It's Not All About the Numbers: The Board's Role in Building a Commitment to Company Culture

Can culture beat strategy? Yes—but it doesn't just happen. The board's role in evaluating and sustaining corporate culture is becoming more important than ever. Here's how boards can encourage a positive corporate culture and reap the benefits.

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Our headline likely reads as heresy to many company leaders and board members, especially the dwindling number of Jack Welch-General

Electric-era folks for whom "20-20-20!"—meaning continuous quarterly and annual increases of 20 percent in revenue, net income, and earnings per share—was a rousing battle cry.

That period during the 1980s also saw the bottom 5 percent of employees terminated in an annual "draft" based on a stack ranking derived from someone's perception of the employee's relative performance. Workers were often categorized as A, B, or C "players." A players? Safe. B players? Relatively safe but buckle down. C players went away. The "culture" was make your numbers or you're gone.

But times have changed. For the better.

Acknowledgment of the importance and value of a vibrant corporate culture has emerged. We've learned that engaging people by establishing and living a set of values that answers existential questions—such as, Why are we here?—is far more effective than the hammer that pounded on employees and essentially enforced performance using uninspiring bromides such as "maximizing shareholder value." In today's world of hybrid work locations, a company's commitment to its employees—as well as its vendors, suppliers, community, and shareholders—is critical.

With culture being recognized as such a crucial component of a company's success, boards have become involved, too, and have a responsibility to assess, understand, and offer guidance on it. This leads to the question: What is the board's role in evaluating and sustaining—or even changing—the company's culture?

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Start by Listening

Whether or not you choose to believe it, your company has a culture. It may be set by the behavior of a group of elusive executives who hand down edicts from the security of a distant headquarters. Or it can be crafted by a group of well-connected and accessible leaders who live by a straightforward and wellarticulated set of values, where trust and transparency serve as the bedrock of the company's hierarchy of needs.

The simple act of listening is an attribute of a strong corporate culture. It was clear to Howard Schultz, in his "temporary" return to Starbucks this year, that the unionization efforts in stores across the company stemmed from the former leadership's failure to listen, resulting in a shift from a climate of inclusiveness to one of isolation. The Boeing Co.'s documented quality control problems due in part to its lack of an employee-focused culture cost it billions of dollars in delays. Even Jack Welch began to see the light by allowing in one of his last interviews, "Maybe we didn't get it right."

The simple act of listening is an attribute of strong corporate cultures. You don't always have to implement suggestions or actions based on what you're hearing. Not every idea is practicable. Still, with their proximity to customers, frontline employees often have useful insights. At the very least, you need to listen—and let them know they are being heard. As Maya Angelou said, "I've learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel."

While none of us may be such enormously accomplished poets, people who enjoy their work and honor their workplace feel respected, heard, and valued.

Culture Defined

More recently, as its role was becoming clear, company culture was sometimes defined by modern-day "benefits" like ping-pong tables, beer taps in break rooms, happy hour on Fridays, unlimited vacation days, maybe even company-paid *(it's not free … for anyone)* lunch. These perks are attractive, but they're not culture. Culture is a behavior, an embodiment, not an amenity.

On a fundamental level, culture can be described as "how we do things around here"—how decisions are made, who makes them, and why. Consider how the following apply at your company:

- **Mission, vision, and values—**knowing who and what you are as an organization and living by those standards.
- **Trust—**supporting and promoting sphere-of-responsibility decision-making, not second-guessing or micromanaging. Frontline decision making. Are people acknowledged and rewarded for sticking their necks out, or are they reprimanded and shamed?
- **Transparency—**sharing both the good news and the bad.
- **Leadership accessibility and accountability—**being present physically and mentally, and being accountable to all stakeholders, including employees, for organizational performance.
- **Professional development—**committing to improving skills and expanding experiences for employees.

- **Listening.**

Are there other definitions of culture? Of course. But absolute dedication to a cultural standard is more than half the battle. Strong cultures establish these assets and attributes by advancing an all-in, “Don’t say it, live it!” mind-set that permeates the organization from top to bottom.

Where Does the Board Fit In?

The basic responsibilities of a board are assessment, measurement, and guidance. Historically, boards have done this with respect to strategic planning, financial performance, risk, legal and tax structure, management structure, and succession planning. The board also provides important oversight and evaluation of the CEO.

In measuring company performance, boards typically look at factors such as financial performance compared to industry benchmarks and company share performance or market share compared to industry leaders. But how do you measure culture, especially in an environment where comparisons play a key role? Corporate culture is unique. Hundreds of companies have what can be described as strong cultures, but the functional aspects of each can be vastly different, making external comparisons difficult.

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One strong measure is employee turnover. Among other factors, it’s an asset to have employees recommend the company to friends, family, neighbors, and colleagues. Boards should regularly review employee retention and turnover data, as well as recaps of exit interviews. It comes down to understanding what employees know and think about the company. Periodic meetings with management and especially frontline workers, as well as employee surveys, can provide insights.

When reviewing these conversations and results, boards should look for clues about these key areas:

- Do employees understand and emulate the company’s mission, vision, and values? This doesn’t mean reciting written statements. Rather, do they feel empowered to take actions that embody those statements?
- Are their thoughts aligned with those of leadership, which would suggest that leaders are consistently expressing their values and priorities to employees?

- Are employees engaged? Employee engagement is the primary driver of culture. Do rank-and-file workers feel they have a stake in the success of the enterprise and can make a difference?
- How do employees get information about the company and its policies? A monthly newsletter? A Zoom meeting? Face-to-face meetings with supervisors, management, and leadership? Through the grapevine?

Written communications are important and should provide a baseline of information about what is happening and why. However, an employee letter or newsletter is a one-way street that doesn't provide for employees' responses or questions. Company leaders are much more credible when they supplement written communications by regularly making themselves available to employees face-to-face. Employees need to know not just the "what," but also the "so what" and the "why."

Everything communicates, the stated and the unstated. And you're sending strong messages—sometimes even screaming them—when you choose not to communicate. Acknowledging tough or uncomfortable questions is an important practice, too. It indicates that leadership is listening and willing to engage in discussion. When someone introduces themselves during a Q&A, does the leader reply with their name ("Thank you, Brianna, for your question…")? Is the CEO's or group leader's email address at the bottom of the memo or presentation deck?

Metrics and More

As board members, we love metrics. And for good reason. Metrics structured for the right reason and in the proper context yield meaningful conclusions. They can play a role in culture, too.

Net promoter scores, which are used to gauge customer satisfaction and enthusiasm, can say a lot about the effectiveness of a company's culture. Net promoter respondents are grouped into three categories:

- Promoters are loyal enthusiasts who keep buying and using your products and services and refer others.
- Passives are satisfied but unenthusiastic customers who could be vulnerable to your competitors.
- Detractors are unhappy customers who can damage your brand, which often happens through negative word of mouth.

Net promoter scores provide a valuable benchmark as they relate to products and services, customer service, and organizational culture. Sharing them with employees and emphasizing management's strong interest in them can encourage a similarly strong motivation for employees to take interest and go the extra mile. This is especially true in industries such as hospitality, tourism, and travel where customer service is your stock-in-trade. Boards should consistently review net promoter or other customer satisfaction metrics with an eye toward changes in company culture and potential improvements.

In this regard, the adage “Happy employees make happy customers,” certainly rings true. However, it’s an incomplete thought. What makes employees happy? People are happy when their employer’s cultural assets provide meaning, prompt engagement, and offer a stake in the outcome. More accurately, engaged employees make happy customers.

Metrics aren’t the only way to gain insights.

Charles M. Pigott, former CEO of PACCAR, maker of the Kenworth and Peterbilt truck brands, personally engaged in measuring customer satisfaction. Long before Undercover Boss premiered in 2010, he would dress in a flannel shirt and jeans and visit truck stops to chat with long-haul drivers to learn about them and their needs.

Under his leadership as CEO beginning in 1967, PACCAR reported profits every year and grew sales from $320 million to $4.3 billion. Is all of it attributable to culture? Likely, some of it. For a CEO to know first-hand what end-users think in real, unvarnished terms and translate those ideas into a cultural framework is an enormous competitive asset.

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Stakeholders

So far, our focus has been on employees. Although employees are key, other stakeholders—customers, vendors and suppliers, lenders, shareholders, and the community (e.g., local areas, industry organizations)—also play into the cultural mix. A company’s culture must respect all stakeholders based on the idea that all stakeholders, not just employees, contribute to its success.

Consider also the board itself. Compatibility and chemistry are critically important. A director's responsibility is challenging, which is made far more difficult if the individual members don't work well together. In assembling a board, a board qualification matrix should help identify the necessary skill sets and experiences. In the context of serving as a management resource, understanding the group dynamic is important. Myers-Briggs or other personality assessments may be helpful in this regard.

Financial Performance

While it's not all about the numbers, financial performance obviously is an important factor. After all, nothing works without adequate funding. And, as directors meeting shareholder and investor expectations remains paramount. However, culture emphasizes the importance of long-term viewpoints and actions and the viability of the enterprise over the long term, which always are a board's priority.

During the Jack Welch era, many public companies focused only on the current quarter in their quest to show unfailingly positive results on a regular basis. It was a game bound to be lost. Now, consider what long-term financial commitments are being made for the long-term sustainability of the enterprise. Conversely, some decisions may not look good over the short term. Understanding and taking responsibility for these decisions defines leadership and sets a strong, "we're in this for the long haul" tone.

The Importance and Value of Culture

To those who feel that culture is no more than touchy-feely stuff that doesn't mean much, we put forward a different mantra: *Culture beats strategy, all day, every day.*

The evidence is clear that culture makes a difference. Work environments that have strong cultures and values drive excellent results. And when results are at stake, boards need to be engaged.

In its *State of the Global Workplace: 2022 Report, Gallup* found that 60 percent of the world's workers are emotionally detached at work and that 19 percent are "miserable." Stress is at an all-time high and so is burnout. In his introduction to the report, Gallup CEO Jon Clifton writes, "The idea that 'work sucks' is everywhere."

As company leaders and board members, we can't let this continue to happen. As with other components of our responsibilities, we must be stewards and guides of improvement when it comes to corporate culture. Embracing stakeholder values is a continuous-loop flywheel. When you add in talented leadership and humility along with strong, clear messaging on mission, vision, and values, you get results.

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