A Question of Culture

What role should the board play when it comes to corporate culture? **Mary-Anne Baldwin** reports from Criticaleye's Non-executive Director Retreat, in association with Santander

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Whether it's covering up financial black holes or ignoring consumer wellbeing, a company's poor decisions are often the result of a profit-crazed culture and a board that has failed to temper it. This is something UK non-executive directors won't fail to have noticed from the series of recent corporate exposés. But what can we learn from them?

A survey of attendees at Criticaleye's recent 2016 Non-executive Director Retreat revealed that the most important boardroom issue at present is culture.

Indeed, this topic was addressed on a panel at the event, in association with Santander, during which **Nick Land**, Chairman of the Codes and Standards Committee at the Financial Reporting Council (FRC), told listeners: "The whole subject of culture has moved up the agenda. Trust in big business is very low."

Nick, who worked on the FRC's recent report which aims to tackle this issue, argued: "Is corporate culture the board's responsibility? I think the answer is a resounding yes. The board is responsible for determining the purpose of the >

company and ensuring its strategy, culture and business model are fully aligned."

So what should boards do to create a business that mitigates risk and builds a positive environment?

According to **Andy Green**, Chairman at online trading company IG Group, businesses should take a two-sided approach. "There must be a balance between offensive and defensive measures," he explained. "For example, ensuring you do extensive due diligence for corruption during an acquisition is a good defensive measure. Absorbing what that newly acquired company does well into the existing culture is a good offensive tactic."

Boards must be proactive when it comes to really knowing the business and its people. After all, poor decisions are often made in desperation or in greed and are usually kept hidden.

As **Emma Howard Boyd**, Chair at the Environment Agency, who also spoke at the Criticaleye Non-executive Director Retreat noted: "Sometimes board members are kept away from the disquiet that's simmering. When there's no discomfort in your board members going anywhere in the business, then you're in a good place."

If there is discomfort, NEDs have to find out why and encourage transparency. **Tom Beedham**, Criticaleye's Director of Programme Management, who chaired the Retreat's panel on culture commented: "While it's a NED's duty to support their executive team, it's also their right to ask challenging questions that reveal whether the right decisions are being made.

"That may mean non-execs taking unsupervised visits into the business a couple of times a year. It certainly means taking regular opportunities to communicate with the stakeholders and ensuring the execs have a solid understanding of your role as a NED."

The CEO and Beyond

The first place a board will look is to the CEO, who is ultimately responsible for the culture of the business together with any mistakes it makes. Yet some chief executives are easier to manage than others, says **Andy**. "When you have a CEO with a very dominant personality, NEDs need to be very brave in going into the dark corners of that business," he warned.

Of course, it's the responsibility of the chairman to challenge a domineering CEO. Offering further advice on the matter, **Emma** added: "This is where the SID and the committee members can help; those are people with which you can discuss a dominant CEO."

Nick also highlighted that assessment should extend beyond the top role. He explained: "For example, in a multinational, you may be confident the CEO is living and breathing the company culture, but how do you know that's the case in Africa, India or with your subcontractors?"

And it doesn't stop there. While your company values may be engraved in the bricks of your business, they'll be meaningless if staff are driven to boost profits at all costs. It's why there's increasing pressure on investors to better understand their impact.

"While there are some honourable exceptions, more asset managers should focus on stewardship and within this, the culture of an organisation," urged **Emma**.

Listen to Your People

It may be that stakeholders are sending messages you're just not picking up on. Social media sites, such as Glassdoor and Twitter, are great ways to evaluate how what you're doing is landing with employees and the wider public.

Indeed, it's the public that decide which slip-ups will really damage the bottom line. "What's right or wrong is no longer a matter for the courts, it's whatever the Twittersphere decides," **Andy** noted.

Even while serving as a Chairman, **Andy** regularly speaks to employees who are leaving the company as he knows they may be willing to say things existing staff are not. "I do far more exit interviews than the CEO. It gives huge insight into things you wouldn't otherwise know about the business," he said. ■

Featuring Commentary From:

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