Why do boards need to know their company’s culture? Hint: to make sure it’s an asset, not a liability

At its best, corporate culture supports a company in delivering on its strategy. But a bad corporate culture can seriously damage your company’s brand.

June 2020

More boards are paying attention to company culture to determine whether it impedes or enables the business. But how do you assess, track and monitor something that can appear quite elusive? We outline the basic steps you can take.
A company’s culture encompasses the beliefs and often unspoken understandings that influence how managers and employees act. It helps predict how a business will deal with customers and its many other stakeholders. Simply put, it’s the foundation of “how we do things around here.”

Yet all too often, a company’s culture only attracts attention when something goes wrong, such as during a scandal involving allegations of sexual harassment or fraud. Fortunately, that’s starting to change. We see increasing recognition of how culture supports a company’s ability to evolve, innovate and perform.

At its best, culture is an asset. It can help attract and retain talent while encouraging agility and innovation. When tightly aligned with a company’s strategy, it can be a powerful enabler of success. At its worst, culture is a hindrance. It becomes a drag on performance that makes it difficult for leaders to achieve key objectives, and can trigger reputational and financial risk for the company.

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**Shareholders are focusing on culture**

In this era of rapid technological change, getting culture “right” is critical to a company’s ability to transform. So much so that shareholders have begun calling for boards to pay more attention to culture as part of their responsibility to oversee corporate strategy.

In a January 2019 letter to directors, State Street Global Advisors says it expects them to be able to articulate their company’s culture, assess and monitor it, and drive change when necessary.\(^1\) BlackRock has also alerted directors that culture is one of its key engagement priorities. It’s focusing on whether companies have processes for making sure their human capital management strategies support healthy cultures.\(^2\)

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This focus on culture is not lost on directors. Yet, many say it’s tough to understand and evaluate their company’s culture. Why? Partly because culture is intangible. And partly because the board gets only limited glimpses into the company. But we’re here to tell you it is doable.

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\(^1\) State Street Global Advisors letter, January 15, 2019.
What’s a director to do? Going beyond intuition

Without a clear understanding of their company’s culture, directors will have a tough time determining whether it’s helping the business—or if changes need to be made. How can directors accomplish this seemingly elusive task? The key is recognizing that culture can be identified, evaluated and monitored.

Some of how directors typically gauge company culture is intuitive. Noting the CEO’s tone and seeing how leaders interact inside and outside the boardroom can help assess culture. Talking to key people such as the chief internal audit executive or the chief human resources officer during committee meetings can also provide valuable information. But the qualitative assessments that emerge from these interactions are only part of the story. And these impressions may not be all that reliable.

**Directors are relying too much on intuition to judge culture**

64% use intuition/gut feeling from interacting with management to gauge company culture

Base: 710

**Addressing the cultural impact of remote working**

COVID-19 will have a lasting impact on companies. One big change is the shift of some or all employees to remote work arrangements that, for some, might become permanent. With employees no longer meeting at the office, seeing and hearing from management and engaging with each other in a centralized location, corporate culture may be strained.

Boards will want to pay close attention to how management is responding to this change in the environment and engaging with employees. Two-way communications with frequent touchpoints are essential to keep a pulse on culture, along with CEO communications that model and convey the core values of the company. Companies can also look to technology tools and other innovative ways to strengthen and monitor the culture. Some activities being leveraged are: virtual town halls, virtual water cooler discussions and staff check-ins. As companies continue to embrace remote workforces, boards and management will need to make sure that employees understand and live the company’s values as part of setting the right tone for the organization.
How boards can oversee culture

Boards can better understand, assess and track culture by taking three steps: ask management for a culture assessment, review that assessment in the context of company strategy and agree on which metrics to use to monitor culture going forward.

Step 1: Ask management for a culture assessment

Understanding culture starts with a formal assessment. One way is to develop a culture “thumbprint” of the organization that identifies five or six dominant cultural traits. Such traits reflect what people value, how they act and how this may be helping or hindering the company’s performance.

To identify these traits, companies can use a combination of data from employee surveys, interviews and focus groups. It’s important that people from all levels of the company be included—not just senior leaders and managers. Why? There can be significant differences in how people at various levels perceive their work environment. For example, 63% of leaders say the way people act every day is consistent with what they say about their culture. Only 41% of employees agree.3

What’s helpful about the culture thumbprint approach is that it reveals both strengths and challenges associated with a company’s dominant cultural traits, as shown below.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Cultural traits</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees work together in a respectful and professional manner; all voices are heard</td>
<td>Inclusive</td>
<td>Contentious decisions and difficult conversations are avoided due to conflict-aversion</td>
</tr>
<tr>
<td>Consensus and joint ownership over decisions fosters transparency, trust and buy in</td>
<td></td>
<td>Consensus decision making leads to delays, lack of accountability &amp; passive-aggressive “head nodding”</td>
</tr>
<tr>
<td>Flexible and fast in resolving issues</td>
<td>Responsive</td>
<td>Focus on firefighting often leads to greater cost, effort</td>
</tr>
<tr>
<td>Bias towards action—employees “swarm” to solve problems</td>
<td></td>
<td>No sense of urgency when the issue is not a problem to fix</td>
</tr>
<tr>
<td>Strong sense of purpose and pride that company is a market leader with quality products</td>
<td>Pride in the company</td>
<td>Mission is strong, but execution and results are sometimes weak</td>
</tr>
<tr>
<td>Pride in work and desire to uphold reputation by being careful, “doing right” and consistently delivering quality</td>
<td>Cautious</td>
<td>Risk-aversion—employees seek low-risk, low-return opportunities, not innovative breakthroughs</td>
</tr>
<tr>
<td>Strong bonds, quick and nimble results when the “right” people are tapped</td>
<td>People/relationship focused</td>
<td>Unspoken system of “obligations” and politics; “who you know” and the right audience influence success</td>
</tr>
</tbody>
</table>

3 PwC’s Katzenbach Center, Global Culture Survey 2018, December 2018.

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As part of this process, directors should be aware of some of the challenges that arise during assessments, and what approach they can encourage management to consider instead. Below are some of the pitfalls companies grapple with.

<table>
<thead>
<tr>
<th>Common pitfalls in assessing culture</th>
<th>What to do instead</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Believing that written rules and policies will predict how employees will behave</td>
<td>Ask employees how work actually gets done and when unwritten norms take priority over policy</td>
</tr>
<tr>
<td>2 Ignoring views of key “silent” leaders who have their fingers on the pulse</td>
<td>Engage what we call “authentic informal leaders,” who are in tune with workforce emotions, respected by coworkers and often sought out as trusted advisors</td>
</tr>
<tr>
<td>Focusing only on what is wrong with the culture</td>
<td>Understand why people joined the company and what keeps them there. Draw out sources of emotional energy and pride that can become good foundations to build on</td>
</tr>
<tr>
<td>Assuming there’s only one culture to assess</td>
<td>Look for cultural differences by region or business line, or differences that persist after a company merger</td>
</tr>
</tbody>
</table>

Once a company has developed its culture thumbprint, leaders should also define the cultural traits the company needs in order to execute its corporate strategy. This will enable them to identify the gaps between where the culture is now and where it needs to be to support the company’s key initiatives.

**Step 2:** Review the culture assessment, with an eye on strategy

Once directors receive management’s assessment of the culture, they can focus on whether it supports the company’s key objectives. Ask:

- **Do our cultural traits support our strategy?** Ask management to explain which aspects of the company’s culture thumbprint support its strategic plan and which might impede it. For example, in a company that is highly collaborative, employees may feel a sense of pride that their input is sought after and valued. But that commitment to addressing every perspective can slow down decision making. If the company’s strategy requires agility in execution, management will need to address the drawback of such a cultural trait.

- **Which traits are most important to executing our strategy?** Ask corporate leaders to clarify which traits should take precedence, based on which strategic goals are most important. Innovative companies, for example, tend to focus on appealing to external customers and rewarding team performance. Companies that stress safety tend to focus on improving internal...
operations and holding individuals accountable for compliance. If a company needs to become more innovative to execute its strategy, it doesn’t mean it needs to ignore safety. But it will mean putting greater emphasis on customer experience and team performance.

• **Which behaviors would create the culture we want?** Changing culture takes time. It can easily take a year or more of focused work to see a meaningful, productive shift. The most practical way to approach cultural evolution is to focus on changing behaviors rather than mindsets or beliefs. Because it’s difficult to influence more than a few behaviors at a time, management should identify “the critical few.” These are three to five behaviors that, if a critical mass within the company adopts them, would have the greatest impact on creating the culture the company needs to achieve its business goals. If a company aspires to become more agile, for example, it might ask its executives to commit to making decisions within days and weeks rather than months. When choosing the critical few, management should focus on behaviors that will both drive performance and resonate with employees.

• **What’s standing in the way of achieving our ideal culture?** To remove potential barriers, directors should ask executives how they will motivate people and enable them to act in ways that support the culture they seek. Has the company updated its key performance indicators (KPIs) and other targets that will be used to evaluate people? What about compensation targets and incentives? Do people at various levels of the organization have the decision-making authority they need to move projects along?

Once directors are clear on the answers to these questions, and management has selected the critical few behaviors to reinforce or change, boards can signal their commitment and support in numerous ways. For example, to encourage innovation, the board could expand the range of opportunities or investments that management can pursue without board approval, thereby giving executives greater freedom to experiment with new initiatives.

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Directors: are you setting a good example?

Boards themselves have a big impact on corporate culture. Their actions reverberate throughout a company, sending signals to employees at all levels. Directors need to be aware of their influence and ensure their decisions and actions align with company strategy. Otherwise they can unwittingly stand in the way of growth and innovation.

For example, the strategic goal at one financial institution was to expand globally. Everyone, including the board, had signed on. Yet whenever executives asked the board to approve deals involving emerging market investments, the board was reluctant. Despite the stated strategy, the firm’s executives got the message: They weren’t trusted to properly vet these deals and protect the firm’s interests. Over time, they stopped trying.

Eventually, senior leadership explained to the board the impact of its unwillingness to approve these types of proposed deals. The board then changed course. It approved a resolution to lift the investment limits on emerging markets so that certain deals would no longer require board approval. As a result, the firm’s investment portfolio became much more globally diversified.

Step 3: Agree on metrics to monitor culture (whether the goal is to improve culture or sustain an already strong one)

Directors may recognize that culture can be measured both quantitatively and qualitatively. But not all measures are created equal, so boards will need to determine which ones they need in order to get a clear picture of what is going on.

The most common metrics directors use to evaluate corporate culture

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee engagement survey results</td>
<td>68%</td>
</tr>
<tr>
<td>Employee turnover statistics</td>
<td>65%</td>
</tr>
<tr>
<td>Intuition/gut feeling from interacting with management</td>
<td>64%</td>
</tr>
<tr>
<td>Attrition rate of high performers versus total attrition</td>
<td>51%</td>
</tr>
<tr>
<td>Exit interview debriefs</td>
<td>45%</td>
</tr>
<tr>
<td>Customer service/satisfaction survey results</td>
<td>40%</td>
</tr>
<tr>
<td>Code of conduct training results</td>
<td>39%</td>
</tr>
</tbody>
</table>

Question: Which of the following do you use to evaluate your company’s corporate culture? (select all that apply)

Base: 710


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One of the best ways to capture this information and see how it changes over time is to use a tool like a culture dashboard. The company’s industry sector and business objectives will impact which metrics should be included. Ideally, many will also tie to the incentive program for senior leaders. It can be helpful to align the various metrics into key categories, such as the following four.

1. **Behaviors:** The metrics in this category aim to capture whether people are acting in alignment with the company’s values and purpose. For instance, if digital transformation is part of the strategy, what percentage of employees are participating in upskilling or innovation activities? Data in this category can also indicate when inappropriate behaviors are being tolerated through questions like: What’s the nature of the complaints being reported to whistleblower and ethics hotlines? What percentage of employees show they trust the system by providing their names when they call? Over time, reviewing these metrics can help determine how well the “critical few” behaviors are being adopted.

2. **Reputation:** This data aggregates views about the company from external sources such as the media, customer satisfaction surveys and social media sites. It can reveal whether a company’s culture is aligned with its strategy and purpose. For example, one company’s culture and reputation might be closely associated with innovation. Another company’s might be synonymous with safety. Among these metrics, customer feedback can be particularly important for gauging culture because a customer’s experience when interacting with employees often reflects employees’ experience at the company.

3. **People:** Metrics such as the turnover rate of high-performing employees and data that measures engagement can help directors understand whether people in the organization are motivated to do their best. Pulse surveys—frequent, short questionnaires eliciting feedback from employees—can help. They’ll show the company’s progress on creating the right environment for the behaviors it wants to cultivate, whether that’s accelerating decision making or adopting new technologies.

4. **Performance:** KPIs such as safety, quality, productivity and speed of product development can help boards determine whether the company’s strategy, operations and culture are in sync. For example, a consumer company that typically takes more than a year to launch a new product and aspires to move faster can track the speed at which it brings innovations to market. A company focused on improving quality can use quality metrics to see whether it’s making progress. If the quality metrics aren’t improving, the board can ask management which aspects of company culture could be getting in the way, such as the lack of a safe space where employees can speak up when they see an issue.
### A culture dashboard for directors (example)

<table>
<thead>
<tr>
<th>Behavior</th>
<th>Reputation</th>
<th>People</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of employees who completed training relating to strategic initiatives</td>
<td>Social media analysis</td>
<td>Number of hires who resigned within 12 months of hire</td>
<td>Product quality ratings</td>
</tr>
<tr>
<td>Ethics/code of conduct training certification results</td>
<td>Analyst/activist investor/social activist commentary</td>
<td>Number and coverage of management communications (e.g., town halls, webcasts, blog posts)</td>
<td>Incentive compensation plan details and performance</td>
</tr>
<tr>
<td>Whistleblower/ethics hotline trends</td>
<td>Media interest (e.g., press mentions)</td>
<td>Turnover rate of high performers</td>
<td>Key performance indicators for business units</td>
</tr>
<tr>
<td>Summary of lawsuits and legal/regulatory activity</td>
<td>Customer satisfaction survey/customer complaint trends</td>
<td>Percentage of leadership turnover rate</td>
<td>Safety and cyber metrics</td>
</tr>
<tr>
<td>Degree to which significant internal audit findings are addressed on a timely basis</td>
<td>Anonymous employee comment board (e.g., Glassdoor)</td>
<td>Employee engagement survey/employee pulse survey results</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ability to attract and retain diverse talent</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Exit interview trends</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trends in 360º feedback for executives</td>
<td></td>
</tr>
</tbody>
</table>

Ideally, metrics in each category address elements of strategy as well as risk.

### Who should own culture on the board?

Given the importance of culture in executing strategy, monitoring it really should be a responsibility of the full board. But board committees also play a critical role.

**The nominating/governance committee:** Ensures board guidelines and committee charters articulate what aspects of culture each board committee is responsible for, and how cultural oversight will be embedded in the board’s ongoing work.

**The compensation committee:** Considers the impact of pay plans on culture. Reviews incentive programs at all levels of the company, focusing on those that could encourage high-risk behavior, discourage innovation or otherwise impede achieving a strategically-aligned culture. Meets frequently with the chief human resources officer, who can provide metrics and insights relating to culture.

**The audit committee:** Discusses culture-related aspects of internal and external audits, compliance reviews, employee hotlines and whistleblower reports, and regulatory examinations. Together these provide insight into the ethics, safety and attitudes toward risk and compliance that can characterize a company’s culture.
In conclusion...

It’s time for boards to move beyond viewing culture only through a risk lens. While a problematic culture can have negative implications, the right culture can bring value. Ask yourself whether your board really understands the company’s culture and how the culture needs to evolve to position the company for even greater success. Getting culture right can make it one of a company’s greatest assets, and a strong competitive differentiator.

How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partner, a member of PwC’s Governance Insights Center or a member of PwC’s Katzenbach Center.

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