AN EFFECTIVE CORPORATE CULTURE: THE ROLE OF THE BOARD

GOVERNANCE NOTES: ISSUE 1

1.0   INTRODUCTION

Often, the term "corporate culture" may be solely attributed to the Human resources department, as it concerns the work atmosphere, recruitment and attracting the crème de la crème of job seekers. Although such thinking is not far-fetched, it is however a narrow perspective of the corporate culture. This is so, as it encompasses an organisation's unspoken social order: shaping attitudes and behaviours in wide-ranging and durable ways.

Also, corporate culture resides in shared behaviours, values, and assumptions and is most experienced through the norms and expectations of a group—that is, the unwritten rules. Furthermore, assuming strategy plays the role of the soul, the role of governance attributed to the body, corporate culture would be akin to the organisation's spirit, its inner consciousness.

With this enlarged perspective on corporate culture, corporate culture should be driven and championed by the organisation's leaders, namely, the board. However, this is easier said than done. Given the obvious constraints such as the senior management, other employees (human element), the board does not oversee the day-to-day operations, among others.

Nonetheless, the board should not be deterred and should bear in mind, the responsibility of leadership, establishing and promoting the company's values rests on its shoulders. Also, in the event of corporate scandals, the spotlight is always thrust on the board. Therefore, this paper aims to examine the concept of corporate culture to highlight its importance to a company's performance and the role of the board towards an effective corporate culture.

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[1] The Leader's Guide to Corporate Culture.
https://hbr.org/2018/01/the-leaders-guide-to-corporate-culture (Accessed on January 23, 2021)
[2] Principle 1.7 Nigerian Code of Corporate Governance 2018

2.0   CORPORATE CULTURE IN AN ORGANISATION

2.1   What is Corporate Culture

As mentioned earlier, corporate culture is akin to an organisation's unique identity, which has proffered a host of definitions. Nonetheless, certain descriptions have been extracted below on the concept.

Primarily, culture is the manner through which operations in the company are executed and summarised in the quote 'the way things are done'. Hence, it follows that there is a distinct characteristic of every organisation that is difficult to imitate.

Furthermore, culture is the code, the core logic, the mind's software that organises the behaviour of members of the organisation. It is centered on the crucial mindset, as without which innovative actions, structures and plans needed to execute corporate strategy would not be feasible.

Also, culture reflects the lessons which have been deemed expedient to be passed down to the next generation of corporates. This definition denotes specific experiences and tenets that have been inherited from previous incumbents of corporate leadership and depicts the importance of succession planning and grooming of future leaders.

In addition, culture is the primal instinct deployed by members of the organisation towards unsupervised or perceived unsupervised tasks. Therefore, where such needed mindset, behaviours, value systems are not created or unfit for the company's current environment, such organisation is placed in a distinct disadvantage.

2.2   Cultural Levels

A common analogy of analysing and identifying corporate culture is an iceberg with a large part of the body below sea level and a minute section visible above sea level.

Artifacts are the visible symbols of a company's culture. They are physical items that collectively communicate culture. For example, dress codes of employees; languages, which entails how

organisational members address each other and power brokers, use of symbols and vocabularies used in the organisation; rituals and ceremonies that indicate an organisation's values and affirms purpose; legends or myths which can describe personalities within the organisation and stories teaching what is acceptable and what is not.

On the other hand, espoused and enacted values embody the bridge between seen and unseen cultural levels. However, they do not necessarily represent an organisation's culture. Instead, they establish the public image (internal and external) that leaders want to showcase. It consists of the vision, mission statements, corporate communications, and company slogans. Bearing in mind, components of the espoused values could be ambiguous; nevertheless, if effective and actualized, become 'enacted values' with the ability to become deeply rooted as assumptions.

Assumptions are the base of culture (iceberg) and are an important and often overlooked aspect of culture. Despite its concealed nature, acts as the silent language of the organisation, effectively dictating instinct responses and shaping mindsets. Examples of certain underlying assumptions could include innovation and risk-taking, attention to detail, outcome, people and team-oriented, aggressiveness, and stability.

2.3   Importance of Culture

Cultural norms define what is encouraged, discouraged, accepted, or rejected within an organisation. When properly aligned with personal values, drives, and needs, culture can unleash tremendous amounts of energy toward a shared purpose and foster an organization's capacity to thrive. Moreover, culture can evolve flexibly and autonomously in response to changing opportunities and demands.

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[3] The level of espoused values can be the death for boards and management attempting to change corporate culture. As most culture creation efforts are often at the first two cultural levels, where corporates create corporate slogans with intense internal and external publicity, while these attempts are not completely futile, they should not be recipients of the volume of attention that they often receive. Hence, the starting point would be cultural levels beneath the surface, as culture is determined by underlining assumptions. As those are the unconscious elements of culture, that are so embedded like our DNA. For example, In attempts at changing corporate culture, the common problem is the emergence of an incongruence among our artifacts, espoused values and underlying assumptions, which breeds a disarticulated state in our ethics and causes anxiety, cynicism in our organisations and culture, Therefore, once the company's underlying assumptions are understood and changed to the right context, the espoused values become genuine and align with the underlying assumptions. Also, the artifacts will begin to make sense to stakeholders in the company.

[4] This brings to the minds of leaders, the question of attaining the deeper levels of culture, how to assess the value of the assumptions made at that level, and how to deal with the anxiety that emerges when those levels are challenged. (Schein 2004)

[5] The Leader's Guide to Corporate Culture. https://hbr.org/2018/01/the-leaders-guide-to-corporate-culture (Accessed on January 23, 2021)

tremendous amounts of energy toward a shared purpose and foster an organization's capacity to thrive. Moreover, culture can evolve flexibly and autonomously in response to changing opportunities and demands.

A recent example of the repercussions arising from culture inadequacies is exhibited in the recent fall from grace of Wirecard, a German payment processor and financial services provider, dubbed as 'Enron of Germany.' The collapse of Wirecard is rooted in an accounting scandal where the former member of the DAX30 was suspected of grossly inflating its balance sheet. "This was an elaborate and sophisticated fraud, involving multiple parties around the world in different institutions, with a deliberate aim of deception," was the damning verdict of Ernst and Young, which has itself been accused of failing to properly scrutinize Wirecard's fraudulent accounts for at least three years.

The intrinsic cultural problems were uncovered by Financial Times' (FT) investigative report which documents former staff members describing commands from managers to "do something" about the company's share price fall, at all costs. This indicates that the priorities embedded in the company's culture were more concerned with the bottom line than the means used to achieve the results.

Furthermore, Wirecard's defensive response to the allegations also suggests a culture that discouraged speaking out. As critics of the company claim, they have been subjected to spear-phishing campaigns by private investigators and the company has attempted to sue critics, accusing FT journalists and analysts of short-selling and attempting to rig the market.

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[6] The Leader's Gcuide to Corporate Culture.
https://hbr.org/2018/01/the-leaders-guide-to-corporate-culture (Accessed on January 23, 2021)
[7] Wirecard committed 'elaborate and sophisticated fraud' say ....https://www.dw.com/en/wirecard-committed-elaborate-and-sophisticated-fraud-say-auditors/a-53942273 (Accessed on January 23, 2021)
[8] https://www.managementtoday.co.uk/went-wrong-wirecard-reputtion-matters/article/1688720 (Accessed on January 23, 2021)
[9] ibid
[10] ibid

people to employ risky means to deliver them. Furthermore, it is also not healthy to shame whistleblowers. By all means defend the company's reputation, but investigate any claims, even if they appear unfounded.

3.0   THE ROLE OF THE BOARD

Undoubtedly the cultural health of an organisation is the responsibility of the organisation's leadership. However, the board's role in forming and monitoring culture remains contested, with surveys showing that many boards see the CEO as being primarily accountable for corporate culture.

Against this context, we need to ask: what role does the board act in relation to the company's culture?

One view argues that the CEO and senior management set corporate culture more appropriately as they face the company's staff, clients, suppliers and other stakeholders on a daily basis.

The opposing view and was taken by regulators sees it as fundamentally a board responsibility. This is because when something goes wrong, the board will be held accountable by shareholders and regulators. This paper aligns itself with this view. From a combined reading of the Nigerian code of corporate governance 2018, the board is saddled with leadership, specifically creating guidelines in shaping corporate culture and oversight over the implementation of these guidelines.

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[11]ibid
[12]The role of the board in corporate culture. https://aicd.companydirectors.com.au/membership/company-director-magazine/2016-back-editions/august/the-role-of-the-board-in-corporate-culture (Accessed on January 23, 2021)
[13]Ibid
[14]The Role of the Board in Corporate Culture. https://www.sid.org.sg/images/PDFS/Publications/BoardroomMatters/BM3/13.%20Boardroom%20Matters%20Vol%20III-The%20Role%20of%20the%20Board%20in%20Corporate%20Culture.pdf (Accessed on January 23, 2021)
[15]Principle 1.7, Principle 24,1, and Principle 25

So, if directors accept that they are, for all intents and purposes, the custodians of their company's culture, how then should they act as a positive influence, but without interfering in the management of the company?

Firstly, the board has a responsibility to understand the culture of the organisation, and whether there is congruence between the more observable indicators of culture (such as the company's stated mission and values) and the shared underlying assumptions (the shared norms) that really determine how things get done.

This requires the board to access a variety of information sources, including observing how things work in the organisation. Board members can learn a lot about the cultural norms by observing interactions of executives with each other, and with the CEO and non-executive directors at formal and informal occasions, such as board meetings, site visits, safety walkarounds, training forums, industry events, and informal gatherings. Board members should also have the opportunity to interact with other employees, for example, during site visits, board presentations, and company events.

Boards should also seek input from the senior leadership team, and request information that will help reveal the cultural dimensions of the organisation, such as employee survey results, customer and supplier feedback, internal audit reports, reward and performance management systems, and organisational measurement systems.

Secondly, the board needs to determine, through a process of iterative conversations with management, the shared norms that the company aspires to have and identify the gaps within the existing culture. Board members can learn a lot about the cultural norms by observing interactions of executives with each other

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[16] The Role of the Board in Corporate Culture.
https://www.sid.org.sg/images/PDFS/Publications/BoardroomMatters/BM3/13.%20Boardroom%20Matters%20Vol%20III-The%20Role%20of%20the%20Board%20in%20Corporate%20Culture.pdf(Accessed on January 23, 2021)
[17] The role of the board in corporate culture. https://aicd.companydirectors.com.au/membership/company-director-magazine/2016-back-editions/august/the-role-of-the-board-in-corporate-culture (Accessed on January 23, 2021)
[18] Ibid
[19] Ibid
[20] ibid

From this process the key elements of the desired culture will be identified, such as acting ethically and comply with all laws, treating employees, customers and suppliers fairly, and have a focus on shareholder returns.

A statement of the elements of the desired culture will guide the board in their governing task, such as informing the metrics against which organisational performance and the CEO's performance will be monitored and assessed. Is the CEO embedding the cultural traits the board has endorsed in the organisation through the setting of goals, processes, rules, rewards and sanctions, and the distribution of power and status? Is the CEO modelling the desired culture?

A statement of the elements of the desired culture will also guide the board in the selection of a new CEO, which may be required to strengthen an existing organisational culture or facilitate its transformation. How can a board select the next CEO if it does not have a shared understanding of the organisation's culture, or the cultural traits needed to achieve the strategic vision?

The board's third area of responsibility is the delegation to the CEO of the management of culture and the implementation of cultural change. In making the delegation, the board does not "set and

forget" as the board has an ongoing role of oversight. The CEO reports to the board on the alignment of systems and processes to support the core cultural elements, and against agreed indicators of cultural health supported by the use of appropriate tools to provide meaningful information. The CEO also reports to the board on areas where behaviours and activities are not aligned with these elements and provides plans to address.

It is likely that there will already be a wealth of data within the organisation from which to build a dashboard on cultural health. A blend of information from external sources, such as customer and regulator feedback, and internal sources, such as employee ethics training, will provide a good basis for developing metrics relevant to the organisation's cultural health. The dashboard will assist the CEO and senior executives in monitoring culture and forming the basis for oversight by the board and good discussion between the board and the CEO.

Finally, the board has a responsibility to act following the stated cultural traits, demonstrating a commitment and adherence to the shared norms they determined were appropriate for the organisation to meet its objectives. The board must model the culture when it interacts with management, employees and other stakeholders, and review its own performance as the governing body by reference to the stated cultural dimensions. The board also needs to be open to reviewing the appropriateness of those norms from time to time.

In the board's review of the culture's appropriateness, there exist three variables that boards should bear in mind, namely:

·Strong culture: The board should make inquiries into the strength of the organisation's culture. There is a misguided conception that strong culture equals strong performance. For instance, upon evaluation of all employees in an organisation, findings reveal knowledge of values, basic and common assumptions, does not necessarily mean the organisation is performing as it ought to, as there exist organisations with strong cultures, which are negative and counterproductive. Therefore, there must be some modifiers.

·Environmental 'fit': This is a crucial stage in creating an effective culture, as context matters. Therefore, the board should access whether the corporate culture fits with the current external environment, as corporate culture by itself is neither good nor bad, effective nor ineffective. It is also at this stage, where the uniqueness of a company's culture begins to manifest. For example, behaviours that may have been tolerated and accepted in an organisation's culture might become out of place in a different context. Consequently, think of the context in which the organisation will be operating in, a useful indicator is the organisation's mission and vision. This will guide the board

towards streamlining acceptable and appropriate culture.

·Adaptive Culture: Culture's effectiveness depends on a changing environment, as a result where the culture refuses to adapt properly to the present environment, it could result in negative performance for the company.

There are certain indices which qualify an adaptive culture; they are:
-Members of the organisation have an external focus, ensuring the culture is suitable to the markets, customers, and competitors.

-Members of the organisation that pay attention to internal processes, not just outcomes, which translates to concentrating on the means and the results. This is in a bid, to assess areas of improvements

-Another index of an adaptive culture is persons within the organisation that can respond quickly and have a sense of ownership. In other words, they feel a sense of belonging to the organisation, ownership for the organisation outcomes and success. They are strategic in their response, especially during times of crisis.

Therefore, the starting point for boards in an effective corporate culture is ensuring an adaptive, appropriate culture for the company's external environment, and it is uniformed and strong. The evidence of such is that the organisational culture, which contains such traits results in improved market performance and outcomes.

4.0 CONCLUSION

Across the world, organisations, regulators and the media are recognising the critical role culture plays in how the organisation operates and performs. However, much attention has not been paid as to the manner in which the board can ensure culture is operating optimally and the propagation for more independent directors on corporate boards tends to create the reasoning that culture being so involved in the manner in which the organisation's daily activities are conducted resides solely in the ambit of the CEO.

Despite the advancement of directors' criminal liability for a lack of compliance culture, being distanced from the day to day management of an organisation does not abrogate accountability. Therefore, directors must strive to deepen their understanding of their company's culture and their role as active participants. Also, directors must engage in a dynamic and iterative way with management to develop and implement processes for effective change management and ongoing oversight.

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[21]In the case of AIC, Re Chemeq Limited v. Chemeq Limited (CAN 009 135 264) 24 July 2006, where the court declared the company had breached its continuous disclosure obligations and imposed significant financial penalties. In determining the quantum of the penalties, the judge considered the company's compliance culture and systems. He found senior people, including the board, did not appreciate their continuous disclosure obligations and the company did not have in place an effective compliance system.