**

That's exactly right. Culture is not the aspirational values posted on the break room wall, but the "unwritten rules" that actually drive the thousands of decisions employees throughout the company make every day. Boards can get at the health of the culture by asking questions such as: What organizational behaviors are required to achieve our strategy? How well do we demonstrate those behaviors today? What do we measure to understand the extent to which those behaviors are happening—for example, where product innovation and a learning culture are keys to the strategy, is a larger percentage of revenue coming from new products? What do these findings tell us about our culture relative to our strategy? Where do organizational behaviors open us up to risk?

**Thomas Wescott:**

Probably the best means to understand what is really going on in the company is by walking around and informally talking to staff from different levels, departments, and locations to experience the culture firsthand. It's also important to meet with external stakeholders, especially customers and suppliers, to learn their views and to be attentive to the messages they give.

**Tessa Bamford:**

That's right. The unwritten rules are the shared assumptions that drive thinking, behavior and actions on a day to day basis. Assessing these "unwritten rules" – or the organizational culture – is rooted in the insight that a surprisingly limited set of rules can result in highly complex and diverse behavioral patterns. Every organization, and every board, must address the inherent tension between two critical dimensions of organizational dynamics – attitude toward change and attitude about people. Attitude towards change is the balance between being open to change (flexibility, innovation and enquiry) and the management of change (stability, proven processes and control). Attitude about people is the balance between independence (individual initiative and self-empowerment) and interdependency (collaboration and power through groups). A company's culture is defined by where an organization falls on these two dimensions, and this reflects how employees make individual decisions to manage the costs and benefits associated with those tensions over time. Applying such insights help companies understand their current culture,

identify the cultural styles that support their strategic imperatives and diagnose how the culture may need to evolve in order to align with strategy.

“Probably the best means to understand what is really going on in the company is by walking around and informally talking to staff from different levels.”

**James Lam:**

The board needs be aware of how stated corporate values and written policies are interpreted and applied within the organization. Most companies say that they value their customers and employees, and that they operate with the highest ethical standards. But what really matters is the actions that management takes when there are organizational conflicts, customer complaints, employee grievances, and ethical lapses. The “unwritten rules” are set by the cumulative actions and reactions of the organization's leaders.

How do you tie the impact of culture to the company's performance – as a lever of stakeholder value – given that culture is such a soft element of the business?

**George Anderson:**

As the saying goes, “culture eats strategy for breakfast” — a company's culture can make or break even the most insightful strategy or the most experienced executives. Yet it is one lever of performance that rarely appears on board agendas. Despite its important contribution to business results, few boards oversee culture with the level of rigor that they do strategy, risk, or CEO succession planning.

Most boards can do more to help ensure that senior management is effectively monitoring and guiding corporate culture and making the most of this important contributor to business performance. By placing culture on the board agenda and asking the right questions, boards can deepen their understanding of the company culture and help to ensure that culture supports business strategy.

**Thomas Wescott:**

The board needs to have continuous discussions with the CEO and senior management team about values and culture. Creating a dashboard that can be used to monitor key indicators of company culture can be a useful tool for both the board and senior management. Dashboard data could include employee survey results, hotline calls, management appraisals, as well as culture related issues arising in areas such as health and safety, compliance, and customer relations.

A specially trained internal audit team can help develop the dashboard and begin to “audit” the culture, interviewing employees, managers, other stakeholders, and reviewing processes and business practices, and other factors to measure day-to-day practices against the company’s values, behavior, codes of conduct, etc.

“By placing culture on the board agenda and asking the right questions, boards can deepen their understanding of the company culture and help to ensure that culture supports business strategy.”

**James Lam:**

As with anything we do in life or business, to do it well, we need a feedback loop to facilitate continuous improvement. A feedback loop is simply an iteration of clearly stated objectives, actionable input levers, and measurable output results. Even though culture is a soft element, it can be broken down into those three components.

The stated objectives should include the target culture and expected behaviors that would support the company’s mission, strategy and business objectives. The actionable input levers include the company’s people, processes, and technology. Training programs, performance measurement, and incentive systems are the most critical processes. The measurable output results include both the ends and means of corporate performance, feedback from key stakeholders including employee surveys, and a gap analysis of actual and expected behaviors. If the output results are not consistent with the stated objectives, the company should understand why and consider making changes to the input levers.

**Inês Correa de Souza:**

The impact of the culture to the company’s performance can be relevant, either on a positive or negative way. Although it may take some time for stakeholder to perceive, companies with good corporate culture in the long term will perform better because their ability to change and to innovate. The alignment between all parties involved will be key to promote such positive impact.

## Generally speaking, what do you see as the biggest gaps/blind spots for boards (and companies) today in getting their arms around corporate culture?

### **George Anderson:**

Despite the growing appreciation for the role of culture in business performance, many organizations still struggle to get their arms around it. There are several reasons for this. One challenge is the board's lack of visibility into the culture. Distant from the day-to-day activities of the organization, it's not easy for directors to gain a clear perspective on the company's culture. Nor is there consensus on what the role of the board should be. The board's role in cultural oversight is not as clearly defined—by rule or practice—as in areas such as executive compensation or risk oversight. Finally, without a framework to rely on, many organizations lack a shared vocabulary with which to discuss culture—or the health of the culture.

### **Thomas Wescott:**

One is senior executives managing information flow to the board to conceal issues and problems. Boards need to better probe and challenge, to ensure management is properly embedding the desired culture.

Another is poorly designed and managed employee engagement surveys that may mislead the board on key issues. It is critical that surveys are done by third parties that are perceived by employees as being impartial, with questions framed correctly, so employees feel they can answer openly and honestly. The board should also try to confirm survey results through other sources to build a clear picture of the interaction between values, behaviors and decision making.

Another is directors who have only limited contact with the company and its leaders, and who are removed from day-to-day operations and staff. It's important for board members to spend time in the field to see the culture at all levels of the organization.



**James Lam:**

One of the key lessons learned from the 2008 financial crisis is that some of the biggest risks—derivatives, special purpose vehicles, leverage and liquidity impacts—don't always show up in the financial statements. To get a more accurate gauge of organizational culture, boards must expand their range of oversight to reduce blind spots. For example, they should pay special attention to organizational barriers to effective collaboration, online feedback from key stakeholders, conflicted employee and vendor relationships, and business practices at foreign subsidiaries. The board should understand why key individuals and functions are not collaborating, what current and former employees are saying about the company online (e.g. Glassdoor), and whether cultural gaps exist across business units and locations. The board should have a 360 degree view of why key internal and external stakeholders are delighted or disappointed with the company. At E\*TRADE, we monitor reputational risk with specific metrics and risk appetite tolerances for our all of our key stakeholders.

Boards should not only look at risk events and losses, but also at extraordinary profits and growth. If a business unit is producing outsized profits and growth, there should be a spotlight on the underlying business practices and culture.

**Inês Correa de Souza:**

In general the board needs to have a good interface with employees at all levels to get a good perception of the corporate culture. However, such interface does not happen very often and many cases, it does not seem to be a priority on the board agenda. Committee meetings are one way for directors to interact with employees a level or two below senior management.

“Despite the growing appreciation for the role of culture in business performance, many organizations still struggle to get their arms around it.”

Are there certain events – i.e. major organizational or CEO/ leadership changes, or major shifts in strategic direction – that call for the board to be especially focused on culture?

**George Anderson:**

Culture should and does evolve over time. Boards that are most proactive in this area regularly consider whether the culture is aligned with the business strategy as part of their annual strategy review. Other events that merit a close review of the culture include the arrival of a new CEO, a crisis, a new strategy, or a merger. We also recommend that boards include a discussion of culture in their CEO succession planning. The next leader will drive performance in a cultural context that may not yet exist, and today's talent management systems, employee evaluations, and executive recruiting may or may not contribute to the desired corporate culture. Boards will want to understand how these processes are likely to shape the future culture of the company.

**Thomas Wescott:**

Absolutely. Management changes. For many boards, the single greatest influence they have on the culture of a company is the appointment, remuneration, and firing of the CEO – which is one of the most important responsibilities of the board. Cultural fit is a key issue and with a focus on values and behavior.

Also mergers and acquisitions. Cultural fit, values and behavior are critical considerations. Boards need to assess the ability of the business to achieve a cultural fit within a reasonable timeframe and the downside costs to the business of a cultural misalignment. It is important to determine at the outset what attributes to keep and leverage; and develop a strategy to eliminate the less desirable ones. This is a critical first step in any merger/ acquisition ... getting employees aligned with a culture that will help drive success.

**James Lam:**

Major events, such as acquisitions, reorganizations, and leadership changes at the CEO, business unit and functional levels, can have a significant impact on culture. The departure of cultural bearers on the board or leadership team (e.g. founder) who are passionate about the company and its mission could also have an impact.

It's important to keep in mind that, since culture is the result of an organization's decisions and actions, those kinds of changes can also provide an opportunity to shape the culture, for example, to be more innovative, more collaborative, or more risk aware.

**Inês Correa de Souza:**

Certainly, in the case of any of the types of events mentioned, the board should be particularly concerned with their impact on the corporate culture. Therefore, it is of major importance to carefully, before any such events, consider how to mitigate any potential risks to the key values of the corporate culture and to monitor the implementation of any major reorganization or shifts in strategic direction.

“The next leader will drive performance in a cultural context that may not yet exist, and today's talent management systems, employee evaluations, and executive recruiting may or may not contribute to the desired corporate culture.”

# A conversation with Antony Jenkins: Implementing cultural change



## Antony Jenkins

**“The board should positively champion the desired culture all the time. The behaviors board members exhibit set the tone for the whole organization. Every action you take will be acutely observed.”**

Jenkins held the post of Group CEO of Barclays from 2012 until July 2015. In 2013, he launched a comprehensive program of cultural change at the bank. It was recently announced that Jenkins has joined the board of the fast-growing fintech start-up Blockchain.

The following summary comes from a FTSE100 ACI breakfast held in July 2016, where Jenkins, a prominent and insightful advocate for structured and considered cultural change programs, shared his views on implementing cultural change and the actions directors can take to support this.

**In today’s business environment, the days where you can just plan out the next two, five or ten years are over. Organizations are learning that agility is key. One of the fundamental roles of leadership is to create culture within an organization that allows the business to respond and react effectively. Culture is a powerful driver of organizational performance so if you want to improve performance you need leadership to drive the right culture.**

Agility is key to a successful culture, but not always simple to achieve. Jenkins spoke about boards and individuals needing sufficient ‘bandwidth’ to be able to remain agile in their approach. If they are always fully consumed with day to day activities, then it is unlikely that they will be truly agile. Conversely, high performing organizations tend to do the basics very well and this creates the time and space to be agile in their approach. This agility allows the consideration and development of issues beyond the board pack.

### Implementing cultural change:

Instigating any kind of significant change within an organization requires serious commitment, hard work and determination, not least because human beings are on the whole hard-wired to be change resistant. Jenkins acknowledged that culture change is “not a panacea or a solution to bad actors” and that there is “no secret sauce” for culture change, he offered five key steps that businesses may find useful:

#### 1. Define the desired culture

It is important that culture is owned by the board (and executive). This step should not be outsourced to, for example, a communications company. “Any light between what is stated and what is required will most likely result in failure of the cultural change program.” Defining culture may involve affirming the organization’s purpose, values and the behaviors that are seen to embody these as well as linking these through to the business strategy and its long-term goals.

## 2. Align key processes with the desired culture

How does the cultural definition impact key organizational activity? Businesses may need to look at processes such as, how they hire, promote and reward people. Equally, mechanisms need to be in place to address behavior incongruent with the desired culture. "Organizations will see straight through the initiative if people who exhibit 'bad' behavior are promoted."

## 3. Embed culture into decision-making processes

Integrity is key. An organization is not truly "living its values until it costs money." There has to be a price to pay such as turning down a profitable business opportunity because the customers/clients values or modus operandi are at odds with your own organizational culture. It is at this point that the culture is seen as truly embedded and operational. Equally, "it shouldn't be forgotten that an organization is not truly living its culture until it makes money as well."

## 4. Measure the culture

The board needs assurance that people fully understand the desired culture, and feel empowered to 'live' it day-to-day in their decision-making. This requires some form of measurement. Measurement also helps identify people who need help in getting to grips with the culture. Measuring culture is perceived as difficult, but there are survey techniques and other tools designed to help organizations answer some basic questions. Jenkins talked about tracking whether employees (and other stakeholders):

- understand what the culture is
- observe the culture being lived
- feel able to live the culture? What are the obstacles?
- are proud to work for (or be associated with) the company

Employee satisfaction surveys can, when properly designed, look below the surface and provide meaningful metrics – for example, is a business area scoring poorly as a result of staff reporting into certain individuals or is it a generally held view? In many organizations, internal audit play a key role in providing the board with assurance that the 'right' culture is embedded across the organization.

## Lead the charge from the top

Leadership drives culture and this starts with the board, from how they deal with people to how they deal with a problem. "Do board members always treat people with respect? Think about it before you say you do." Are board members always maximizing how they learn from problems or what a successful business unit is doing well that sets it apart? How often is leadership asking questions such as "What is it you are doing that means you are achieving? Why are you succeeding more?" Jenkins highlighted behaviors to look out for such as, board members ensuring they offer thanks and give feedback to those presenting to them at meetings or making sure they hold meetings regionally on occasion where this is feasible. Attendees were asked to reflect on occasions where employees (who perhaps had had sleepless nights in preparation) were asked to 'stand-down' due to board meeting over-runs and question how that sat with common value statements such as 'respect the individual'. "Being authentic is the thing, the tone from the top is key." Seemingly insignificant actions can speak volumes to employees in an organization.

### Jenkins also offered three steps for boards to consider to help drive cultural change:

1. Encourage calculated risk taking and accept that some initiatives will fail. Too much risk aversion will kill any business. How often do you challenge whether people are taking enough calculated risk?
2. Collaborate on corporate governance. The Board is the 'check and challenge' on the executive but where agility is key, a more collaborative approach is important. The board and the executive are jointly responsible for the success of the organization.
3. Positively champion the desired culture all the time. The behaviors board members exhibit set the tone for the whole organization. Even things such as checking emails in the middle of a meeting will be noted. It is the responsibility of board members to model the behavior. "Every action you take will be acutely observed."



**“Culture is not the aspirational values posted on the break room wall, but the 'unwritten rules' that actually drive the thousands of decisions employees throughout the company make every day.”**



# KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens.

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