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Boards care about culture more than you think

By Marsha Ershaghi Hames and Eric Baldwin

How can a board of directors be sure that a culture of integrity exists throughout the organization it leads? How can directors be sure that the company's statement of values is translated into action? How can they know that they will not be blindsided by a major ethical scandal that destroys the company's reputation?

Public attention to corporate culture and ethics has never been higher. Corporations are increasingly called upon to articulate a sense of purpose and a clear set of values while balancing the interests of a range of stakeholders. Consumers, policymakers, and the public expect companies to deliver on their promises: behaving ethically, treating employees fairly, being responsible environmental stewards, promoting racial justice, and working to benefit their communities.

Final responsibility for delivering on these commitments and ensuring a company has a strong sense of values, purpose, and integrity rests with the board of directors. Board members take that responsibility seriously and recognize the urgency of effective oversight of ethics and culture. As a Fortune 100 director said recently, "It's a board's responsibility as representatives of shareholders and stakeholders to make sure that we're doing everything we can to make sure the company has a culture that is more likely to lead to positive outcomes." But ethics and compliance professionals fear that culture and ethics do not receive adequate attention from many boards, while directors, despite their commitment to building a culture of integrity, acknowledge that effective oversight of culture presents unique challenges.^[1]

The Ethics, Culture, and Compliance Network (ECCN) is a collaboration between Tapestry Networks and LRN. Over the last two years, it has worked to support boards in meeting the challenge of promoting values, corporate culture, and ethical decision-making in their organizations. The ECCN 2021 *Activating Culture and Ethics from the Boardroom* report assessed the realities of board oversight of corporate culture, ethics, and compliance, drawing on insights from in-depth, confidential interviews with approximately 40 directors occupying nearly 80 public company board seats, including at some of the largest companies in the world.^[2] These conversations revealed that boards embrace their responsibility for ensuring that executives shape culture and compliance but struggle to find a natural home for culture, ethics, and compliance on the board. Critically, directors fear they are not well-positioned to "read" corporate culture, which they find inherently challenging to interpret.

Directors worry that the tools and information used to measure and assess culture are not giving them full visibility into their organization's culture. Some doubt that culture can be effectively measured at all. As one director said, "The key question is, in the heat of the moment, throughout the organization, do our stated values prevail? That's the thing that's the hardest to measure." Boards are looking for practical approaches to address these challenges and enhance their ability to oversee culture, asking, "What tools do they need? What does

effective oversight look like?” To address these questions, the ECCN convened a working group of directors and senior executives to close the gaps in assessing culture by developing pragmatic recommendations for boards. The recommendations in the framework were reviewed and vetted by a larger group, made up primarily of independent directors, representing more than 60 public companies. The resulting framework, *Assessing Corporate Culture: A Practical Guide to Improving Board Oversight*, identifies various approaches, tools, and practices that directors and executives can bring into the boardroom.^[3]

Highlighted below are five priorities outlined in the framework, showing how each has a direct relationship to board oversight (see Figure 1).

Figure 1: Five priorities



1. **Prioritize culture on the board agenda:** Ensure executives know that board members want to hear about issues and understand problems early. Directors need to request direct information and push hard to get it. This takes time, and boards need to be intentional about creating space on already crowded board agendas.
2. **Articulate the desired culture:** Culture can be amorphous and abstract, so boards and leadership teams need to work hard to make discussions of culture as concrete and specific as possible. It can help to break down ethical culture into key components and work together to identify the aspects of culture the organization aspires to achieve. It is crucial for the board and management to partner in this—for a board, the work of defining for itself a “good” culture has more value than simply being told what a good culture looks like.
3. **Challenge the board’s culture:** Foster a sense of openness and speak-up culture in the boardroom to ensure senior management is seen, heard, and supported—even if they have a difference of opinion from board members. The board’s culture sets the ultimate tone at the top and can encourage—or discourage—trust and candor. But directors acknowledge that boards do not often evaluate their internal culture and need to

commit to doing so.

4. **Measure and monitor:** Establish clear data protocols, expand the range of culture data, and benchmark against peer companies to maximize the effectiveness of reporting, particularly as measuring and monitoring evolves over the next few years. Incorporating multiple qualitative and quantitative inputs, including cutting-edge data sources, into assessments of culture is important. The information the board receives needs to be granular enough to guide action, and boards are looking for reporting that combines information from multiple sources—surveys, helplines, safety, and human resources data, for example—to give them a holistic view of the culture.
5. **Establish clear communication:** A range of functional areas in management bring insight into pieces of culture, and various board committees have oversight responsibility for different aspects, including compliance, human resources, internal audit, and enterprise risk. Leaders at both the management and board level need to ensure that information do not become siloed. Boards need to identify who in management owns culture assessment and ensure that person has direct access to the board. While directors recognize that CEOs can bring an overall view, the CEO lens can be limiting, so it is imperative that multiple stakeholders are at the table.

Key questions

Board members need to ask questions and ask for information. There needs to be an understanding that board members are driving the issue. Below are some key questions that can help get the conversation started:

- Is your culture getting adequate time and attention from the board?
- Does your culture align with your values?
- How can the board gain an integrated view of culture?
- Are we talking to the right people when we have culture discussions with management?
- Does management have a clear understanding of the cultural outcomes the board is trying to achieve? Are they measuring against those outcomes?
- How open to debate and disagreement is the board, both among themselves and in interactions with management? Can difficult truths be shared with the board?
- How is culture data being presented to the board? Is it being presented at the right level of depth and detail?

For corporate boards, gaining a full and clear picture of corporate culture is an essential starting point for effective oversight, but remains very difficult. As one director told us, “The pockets of culture are very hard to see, and the ways to get that in front of the board are not very advanced.” Boards can enhance their visibility into ethical culture by devoting adequate board time and attention to these issues and looking for ways to have

concrete and specific boardroom conversations about culture. In addition, boards can proactively seek information from management and ask for more effective and robust reporting while working to combat silos or other obstacles to information flow.

The gap between the importance that many directors place on ethical culture and their confidence in their capacity to oversee it creates a significant opportunity for ethics and compliance leaders to better equip their boards. Boards need good information to guide their decision-making and action. Chief ethics and compliance officers (CECOs) can help deliver the deeper insights that boards seek through reporting that integrates data from a variety of sources into a complete picture and provides needed context, such as trends over time and internal and external benchmarking. CECOs who build a close working relationship with boards may well find that directors are willing partners who will dig deep into culture, collaborate in developing a strategy for improving culture, and take action to respond to ethical problems and cultural challenges.

Takeaways

- Corporate culture starts at the top. Boards play a crucial role in overseeing culture and want to collaborate with executive management to strengthen culture and positive outcomes.
- Directors worry that they are not getting a complete picture of culture and are seeking tools and approaches to help them better monitor the culture.
- The most important step is to start the conversation: make sure the board carves out time for concrete discussions of culture and pushes management for information.
- CECOs and other executives can help boards by providing robust, contextualized reporting and working to combat information silos.
- The *Assessing Corporate Culture* framework can enable robust collaboration and oversight that empowers boards and management teams to embed ethical culture in their organizations.

1 LRN, *What's the Tone at the Very Top? The Role Of Boards In Overseeing Corporate Ethics & Compliance*, 2018, https://pages.lrn.com/hubfs/LRN_Role_Of_Boards_Report.pdf.

2 Tapestry Networks, *Activating Culture and Ethics from the Boardroom*, June 2021, https://www.tapestrynetworks.com/sites/default/files/publication_pdf/Activating%20Culture%20and%20Ethics

3 Ethics, Culture, and Compliance Network, *Assessing Corporate Culture: A Practical Guide to Improving Board Oversight*, July 2022, https://www.tapestrynetworks.com/sites/default/files/publication_pdf/ECCN%20Working%20Group%20Report%202024%20June%202022%20-%20FINAL%20updated%208.3.22_0.pdf.

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