Strategy

Unlock Performance and Value Through Culture

By Deborah DeHaas and Carey Oven

How many boards actively consider the benefits of a strong culture on company performance and value creation? It's a question that directors should consider discussing.

According to Deloitte's 2016 global human capital report, 82 percent of more than 7,000 surveyed executives said that culture is a potential competitive advantage, but only 12 percent believed they had the right culture in place at their organizations. A lax approach to culture oversight can lead to unintended reinforcement of the wrong behaviors and serious risk issues—from employee misconduct to compliance failures—that can chip away at hard-earned reputations. Clearly, more can be done, and boards are central to supporting and maintaining a strong and ethical culture.

A holistic culture risk framework can help identify gaps in cultural messaging and awareness, while establishing an enterprise-wide monitoring program to gain insights into culture in times of changing leadership, staffing, and business models. A holistic culture risk framework should consider:

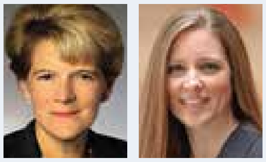
1. **Assessing organizational culture.** Diagnostic survey tools can create a benchmark that offers a window into the current state of culture, including areas of strength and weakness.
2. **Measuring employee engagement.** Employee surveys and analytics can provide insight into feelings and understandings about culture at enterprise and local levels.
3. **Monitoring employee behaviors.** Behavioral analytics can help monitor key risk indicators and identify individual behaviors as well as patterns of conduct that can create risk situations for the organization and its critical assets.
4. **Identifying market signals.** Risk-sensing and external assessments can show how stakeholders outside an organization regard its brand and reputation.
5. **Proactively managing culture risk.** Data-driven insights about cultural strengths and weaknesses can become the basis of an action plan to address gaps and potential threats. These include governance processes, leadership reporting, and communication enhancements.

An active approach to culture risk can help to identify areas for improvement, while serving as a basis of aligning culture to strategy. The role of directors can be especially important in understanding how an organization's culture can promote strategic priorities, optimize strategy, support achievement of performance objectives, and manage risk.

For example, compensation and talent are two prime areas for promoting strategy through culture. Boards can ask management: To what extent is executive and employee compensation used to promote a strong culture? Are the CEO and others compensated in part by improvements made in positive culture metrics? What is management doing to ensure that the organization's reputation and culture help attract and retain top talent, and assure that employees' behaviors align with the organization's culture?

The board also can help improve management's approach to culture and strategy with regard to marketplace perceptions of the company on customer service, sustainability, and other factors valued by consumers and employees. The board should consider asking management how well outside perceptions, including those expressed on social media, are monitored for potential threats, as well as feedback on products, business opportunities, and partners that reflect cultural priorities. And it's important that boards understand whether views and perceptions about competitors vary from those of their own organization.

Board conversations about culture and related risks can be a foundation for management's ability to improve culture and mitigate damaging threats. Working from a baseline of quality, a strong culture attuned to the risks that can harm it can provide opportunities for stronger performance, and can be a competitive advantage if monitored and adjusted on a regular basis.



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