Report of the
NACD Blue Ribbon Commission
on
CULTURE AS A
CORPORATE ASSET

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Acknowledgements

Letter From the Co-Chairs

In the corporate context, culture has been described as "the sum of the shared assumptions, values, and beliefs that create the unique character of an organization."[1] While it is often perceived as a "soft issue," it is actually a hard issue—both in the sense of having concrete impact, and in the sense of being difficult to assess. As directors, we have a responsibility to bring more rigor to the discussion about organizational culture. We are well-positioned to play this role: directors' independence is an advantage, not a hindrance, in culture-oversight activities. As one of our fellow Commissioners remarked, *"By definition, members of management are immersed in the company on a daily basis, so it's difficult to avoid breathing their own exhaust."*[2] Directors bring a unique perspective to the table—often informed by years of executive and board experience with a range of companies and industries—and may be better able to pick up on early warning signs than those with solely an insider's point of view. How much of the organization's culture is a myth that doesn't extend beyond the plaque in the elevator? How does this company compare to others, not just in terms of results, but also as to its conduct and "rules of the road"?

Organizational culture has been studied by business and academic writers for decades, but it tends to attract public attention mainly in the wake of negative events, such as the accounting scandals of 2001 and 2002, the 2008 banking and financial crash, and the series of corporate crises that unfolded in 2016 and 2017. But a company's culture has the potential to enable positive results as well. As one group of analysts observed: "If culture is left to chance, it can absorb precious energy and put the handbrake on the organization achieving its purpose and strategic goals. But if led and managed well, culture is the rocket fuel for delivering value to stakeholders."[3]

The idea that an appropriate corporate culture boosts performance by providing a framework that encourages behavior aligned with goals for long-term value creation would seem to make it an obvious topic for regular, routine discussion among corporate leaders. Yet in many organizations, culture does not get the level of boardroom attention it deserves until a problem arises. We believe this has to change. Oversight of corporate culture should be among the top governance imperatives for every board, regardless of its size or sector.

Indeed, culture oversight is by definition a key board responsibility, as it is inextricably linked with strategy, CEO/senior leadership selection, assessment and evaluation, and risk oversight—all of which are squarely in the board's domain. The Commission's dialogue this year was informed by several other NACD Blue Ribbon Commission reports, including those on board diversity and the board's role in strategy and long-term value creation. Directors may find it useful, as we did, to consider the findings and recommendations from these reports as they take up the topic of culture. (See the Appendix for links to these reports, as well as other related NACD thought leadership and selections from the large body of work related to the oversight of corporate culture.)

PART ONE of this report sets out the Commission's view on a definition for organizational culture and outlines its key characteristics and discusses the factors that are driving a fundamental change in how boards need to engage in its oversight—moving beyond an ad hoc or compliance-focused approach to one that is much more proactive and based on the notion that culture is a core asset. We recognize that some CEOs may consider heightened involvement from directors in this area to be a form of board overreach, but we fundamentally disagree with that view. Some dynamic tension is acceptable, but if it can't be resolved, then the company may have the wrong CEO.

PART TWO outlines specific actions for directors regarding
- board oversight responsibilities;
- assessing boardroom culture;
- discussions with management about strategy, risk, and performance;
- CEO selection and evaluation;
- reward and recognition systems; and
- communications with shareholders and stakeholders.

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[1] City Values Forum and Tomorrow's Company, *Governing Culture: Risk & Opportunity?* (London, U.K.: 2016), p. 2.
[2] Quotes in italics throughout the report are from members of the 2017 Blue Ribbon Commission.
[3] City Values Forum and Tomorrow's Company, *Governing Culture: Risk & Opportunity?* (London, U.K.: 2016), p. 2.

PART THREE summarizes the Commission's recommendations, and the Toolkit provides resources to help boards implement the recommendations.

Our intention in producing this report is to issue a call to action for directors to elevate the dialogue on culture (including the culture of the organization overall, and the culture within the board itself) as a way to drive sustained success and long-term value creation—objectives that are relevant to for-profit and nonprofit organizations alike. Stories about failures and scandals attributable to dysfunctional organizational cultures appear in the headlines with unfortunate frequency, and these may make it easier for business leaders to lose sight of the potential for healthy culture to serves as a competitive differentiator. Discussions about identifying potential weaknesses or minimizing risks related to corporate culture are of course essential, but alone they are not sufficient. And even companies with healthy cultures can't afford to rest on their laurels—as the report notes, the operating environment is volatile and the stakes are high, so a continuous-improvement mind-set is required.

We and our fellow Commissioners believe that taking a proactive, forward-leaning stance on culture oversight, as outlined in this report's recommendations, will not be additive to boards' workloads. In fact, we believe boards that consider culture oversight as separate from directors' existing responsibilities—or, worse, as "another box to check"—are exhibiting symptoms of potentially serious problems. Performed properly, culture oversight not only can be embedded into directors' existing activities, but also can significantly improve the quality and impact of the board's work overall—a goal that we know all directors share.

Nicholas Donofrio
Helene Gayle

This Blue Ribbon Commission report represents a consensus of the Commissioners' viewpoints and reflects their support for its principal recommendations. We did not believe it necessary that each Commissioner agree with every word of the report. As a group, however, the Commissioners regard this report as a fair representation of their views on an important and timely subject.

PART ONE

Culture as a Unifying Force

"The only competitive advantage we have is the culture and values of the company. Anyone can open up a coffee store."

—HOWARD SCHULTZ, EXECUTIVE CHAIR, STARBUCKS[4]

Defining "Culture"

In developing this report, the Commission used a definition of organizational culture based on one developed by MIT's Edgar Schein, who is regarded as a preeminent and foundational thinker in the field of organizational development. His work characterizes culture as a series of assumptions individuals make about the groups in which they participate, visible through artifacts (including public statements, organizational structures, and key processes), stated goals and aspirations, and basic (i.e., taken-for-granted) beliefs.[5] The well-known management theorist Peter Drucker echoed this notion in his concept of the "theory of the business" as "assumptions that shape any organization's behavior, dictate its decisions about what to do and what not to do, and define what the organization considers meaningful results."[6]

Several additional characteristics of corporate culture are important for directors to consider:

- Culture is company-specific. The Financial Reporting Council's (FRC) *Corporate Culture and the Role of Boards: Report of Observations* states "there is 'no one-size-fits-all' when it comes to culture; what matters is that the culture is appropriate for the context in which the company is operating and that there is internal alignment between company purpose, values, strategy, and business model(s)."[7]
- Culture is revealed through the behaviors of employees at all levels, particularly those that result in rewards or advancement on the one hand, or punishment on the other. If values are about the "what and why" of an organization, then culture is the "how"—the way in which those values are lived on a day-to-day basis. Commissioners observed

that *"problem-solving, over time, creates culture,"* and asked, *"In uncertain situations, or when people are under pressure, what do they do instinctively? What decisions and trade-offs do they make? That tells you a lot about a company's culture."*
- Culture reaches beyond the company, since it is expressed not only in the treatment of employees, but also in interactions with customers, suppliers, communities, and other external stakeholders. This "big-C" definition of culture is a reflection of purpose—that is, "an expression of why the organization exists, beyond financial gain. It states the impact it wants to have on the lives of everyone it wishes to serve."[8] That impact can be felt in both directions: while companies have limited control over the actions of their suppliers, vendors, or partners, they may ultimately be affected by, or held accountable for, their conduct and behavior.

Commissioners agreed that organizational cultures and the factors that influence them are complex systems, incorporating elements such as these:

- explicit and implicit rules
- norms of behavior and interaction
- compliance and ethics policies
- incentives
- recruiting and training activities
- processes for decision making and prioritization (including budget setting)
- communication and information flows
- leadership styles

Another dimension of cultural complexity is especially prevalent in large, multidivisional and/or geographically dispersed companies, where some norms and practices may vary by country, region, facility or business unit. Some organizations with multigenerational workforces are also experiencing the impact of differences in attitudes toward workplace

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[4] Novak, David. *Taking People With You: The Only Way to Make Big Things Happen.* New York, NY: Penguin Group, 2012.

[5] See Chad Renando, "Organizational culture defined, courtesy of Edgar Schein," *sideways thoughts* (blog), Nov. 21, 2010, and David W. Gill's review of *Organizational Culture and Leadership* by Edgar H. Schein.

[6] Peter F. Drucker, "The Theory of the Business," *Harvard Business Review,* September/October 1994.

[7] Financial Reporting Council, *Corporate Culture and the Role of Boards: Report of Observations* (London, U.K.: Financial Reporting Council, 2016), p. 9.

[8] City Values Forum and Tomorrow's Company, *Governing Culture: Risk & Opportunity?* (London, U.K.: 2016), p. 13.

culture between those who are early in their careers and older segments of the employee population.

A healthy culture serves as a unifying force for the organization and reinforces the elements of the strategy and business model in a productive way. Conversely, a dysfunctional culture has the potential to undermine the business model and create significant risk for the company.

Culture as a Unifying Force

*Employees, investors customers, suppliers, partners, regulators, etc.

Source: 2017 Blue Ribbon Commission

In the view of the Commission, the board, the CEO, and senior management need to establish absolute clarity on the foundational elements of the organization's culture—where consistency is expected and required—by identifying two sets of standards: first, the values and behaviors that help the company excel and that are to be encouraged, and second, the behaviors for which there is zero tolerance. Local expressions of the firm's culture (whether "local" is defined by facility, business unit, team, or country) should remain aligned with those shared, foundational elements of culture. Directors and senior management should be on the lookout for local sub-

cultures that deviate from the desired culture and the tone expressed by leaders at the top of the organization.

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RECOMMENDATION: The board, the CEO, and senior management need to establish clarity on the foundational elements of values and culture—where consistent behavior is expected across the entire organization regardless of geography or operating unit—and develop concrete incentives, policies, and controls to support the desired culture.

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As a starting point, the board can ask the CEO to produce a short narrative outlining the company's desired cultural foundations, describing what they are and why each one is important to the firm's long-term success. Directors should ask the CEO and company leaders to explain how the design of incentives, policies such as the code of conduct, and internal controls directly support these foundational elements of culture. At one Commissioner's company, *"distilling a sometimes amorphous concept like culture into simple and clear language was exceptionally valuable. As a result of this clarity about culture, the board and management had a common understanding of what was needed, why it was important, and how it would affect things like the way we evaluate leaders, structure compensation plans, and so on."*

Culture as a Core Asset

A Commissioner said, *"Strong corporate cultures contribute to success and lasting value in the same way as product quality and R&D."* Put simply, culture should be viewed as an asset, similar to an organization's human, physical, intellectual, technological, and other assets.

Numerous research efforts have explored the extent to which organizations with highly engaged employees (one

indicator of a strong, positive culture) outperform others on customer satisfaction, safety, quality, profitability, productivity, and shareholder returns.[9] In one study, businesses with high scores on other culturally related criteria such as mission, consistency, and employee involvement had significantly higher returns on assets, sales growth rates, and market-to-book values compared with firms that had low scores.[10]

Conversely, the absence of a healthy culture is a liability. Companies with weak ethical cultures have been shown to experience levels of misconduct as much as ten times higher than those with strong ethical cultures.[11] It is perhaps unsurprising that in the wake of the WorldCom scandal (2002), a frequently cited comment attributed to then-CEO Bernard Ebbers was his dismissal of efforts to create a company code of conduct as "[a] waste of time."[12] Organizational culture is also widely acknowledged as a key factor determining success or failure in the execution of an M&A transaction.[13]

These and other examples of the link between culture and performance results are one reason why culture is moving up on the list of priorities for many companies and boards. Indications of cultural concerns are another reason. In one recent survey, 87 percent of organizations cited culture and engagement as a top challenge, with a majority of leaders rating the issue as "urgent."[14] In a different study, only 28 percent of executives reported that they understood their organization's culture, and just 12 percent said they believed their company is driving the "right culture."[15]

Many directors express similar concerns about the state of culture in their boardrooms. In a recent survey of North American board members, nearly half said their fellow directors don't encourage dissenting views, 53 percent believe some members of their boards are reluctant to express their point of view in front of management, and 46 percent reported that "a subset of directors has outsized influence on board decisions."[16]

Other important factors motivating increased attention to culture on the part of board members and company leaders include factors such as these:

- **The latest phase of the information revolution:** The 24-hour news cycle is not a new phenomenon, but its power and potential for reputational impact have been amplified by the rise of social media. More information—both positive and negative—is available about companies and individuals than ever before, and has the potential to spread faster and wider.
- **"Megatrends" affecting the workforce:** The continuing wave of baby-boomer retirements, the rise of millennials as the largest generational group in the workplace, and the shift to a majority-minority population in the United States all have significant impact on employees' relationships—with each other, and with their employers. The spread of transformative technologies will continue to cause rapid and often difficult-to-predict changes in competitive positioning within and between industries. A company's ability to simply survive—let alone adapt and thrive—under these conditions will be determined in part by its culture.
- **Greater scrutiny by investors and regulators:** Major asset managers are issuing statements emphasizing that "over the long term, how a company does business is as important as profit at any one point in time" (BlackRock) and highlighting that they "expect boards to . . . influence firm culture and set ethical standards" and "promote a culture of

[9] See Gallup, *State of the American Workplace* (Washington, DC: Gallup, 2017), pp. 68–70, and Alex Edmans, "28 Years of Stock Market Data Shows a Link Between Employee Satisfaction and Long-Term Value," *Harvard Business Review*, Mar. 24, 2016.

[10] management-issues.com, "Adaptability, consistency, focus, and engagement the key to success," Jan. 26, 2006.

[11] PR Newswire, "Research Reveals That Integrity Drives Corporate Performance: Companies With Weak Ethical Cultures Experience 10x More Misconduct Than Those With Strong Ones," Sept. 15, 2010.

[12] Christopher Stern, "2 Reports Fault Founder On WorldCom Operation," *Washington Post,* June 10, 2003.

[13] Mercer LLC, *Culture in M&A: We Know It's Important, So Now What?* (Mercer LLC, 2014).

[14] Larry Senn, "The Four Principles of Culture Change," *Chief Executive Officer & Board of Directors* (blog), Aug. 18, 2015.

[15] "Organisational culture transformation: Secrets from Facebook, KPMG, and Pixar," *Expert Training Systems* (blog), May 4, 2016.

[16] Taylor Griffin, David F. Larcker, Stephen A. Miles, and Brian Tayan, "Board Evaluations and Boardroom Dynamics," *Stanford Closer Look Series*, Mar. 6, 2017, p. 1.

accountability on the board" (State Street).[17] On the regulatory front, the financial services industry has been under a global spotlight, with regulators in the United States as well as the United Kingdom, the Netherlands, and Australia all taking steps to enhance rules and supervisory activities related to culture and conduct[18]—efforts that could set the stage for similar moves in other sectors.

- **Negative public attitudes about business:** *The Edelman Trust Barometer*, a global survey of public opinion regarding business, government, nongovernmental organizations, and the media, reported that "the most profound difference between the elite and the broader populations is found in their attitudes toward business. There are double-digit gaps in half of the countries surveyed, the most significant being in the U.S., where 70 percent of the elite population express trust in business in contrast to 51 percent of the general population, a 19-point difference." Further, "globally, roughly one out of three employees do not trust the company for whom they work."[19]

These factors are combining to drive a transformation of the board-management dialogue on company culture similar to the fundamental change that has occurred in the way boards approach risk matters. A Commissioner described the latter this way: "*In years past, our discussions with management about risk issues tended to be much less structured. There were fewer defined metrics, especially outside financial services, and accountability for risk management was more diffuse and less clear. Now there is much more rigor, in terms of management's approach as well as in the board's oversight.*"

In the Commission's view, board members need to achieve a level of discipline with respect to culture oversight that is comparable to leading practices in the oversight of risk. While the specific dimensions will be unique to individual firms, directors should look for the following signifiers of healthy culture in the organization as a whole, and also in the boardroom:

- **Alignment:** Clear linkage should be present between the company's stated purpose, expressed core values, desired culture, and the actual culture, as demonstrated by observed, day-to-day behaviors throughout the organization—across multiple levels of seniority, operating units, functions, and geographies. "*Boards need to ask for evidence as to the consistency between the company's statements about its culture and values, and actual behaviors—especially behaviors that get rewarded or punished,*" said one Commissioner. Lack of consistency, or dissonance, between stated and actual culture, or between aspects of the culture in different parts of an organization can drive cynicism and mistrust, forerunners of more serious problems. And there is evidence to suggest that alignment pays: a study exploring the relationship between employee survey data and corporate performance found that "organizations [scoring] high on purpose but also on dimensions of management clarity (e.g., . . . 'Management has a clear view of where the organization is going and how to get there') . . . exhibit superior accounting and stock market performance."[20]

- **Accountability:** Like risk, culture is a shared responsibility that starts with the CEO and top management, extends to all employees, and includes the board—"*it's everyone's job.*" A healthy culture of accountability is one where "mistakes are identified, remedied, and regarded as a source of learning rather than of blame." On the other hand, "the fear of criticism can leave employees unwilling to take ownership and preferring to pass on responsibility to others."[21]

- **Transparency:** Robust cultures have well-developed processes for communicating internally (up, down, and across the organization) as well as externally. Effective informa-

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[17] Michelle Edkins, "The Silent Giant," *Globe Series* (blog), Feb. 7, 2016, and Ronald P. O'Hanley and Rakhi Kumar, "Changing Board Practices and Culture to Meet Investor Expectations," *IQ Insights*, a publication of State Street Global Advisors, August 2016.

[18] See Henry Engler, "Top U.S. regulator looks abroad for measurement tools on conduct, culture battle," reuters.com, May 9, 2017; Pedro Machado, "Regulating Conduct & Culture in the Financial Industry," *Harvard Law School Forum on Corporate Governance and Financial Regulation* (blog), Aug. 6, 2016; and Clancy Yeates, "Bank culture: what might actually change?," *Sydney Morning Herald*, Apr. 11, 2016.

[19] *Edelman Trust Barometer 2016 Annual Global Study, Executive Summary* (2016), pp. 3, 13.

[20] George Serafeim and Claudine Gartenberg, "The Type of Purpose That Makes Companies More Profitable," *Harvard Business Review*, Oct. 21, 2016.

[21] Banking Standards Board, *Annual Review 2016/17, IV: Themes and Priorities for 2017* (online report).

tion flows are distinguished not only by the quality and quantity of what is communicated, but also by the tone (of respectful candor) and the content. As a director at an NACD roundtable put it, "[in transparent cultures] bad news takes the elevator and good news takes the stairs."[22] In a thriving culture, employees at all levels of seniority are encouraged to report problems, errors, or risks without fear of disciplinary action.[23]

- **Resilience:** Some commenters have observed that "the cultures of organizations are never monolithic . . . [and] they shift, incrementally and constantly, in response to internal and external changes."[24] The foundational elements of a company's culture and values must be able to withstand stressors from outside and inside sources and avoid "changing with the wind," but healthy cultures are also able to change in a conscious and deliberate manner, in order to adapt to new business dynamics and competitive realities.

. . . .

RECOMMENDATION: Directors and company leaders should take a forward-looking, proactive approach to culture oversight in order to achieve a level of discipline that is comparable to leading practices in the management and oversight of risk.

. . . .

Cultivation of healthy culture requires a proactive stance on the part of company leaders and members of the board. Directors need to establish an ongoing discussion about culture that is forward-leaning—encompassing where the company is going, not just where it's been—starting with the six areas of focus outlined in the next section of this report. As a Commissioner summarized, "*The ultimate aim is powerful, successful, durable companies that create lasting value. Our culture should be able to help us compete and win in the marketplaces for customers and talent.*" [See Section One of the Toolkit for suggested questions to help directors initiate a dialogue on culture.] ▲

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[22] Risk Oversight Advisory Council, NACD, *The Board's Role in the Oversight of Risk Culture* (Washington, DC: NACD, 2016), p. 2.
[23] Richard Smith-Bingham et al., *Risk Culture: Think of the Consequences* (Marsh & McLennan Companies, 2015), p. 18.
[24] Michael D. Watkins, "What is Organizational Culture? And Why Should We Care?," *Harvard Business Review*, May 15, 2013.

Rethinking Oversight of Corporate Culture—Priorities for Action

A Commissioner said, "*Culture manifests itself in many different ways and places around an organization. The boardroom is the natural place where all those threads come together.*"

The Commission's dialogue highlighted six areas of focus for directors:

1. Board oversight responsibilities
2. Assessing boardroom culture
3. Embedding culture into discussions about strategy, risk, and performance
4. CEO selection and evaluation
5. Reward and recognition systems
6. Communication with shareholders and stakeholders

Board Oversight Responsibilities

NACD's *Key Agreed Principles to Strengthen Corporate Governance for U.S. Publicly Traded Companies*, developed in 2008, stated:

> "[Board] governance structures and practices should be designed to promote a corporate culture of integrity, ethics, and corporate social responsibility. . . . The board can assure that an appropriate corporate culture is developed by communicating to senior management the seriousness with which the board views the matter, defining the parameters of the desired culture, reviewing management's efforts to inculcate the agreed culture (including but not limited to review of compliance and ethics programs), and continually assessing the integrity and ethics of senior management."[25]

In the view of this Commission, ultimate responsibility for oversight of corporate culture lies with the full board, because it is so closely connected with strategy and has significant potential to impact the company's risk profile—two other critical full-board responsibilities. Pages 17–19 of this report go into further detail on the importance of integrating cultural considerations into the board's ongoing dialogue with management on strategy and risk.

In addition to those full-board discussions, the key committees of the board also have important responsibilities related to culture oversight (see sidebar, Committee-Level Responsibilities Connected to Culture Oversight). Some boards may also choose to house certain culture-related oversight activities within other committees, such as the risk committee, the corporate social responsibility committee, or the environment, health, and safety committee.

The nominating and governance committee should define the approach to allocating committee-level culture oversight activities, making its decisions with the board's particular facts and circumstances in mind. Those decisions should be described in board governance policies and committee charters, in order to clearly communicate how the board views its accountability for culture oversight. [See Section two of the

Committee-Level Responsibilities Connected to Culture Oversight

The following examples of committee responsibilities related to the oversight of corporate culture are illustrative, not comprehensive.

AUDIT COMMITTEE: oversight of the results of internal and external audits, compliance reviews, employee hotline or whistleblower reports, and regulatory examinations; oversight of internal controls over financial reporting; oversight of risk-management processes

COMPENSATION COMMITTEE: development of pay philosophy; design of incentive plans; CEO and senior-management performance evaluations and resulting decisions on compensation payouts; oversight of talent strategy (including leadership development plans and goals related to employee engagement, diversity, and inclusion)

NOMINATING AND GOVERNANCE COMMITTEE: development of board governance policies and operating principles; board composition and succession planning; CEO succession planning; performance assessments at the full-board, committee, and individual-director levels

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[25] NACD, *Key Agreed Principles to Strengthen Corporate Governance for U.S. Publicly Traded Companies*, 2nd ed. (Washington, DC: NACD, 1st ed. 2008, 2nd ed. 2011), p. 9.

Toolkit for examples of full-board and committee-level disclosures regarding responsibilities for the oversight of culture]. As with other issues that cut across multiple committees, such as risk oversight, committee chairs and the lead director can periodically assess the division of responsibilities for culture oversight to ensure committee activities are appropriately aligned, with no gaps or overlapping duties.

. . . .

RECOMMENDATION: Because of its significant interdependencies with strategy and risk, active monitoring of the organization's culture is a full-board responsibility, with specific oversight activities housed in committees as appropriate. The nominating and governance committee should ensure that board policy documents and committee charters clearly delineate the allocation of such responsibilities and explain how culture oversight is embedded into the ongoing work of the board.

. . . .

While it is true that directors need to develop an understanding of their organizations' cultures that, for many boards, may be broader than before (see sidebar, A Wider Lens on Culture), it is important to recognize that culture-oversight responsibilities are not additive to the boardroom agenda. Instead, they should be integrated and embedded into the board's ongoing work, as outlined throughout Part Two of this report.

Assessing Boardroom Culture

"It is difficult to bring people to goodness with lessons, but it is easy to do so by example."
—SENECA[26]

In the *Report of the Blue Ribbon Commission on Board Evaluation: Improving Director Effectiveness*, first published in 2001, NACD observed that "the wrong culture can turn a group of highly competent and experienced directors into a poorly performing board."[27] A Commissioner pointed out, *"There is an interplay between board culture and company culture. It might not necessarily be the same. By our own behaviors, directors can enhance or detract from company culture."*

A Wider Lens on Culture

When considering the scope of culture-oversight activities, directors should keep the following in mind:

- **Look beyond compliance:** While oversight of compliance and ethics has always been a core board responsibility, it should be considered a necessary, but not sufficient component of effective culture oversight, as indicated in the *Key Agreed Principles* excerpt quoted above.

- **Look beyond the four walls of the boardroom:** Effective oversight of culture also requires directors to regularly spend time "on the ground" where business is being done, in order to gain exposure to a cross section of employees at different locations and levels of seniority. In the words of one Commissioner, *"If directors think their jobs are done by virtue of meeting regularly with the CEO and senior management, they're seriously mistaken. Without firsthand visibility into how the culture is lived around the organization, the board's job is incomplete."*

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[26] Quoted in Christine Lagarde, "The Role of Personal Accountability in Reforming Culture and Behavior in the Financial Services Industry" (speech presented at Reforming Culture and Behavior in the Financial Services Industry: Workshop on Progress and Challenges, an event organized by the Federal Reserve Bank of New York, Nov. 5, 2015).
[27] NACD, *Report of the Blue Ribbon Commission on Board Evaluation: Improving Director Effectiveness* (Washington, DC: NACD, 2001, rpt. 2005, 2010), p. 7.

Directors should undertake a thorough and regular review of their board's culture with the following questions in mind:

- How would directors describe the board's current culture as demonstrated through current practices and behaviors? How consistent or divergent are directors' views about boardroom culture? What are the areas of strength and what are the areas of concern?
- How closely aligned is the board's culture with that of the company as a whole? If there are areas of inconsistency, where do those exist and why?
- To what extent does the design and structure of the board's work program reflect the importance of establishing and overseeing a healthy corporate culture? Considerations should include these:
    - Board and committee agenda design: Culture should be an explicit component in strategy and risk discussions (described in more detail beginning on page 17 of this report), and agendas should allow sufficient time for reflective conversations about observed cultural strengths, weaknesses, and potential trouble areas.
    - Board succession planning: The pipeline of director candidates should be representative of diverse backgrounds and perspectives, to reflect the evolving strategic needs of the company and to minimize groupthink.
    - Protocols for boardroom dialogue: Do discussions strike an appropriate balance between being supportive of fellow directors and being supportive of members of management, without being overly deferential or quashing constructive challenge when needed? How are dissenting views handled?
    - Protocols for reporting and interactions with management: A Commissioner posed these questions: *"Do we get the information we ask for, and if not, what happens next? How do directors react to bad news? These are important indicators of boardroom culture."*
    - Timing and execution of executive sessions
    - Defined responsibilities for the non-executive chair/lead director and committee chairs
    - Recruiting and onboarding new directors: Prospective board candidates should be introduced to the founda-

tional elements of the company's culture during the recruiting process, and they should continue to gain exposure during their first year on the board.
    - Participation in culture-related training (such as company programs and/or programs designed specifically for the board): *"On one of my boards we did ethics awareness training based on case studies. It was a very powerful way to expose directors to the dilemmas employees might face day-to-day,"* one Commissioner recollected.

[See Section Three of the Toolkit for a sample of a board's guiding principles document for directors, and Section Four for a sample director code of conduct. Section Five contains guidance for establishing expectations for director behavior and addressing instances of director misconduct, both intentional and unintentional.]

The annual board and committee self-evaluation process should include an opportunity for directors to offer thoughtful, objective comments on the degree to which board culture is defined, aligned, and effective. Summarized results should be discussed with the full board and shared, as appropriate, with the CEO.

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RECOMMENDATION: **Directors should review the culture of the whole board and its key committees on a regular basis, both formally (via the evaluation process) and informally (by making time for reflective conversation in executive sessions). The results of these reviews should inform board composition, succession planning—especially for leadership roles on the board—and continuous improvement efforts in board operating processes.**

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Embedding Culture into Discussions About Strategy, Risk, and Performance

Culture eats strategy for breakfast.
—ATTRIBUTED TO MANAGEMENT THEORIST PETER DRUCKER[28]

As described earlier in this report, culture has the potential to be a powerful source of competitive advantage, providing "rocket fuel" to help drive the execution of strategy, but it can also present or exacerbate significant risks to the organization. This suggests several imperatives for boards:

Define roles and responsibilities. Directors should ensure that the company has clearly outlined the roles of the CEO and senior management, business leaders at various levels, and employees collectively, in embodying, reinforcing, and supporting the desired culture. Risk-management practitioners have developed the "three lines of defense" model[29] to help communicate the responsibilities of business owners and internal control groups in managing and mitigating key risks. Companies and boards may wish to consider how aspects of this model could be adapted to clarify responsibilities related to creating and sustaining a healthy culture. [Section Six of the Toolkit contains an example of how the three lines of defense model can be applied in the context of culture oversight.]

Directors should also pay close attention to the way in which the roles of the chief legal officer/general counsel and leaders of other key functions such as internal audit and risk management are defined and positioned within the organization. The board should consider questions such as these:

- What is the scope of authority for persons holding these positions?
- To whom do they report administratively, and does that differ from the functional reporting relationship?
- How does their budget, staffing, and access to information compare to leading practices in the industry or in general?
- How (and how often) do they interact with the board? For example, according to a recent survey, about 25 percent of general counsel in the United States say they do not regularly attend board meetings.[30] [See Section Seven of the Toolkit for guidelines on how to assess the general counsel's role in supporting a healthy culture.]

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RECOMMENDATION: Directors should assess whether the chief legal officer/general counsel and other officers in key risk-management, compliance, and internal-control roles are well positioned within management and in relationship to the board to support an appropriate culture.

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Make culture a routine agenda item. A commissioner said, *"Even for companies that are not going through a structural or other transformation, the current business environment is one of accelerating change and pressures that will affect culture. Therefore, the board needs to establish a regular cadence of discussions about culture, even in times of apparent smooth sailing."* Accordingly, the board should incorporate questions about culture into strategy reviews, evaluations of operating performance, and discussions with management about proposed initiatives, current and emerging risks, relationships with customers and suppliers, leadership-development activities, entering new markets, partnership opportunities, and so on.

In addition, it may be beneficial in some circumstances to create a separate agenda item for culture in board-management discussions—for example, during a merger or acquisition (from early due-diligence through post-deal integration) when two companies' cultures will be combined; in the wake of a failure or breakdown within the organization attributed to culture, where there are specific deficiencies to be fixed; or when the firm is undertaking a major strategic shift requiring

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[28] Cited in Ken Favaro, "Strategy or Culture: Which is More Important?," *Strategy & Leadership* (s+b blog), May 22, 2014.

[29] See, for example, Institute of Internal Audit, *IIA Position Paper: The Three Lines of Defense in Effective Risk Management and Control* (Institute of Internal Audit, 2013).

[30] M. Blatch, V. T. Richardson, and the Association of Corporate Counsel (ACC), *Leveraging Legal Leadership: The General Counsel as a Corporate Culture Influencer* (an ACC white paper) and analysis of unpublished data from the *ACC Chief Legal Officers 2017 Survey* (Washington DC: ACC, 2017).

a reinvigoration or refocusing of the culture. "Carving out" culture as a stand-alone agenda item in these or similar cases will help to highlight it as a priority and signal its importance. In the view of the Commission, however, directors should aim to create an environment where culture is a regular part of the discussion across a wide range of the topics covered in board meetings. [See Section Eight of the Toolkit for an example of a CEO's report to the board on culture following an acquisition. Section Nine outlines suggested questions for discussion by the board on 10 culture-related topics.]

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RECOMMENDATION: Integrate culture into the board's ongoing discussions with management about strategy, risk, and performance, emphasizing that the way in which results are achieved is as important as whether or not a given goal is met.

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Amplify the importance of "how." In all discussions of performance results with management, board members should emphasize that the way in which results are achieved is as important as whether or not a given goal is met. The way directors formulate questions during reviews of business results and operating performance sends an important signal: an overly transactional approach to problem-solving or an excessive focus on quantifiable gains and losses (whether in terms of revenue, profits, market share, or other measures) can obscure or diminish the importance of purpose, values, and behaviors. Boards should ask how employees handle situations where goals and objectives are in conflict. How do they make trade-offs in these situations? As a Commissioner observed, *"Employees' behaviors and choices today can take months or even years to show up in results, so it's important to have those 'how' discussions on a regular basis, including—and especially—when performance is good."*

Establish clear reporting requirements. While it can be challenging for management to demonstrate whether company culture is healthy, the board should set clear expectations about the due diligence and evidence required. Tools such as root-cause analysis, advanced survey techniques, data mining, and workforce analytics (with appropriate privacy protocols) can all help to enhance ongoing monitoring and assessment of the firm's culture.[31] See sidebar, Culture Red Flags, for examples of early-warning indicators of potential cultural trouble spots.

Directors can pose questions such as these:

- **Are we getting a holistic view of the culture?** Even in highly centralized companies, data related to culture is collected and tracked by a number of different functions, including but not limited to legal, internal audit, finance, risk management, human resources, ethics and compliance, and customer service. Complicating matters further, in large, dispersed organizations, valuable information may exist at the local, regional, and/or divisional levels. Boards need to ensure that cultural indicators are not evaluated in isolation. They should hold management accountable for developing an integrated picture of the health of the company's culture and reviewing it with the board.
- **Do we see unfiltered or "raw data" about the culture, or only summaries?** While committee chairs and corporate secretaries rightly need to guard against information overload when preparing board materials, it is also important to give directors an opportunity to hear the voices of employees, customers, and others who have firsthand perspectives on the company's culture. For example, the audit committee can request not just a summary of the issues raised on the employee hotline, but samples of call transcripts. The same holds true for employee or customer survey results.
- **What is the quality and reliability of our data?** Strong internal controls over financial reporting are not only an essential indicator of the accuracy of a company's financial statements—their presence (or absence) also sends a signal about its culture. Audit committees should monitor whether management's investments in the resources and systems

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[31] Heather Clancy, "What can big data reveal about corporate culture? Get ready for 'people analytics'," *Fortune*, Mar. 20, 2015.

related to internal controls are sufficient to keep up with the firm's growth and respond to changes in regulatory requirements. Data controls are important outside the realm of financial reporting as well: the board should ask management how nonfinancial performance measures and other key indicators are validated.

Culture Red Flags

A commissioner said, *"Explicit discussions with management [about culture] are essential. You can't identify red or yellow flags without an established baseline."* Below is an excerpt of cultural leading indicators from Section Twelve of the Toolkit.

- Focus on performance with little regard to how results were achieved

- High performers are allowed to operate outside established policies. Behaviors that are not consistent with the company's stated values/code of conduct are rewarded.

- Frequent "near-misses" of adherence to code of conduct, risk-appetite limits, etc., or frequent requests for exceptions to these policies in order to meet performance targets

- Excessive focus on consensus/collegiality leading to prevalence of "go along to get along" attitudes

- Relationships outweigh skills and/or performance in determining promotions or other recognition to an inappropriate degree

- Sharing bad news is discouraged (or, bearers of bad news are punished outright)

- **What do independent sources tell us about the firm's culture?** In the words of one Commissioner, *"Culture is like oxygen: [management] is living and breathing it every day, so it can be difficult to see patterns or red flags."* The board should require that its culture dashboard include not only information from internal audit, but data from sources outside the company, such as the external audit firm and social media sites that collect employee or customer reviews. In addition, directors should ask that management engage a third-party reviewer to conduct comprehensive culture assessments (spanning multiple geographies, businesses/functions, and levels of the organization) on a periodic basis.

- **How is the company acting on the information that is collected about the health of the firm's culture?** What are management's plans to close gaps, address problems, and capitalize on strengths?

[Sections Ten and Eleven of the Toolkit contain guidelines on assessing culture, including dimensions of healthy culture, principles for board-level reporting, and samples of board-level culture reports. See Section Twelve of the Toolkit for examples of internal and external information sources about company culture and warning signs that can indicate cultural problems. Section Thirteen has examples of culture survey questions.]

RECOMMENDATION: **Boards should set the expectation with management that regular assessments of culture will include both qualitative and quantitative information and incorporate data from sources outside the organization.**

CEO Selection and Evaluation

In looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if they don't have the first, the other two will kill you.

—WARREN BUFFETT, CHAIR, BERKSHIRE HATHAWAY[32]

The *Report of the NACD Blue Ribbon Commission on the Board and Long-Term Value Creation* recommended that "the board's CEO selection and evaluation processes should include an assessment of the extent to which he or she is an effective advocate for the firm's long-term strategy."[33] Because a healthy and thriving culture is an essential ingredient of competitive advantage and long-term value creation—and because organizational cultures are significantly influenced by the style, actions, and "shadow" of their leaders[34]—culture considerations should be hardwired into the board's oversight of the current CEO as well as the succession planning process.

During recruitment, directors should ask internal CEO candidates what they see as the strengths and weaknesses of the present culture, and how they might influence it. External candidates can be asked similar questions about the culture they came from. Performance evaluations of the CEO and senior leadership team should include culture-related metrics such as employee engagement.

While CEOs have unique responsibility for establishing, leading, and shaping the firm's culture, they can't do it alone. The board should set the expectation that the CEO will create a cascade of positive influence on culture, starting at the top and moving throughout the organization. To support the execution of his or her desired work program related to culture, the CEO may choose to enlist existing functions (e.g., human resources) and/or establish a dedicated role similar to one that a chief risk officer might play in coordinating the organization's risk-management activities. The board should make clear that such choices do not diminish the CEO's accountability as "chief culture officer" for the organization.

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RECOMMENDATION: Directors should make culture an explicit criterion in the selection and evaluation of the CEO, and set the expectation that the CEO and senior leaders do the same in their own leadership development and succession-planning activities.

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Reward and Recognition Systems

Because they make explicit connections between a company's strategic objectives, performance targets, and the specific activities required to achieve expected goals, compensation plans have a significant influence on behavior and therefore on firm culture. Directors should review the company's overall executive-compensation philosophy, as well as the specific details of annual and long-term incentive plans for the CEO and named executive officers, to ensure that they support the desired culture, and eliminate any components that might undermine culture. The board and compensation committee should also identify critical categories of pay plans elsewhere in the organization (e.g., for sales staff, key division and/or function leaders, or for staff serving in highly volatile areas of the business) and establish a process for regularly reviewing the impact of those plans on company culture. One Commissioner noted, *"Each year we ask our compensation consultant to do a summary report on the incentive programs at all levels of the company, and identify any aspect of those programs that could be problematic by encouraging high-risk behavior or oth-*

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[32] Quoted in Christine Lagarde, "The Role of Personal Accountability in Reforming Culture and Behavior in the Financial Services Industry" (speech presented at Reforming Culture and Behavior in the Financial Services Industry: Workshop on Progress and Challenges, an event organized by the Federal Reserve Bank of New York, Nov. 5, 2015).

[33] NACD, *Report of the NACD Blue Ribbon Commission on the Board and Long-Term Value Creation* (Washington, DC: NACD, 2015), p. 13.

[34] See Larry Senn and Jim Hart, "What Leadership Shadow Do You Cast?," Heidrick & Struggles Knowledge Center, June 23, 2015, and Senn-Delaney, "Culture shaping: why a healthy, high-performance culture matters."

erwise damaging the culture. It gives the compensation committee a new level of visibility, and also sends a strong message that the board is paying attention."

Important considerations include these:[35]

- Developing performance-review criteria, and associated metrics, that are appropriately balanced between quantitative and qualitative, short-term and long-term, outcome-based and activity-based, and relative and absolute
- Calibrating goals and upside opportunity (including payout thresholds and the slope of the payout curve) to avoid encouraging unduly risky, "swing-for-the-fences" behavior
- Factoring quality of performance into compensation decisions through the inclusion of metrics such as employee engagement/retention, safety, and customer satisfaction, and through the use of discretion on award decisions
- As noted earlier, ensuring that the controls on the data used as inputs to the compensation plan are sufficiently robust—particularly important with nonfinancial and non-GAAP metrics

While a close and thoughtful review of the compensation program is an important part of the board's review of the impact of a company's reward systems on its culture, it is not sufficient. Because financial incentives, though complex, are relatively easy to quantify, boards and management teams may tend to focus on them while failing to devote enough attention to the influence of other types of rewards on the firm's culture. Promotions, opportunities to participate in leadership development activities, and nonfinancial rewards and recognition are also important ways in which some types of performance and behaviors are celebrated and others are not. Directors should ask the CEO and senior leaders to explain how all of the aspects of the firm's talent and human-capital strategy work together to support a healthy, thriving culture and discourage unwanted behaviors. [See Section Fourteen of the Toolkit for a set of questions directors can ask to ensure that performance management and reward systems are aligned with desired culture. Section Fifteen contains an example of how companies can use behavioral modifiers in executive-compensation decisions.]

RECOMMENDATION: Boards and compensation committees should review the company's recognition and reward systems (including incentive compensation as well as promotion decisions and other nonfinancial rewards) to ensure that they reinforce the desired culture and avoid unintended outcomes that could undermine culture.

Communication With Shareholders and Stakeholders

In 2004, the Task Force on Board-Shareholder Communications convened by NACD and the Council of Institutional Investors expressed what many considered to be a minority viewpoint when it stated, "[B]oard-shareowner communication benefits both parties. It ensures that significant investor concerns are heard by directors and increases the accountability of directors. It gives boards a mechanism to receive the views and information from owners of the company, who offer a unique perspective that may or may not be the same as that of management."[36] Thirteen years later, these views have entered the mainstream. Board-shareholder communications have undergone a sea change driven by expanded regulatory requirements, a more vocal investor community wielding greater influence, advances in technology, and the recognition by boards and management teams that transparent, high-quality communication with investors is a core ingredient of good governance.

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[35] Compensation Committee Chair and Risk Oversight Advisory Councils, NACD, *Incentives and Risk-Taking* (Washington, DC: NACD, 2017).

[36] NACD, *Framework and Tools for Improving Board-Shareowner Communications: Report of the Council of Institutional Investors-National Association of Corporate Directors Task Force on Improving Board-Shareowner Communications* (Washington, DC: NACD, 2004), p. 9.

In recent years, boards have enhanced investor communications in areas including executive compensation, the work of key committees such as audit and risk, board composition, director skill sets, and the board's continuous-improvement processes such as succession planning and evaluations—often going well beyond the minimum disclosure requirements set forth by regulators and listing exchanges. This Commission anticipates that company culture will be the next focal point for investors' dialogue with management teams and boards, in the context of long-term strategy and key risks.

One commentator describes investment analysts' growing interest in culture this way:

> Analysts in the U.S. have advanced the furthest in their efforts to assess culture and anticipate its future impact on performance. . . . Their sources are primarily their personal experience of the organisation and its leaders. . . . We were impressed with the sophistication some investment management firms are showing in their understanding of culture and how best to assess it from their position outside the organisation. . . . A number are talking to employees and ex-employees. . . . They are searching for symbols of what actually goes on day-to-day.[37]

Investors' corporate governance teams, responsible for annual proxy voting, are also focusing on key drivers of culture. In his 2017 letter to portfolio-company CEOs, Laurence Fink, chair and CEO of world-leading asset manager BlackRock, noted that the firm's engagement priorities include understanding how companies are investing in long-term growth, including "employee development and long-term financial well-being. The events of the past year have only reinforced how critical the well-being of a company's employees is to its long-term success."[38]

> **RECOMMENDATION: Shareholder communications should include a description of how the board carries out its responsibility for overseeing and actively monitoring the company's culture.**

Company leaders and boards need to be prepared to answer questions from investors about how they know that the firm's culture is more than just a written code of conduct. Accordingly, directors should review the firm's core shareholder communications channels, including the proxy statement, letters from the board in the annual report, direct-engagement discussions, and content on the corporate governance and/or investor relations sections of the company website, with an eye toward incorporating descriptions of the board's culture-oversight activities. Regarding management's communication with the investor community, the board should ask the CEO, corporate secretary, and investor relations team to explain how and where the connection between culture, strategy, and performance is addressed in analyst calls, the annual report and/or sustainability reports, investor roadshows, and so on. [Section Two of the Toolkit contains examples of board disclosures related to culture oversight.]

Other important stakeholders to consider include regulators, policymakers, customers, community leaders, and in the case of nonprofits, donors and the constituencies the organization serves. Boards and management teams need to consider incorporating messages about culture into the organization's regular communications with these stakeholders.

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[37] Carolyn Taylor, "Culture Counts in Investment Decisions," *cultureuniversity.com* (blog), July 14, 2015.
[38] Larry Fink, "I write on behalf of our clients …," Jan. 24, 2017.

Conclusion

As a core asset, culture requires active investment, management, and cultivation by the CEO and company leaders, and ongoing oversight by directors. But taking a proactive stance with respect to culture oversight does not mean directors have to factor a new, additional set of responsibilities into their already-crowded agendas. Instead, culture should be one facet of existing activities, including the board's own governance and continuous-improvement practices, strategy and risk discussions, CEO selection and evaluation, decisions about rewards and recognition, and shareholder/stakeholder communications.

Fundamentally, the board's role should be to demand from management a description of the cultural attributes that energize and enable the organization's strategy and operating model—not just *what* we do, but *how* we do business and why—and to ensure that the desired culture is reinforced in a steady drumbeat of messages, policies, processes, systems, and behaviors in the boardroom and across the organization. We believe this report and the accompanying Toolkit will support board members in carrying out this essential responsibility. ▲

Recommendations of the 2017 NACD Blue Ribbon Commission

1. The board, the CEO, and senior management need to establish clarity on the foundational elements of values and culture—where consistent behavior is expected across the entire organization regardless of geography or operating unit—and develop concrete incentives, policies, and controls to support the desired culture.

2. Directors and company leaders should take a forward-looking, proactive approach to culture oversight in order to achieve a level of discipline that is comparable to leading practices in the management and oversight of risk.

3. Because of its significant interdependencies with strategy and risk, active monitoring of the organization's culture is a full-board responsibility, with specific oversight activities housed in committees as appropriate. The nominating and governance committee should ensure that board policy documents and committee charters clearly delineate the allocation of such responsibilities and explain how culture oversight is embedded into the ongoing work of the board.

4. Directors should review the culture of the whole board and its key committees on a regular basis, both formally (via the evaluation process) and informally (by making time for reflective conversation in executive sessions). The results of these reviews should inform board composition, succession planning—especially for leadership roles on the board—and continuous improvement efforts in board operating processes.

5. Directors should assess whether the chief legal officer/general counsel and other officers in key risk-management, compliance, and internal-control roles are well positioned within management and in relationship to the board to support an appropriate culture.

6. Integrate culture into the board's ongoing discussions with management about strategy, risk, and performance, emphasizing that the way in which results are achieved is as important as whether or not a given goal is met.

7. Boards should set the expectation with management that regular assessments of culture will include both qualitative and quantitative information and incorporate data from sources outside the organization.

8. Directors should make culture an explicit criterion in the selection and evaluation of the CEO, and set the expectation that the CEO and senior leaders do the same in their own leadership development and succession-planning activities.

9. Boards and compensation committees should review the company's recognition and reward systems (including incentive compensation as well as promotion decisions and other nonfinancial rewards) to ensure that they reinforce the desired culture and avoid unintended outcomes that could undermine culture.

10. Shareholder communications should include a description of how the board carries out its responsibility for overseeing and actively monitoring the company's culture. ▲

Culture-Oversight Resources

NACD Publications

Report of the NACD Blue Ribbon Commission on the Board and Long-Term Value Creation (Washington, DC: NACD, 2015). This report advocated that boards "periodically gauge the extent to which the company's short-term actions are aligned with its long-term strategy, as well as the extent to which the company's culture supports and reinforces this alignment" (p. 13). It went on to say that compensation committees should "ensure that managers and their teams 'get to the right goals in the right way.' Incentive plans should reward genuine improvements in operating performance—as opposed to results driven by inappropriate financial engineering or earnings management—and encourage behaviors consistent with the firm's declared risk appetite" (p. 16).

Report of the NACD Blue Ribbon Commission on Risk Governance: Balancing Risk and Reward (Washington, DC: NACD, 2009). This report recommends that directors carefully monitor the potential risks in the company's culture and compensation program, with associated questions touching on the openness of communications, the quality of information flows to the board, whether incentive targets are sufficiently realistic and long-term in focus, and the transparency of disclosures to shareholders.

Report of the NACD Blue Ribbon Commission on the Diverse Board: Moving From Interest to Action (Washington, DC: NACD, 2012). This report frames diversity as "a business issue . . . a means to competitiveness" (p. 2), noting that organizations' sustainable, long-term performance depends in part on having a variety of perspectives, experiences, and backgrounds in the boardroom and in the workforce. The report identifies potential barriers to diversifying board composition, including board culture and dynamics, and proposes tactics to address them.

Report of the NACD Blue Ribbon Commission on the Role of the Board in Corporate Strategy (Washington, DC: NACD, 2006). This report identifies questions to assess an organization's culture and ethics, covering issues such as degree of hierarchy, resistance to change and level of risk aversion, whether management and employees are oriented toward the future or toward the status quo, the extent to which decision making is centralized, and the demonstrated treatment of employees, customers, suppliers, and communities.

Additional Reading

In addition to the publications cited in this report, the following selections from the large body of work on the topic of organizational culture and its oversight by the board may be of interest:

Association of Chartered Certified Accountants, Culture-governance tool (London, U.K.: ACCA, 2016) and "Culture and channeling corporate behaviour" (web page)

Dutch National Bank (De Nederlandsche Bank), The Seven Elements of an Ethical Culture: Strategy and approach to behaviour and culture at financial institutions 2010–2014, November 2009 (online publication)

Federal Reserve Bank of New York, "Behavioral Risk Management in the Financial Services Industry: The Role of Culture, Governance, and Financial Reporting," Economic Policy Review special edition (August, 2016: vol. 22 no. 1)

Group of Thirty, Banking Conduct and Culture: A Call for Sustained and Comprehensive Reform (July, 2015)

Report of a senior practitioners' workshop on identifying indicators of corporate culture, sponsored by the International Corporate Governance Network, the Institute of Business Ethics, and the Institute of Chartered Secretaries and Administrators and held Dec. 17, 2015

Peter Montagnon, Culture by Committee: the pros and cons (London, U.K.: Institute of Business Ethics, 2016)

James O'Toole and Warren Bennis, "A Culture of Candor," Harvard Business Review (June, 2009)

Edgar H. Schein, The Corporate Culture Survival Guide (Jossey-Bass, 2009)

The United Kingdom's Financial Reporting Council, Corporate Culture and the Role of Boards: Case Studies (online publication, July 2016) ▲

Toolkit

The Toolkit contains sample board documents, questions to inform discussion among directors and with members of management, and other materials to support directors in implementing the recommendations of the NACD 2017 Blue Ribbon Commission. The Toolkit is available exclusively to NACD members. To become a member, please contact Matt Barone, Director of Business Development, at mbarone@NACDonline.org. To learn more about NACD, visit NACDonline.org.

Toolkit materials in order of citation in the core report

1. Starting the Dialogue on Culture: Questions for Directors
2. Examples of Board Disclosures Related to Culture Oversight
3. Sample Board Member Guiding Principles
4. Sample Director Code of Conduct
5. The Role of Board Culture in Prevenitng and Addressing Director Misconduct
6. The Three Lines of Defense and Organizational Culture
7. The General Counsel's Role in Supporting Culture: Five Considerations for Directors
8. Culture Business Case: Reporting to the Board on Culture-Change Initiatives
9. Ten Corporate Culture Topics: Discussion Guide for Directors
10. Seven Dimensions of Healthy Culture: Definitions and Sample Board Reports
11. Culture Metrics, Measurement, and Reporting: Considerations for Board Members
12. Building a Cross-Functional Dashboard for Culture Oversight: Data Sources and Leading Indicators
13. Sample Culture Survey Questions
14. Supporting Culture Through Compensation, Recognition, and Reward Systems
15. Executive Compensation Modifier Example

The table below indexes the contents of the Toolkit according to the priorities for action outlined in Part Two of the Blue Ribbon Commission Report.

Priorities for Action	Commission Guidance	Toolkit Materials
Board oversight responsibilities **Communication with shareholders and stakeholders**	Clearly delineate the responsibilities for culture oversight in board policy documents and charters. Include a description of how the board carries out its culture-oversight responsibilities in shareholder/stakeholder communications.	• Examples of Board Disclosures Related to Culture Oversight

Priorities for Action	Commission Guidance	Toolkit Materials
Assessing boardroom culture	Review the culture of the board as a whole, and its key committees, on a regular basis.	• Sample Board Member Guiding Principles • Sample Director Code of Conduct • The Role of Board Culture in Preventing and Addressing Director Misconduct
Embedding culture into discussions about strategy, risk, and performance	Define organizational roles and responsibilities.	• The Three Lines of Defense and Organizational Culture • The General Counsel's Role in Supporting Culture: Five Considerations for Directors
	Make culture a routine agenda item.	• Starting the Dialogue on Culture: Questions for Directors • Ten Corporate Culture Topics: Discussion Guide for Directors
	Establish clear reporting requirements.	• Seven Dimensions of Healthy Culture: Definitions and Sample Board Reports • Culture Metrics, Measurements, and Reporting: Considerations for Board Members • Building a Cross-Functional Dashboard for Culture Oversight: Data Sources and Leading Indicators • Culture Business Case: Reporting to the Board on Culture-Change Initiatives • Sample Culture Survey Questions
Reward and recognition systems **CEO selection and evaluation**	Ensure compensation, promotion, and other nonfinancial rewards reinforce the desired culture. Make culture an explicit criterion in the selection and evaluation of the CEO.	• Supporting Culture Through Compensation, Recognition, and Reward Systems • Executive Compensation Modifier Example

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