Disruption

Managing Culture in a Dynamic Environment

By Joe Tarantino

I often get questions about how the board should oversee the company's culture, but one big question trumps them all: How do we monitor culture in periods of rapid and disruptive change? Viewing culture as something static is a sure path to corporate dysfunction, non-aligned subcultures, ill-advised decisions, and unforced strategic errors. Like everything else that impacts an enterprise's prospects for success, culture warrants a proactive approach from directors and senior executives.

In order to effectively oversee the company's culture, consider the following:

■ **Start at the top.** When taking a hard look at culture, the focus should be not on what leaders say, but on what they do. It doesn't matter what's said on the company's website. The board should understand the company's vision, mission, and core values, and how they are pushed downward into the organization so that the mood in the middle is aligned with the tone at the top.

■ **Seek feedback and measure what matters.** Facets of culture can indeed be measured. Is your company gathering data on its culture? Metrics can be used to address mission and values alignment, innovation, resiliency, collaboration, and employee satisfaction. One way to identify useful insights into workforce satisfaction and flag patterns that suggest potential cultural issues is to engage independent sources such as Glassdoor.

■ **Look beyond what the advisors say.** Assume management intends to inculcate a cross-selling culture, designs incentives to do so, and engages a compensation consultant to assure the board that others in the industry are doing the same thing. Before relying on such assurances, the board needs to examine the full picture. For example, what if base compensation is significantly lower than industry standards, or management lacks mechanisms to monitor whether customers are being treated ethically? Concerns of this nature would raise questions regarding the cultural tone the new incentives might encourage.

■ **Oversee the impact of digital.** Digital transformations often require a hybrid talent model. This hybrid should combine the wisdom of employees who grew up during the analog age, many who possess invaluable institutional knowledge and experience in various business cycles, with new employees armed with digital expertise and ready to deploy fresh ideas. Management must blend these talents and styles in a healthy, transparent environment where all feel comfortable speaking up.

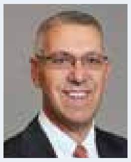
■ **Pay attention to the evolving work environment.** The traditional labor model is transitioning to a talent ecosystem in which much of the organization's work could be completed by non-employees (contractual and temporary workers) and technology-enabled "digital labor." It's important for boards to be aware that traditional human resources model could become obsolete over the next several years, and to ask management about how they are approaching this disruption within the context of culture.

■ **Ensure that social media and message boards are monitored.** Analysis of dialogue about the company and its processes, products, and services may reveal issues and new market realities from employees, alumni, competitors, or others that the board should be made aware of.

■ **Be mindful of conflicting subcultures.** Subcultures may stem from groups of employees specifically tasked with innovation, quality control, sales, safety, risk, or diversity and inclusive initiatives. Conflicting subcultures could present exposure to excessive risk taking, off-strategy decisions, or unethical and irresponsible business behavior. For example, demanding cost and schedule metrics may conflict with safety standards in situations that are environmentally sensitive or threaten the public interest. These matters should be escalated.

■ **Have "eyes and ears" focused on and attuned to culture.** Insist on observations regarding culture from independent second-line functions (e.g., risk management and compliance) and from internal audit. These functions should be mindful of early warning red flags regarding cultural dysfunction, and should report the signs to the correct business leader and, when appropriate, the board.

As the environment changes and culture is increasingly seen as a strategic asset, boards have to pay more attention to the tone at the top, middle, and bottom of the organization. Recent surveys we have conducted of executives and directors around the world identified two risk factors due to inattention to culture: resistance to change, and inadequate, untimely upward communication of risks. If the board's focus on culture doesn't extend beyond the tone at the top, directors may miss the big picture.



Joe Tarantino is president and CEO of Protiviti.