Why is culture important at the board level, and what are the building blocks of a culture which drives performance and success?

Corporate culture and the role of the board

The influence of regulatory bodies on company behavior is limited. Instilling and maintaining a positive corporate culture that aligns with best practices and facilitates effective governance is principally the responsibility of the board. In this article, we'll explore how the nature of the relationship between the board and other stakeholders affects corporate culture, and the implications this has for companies.

Beyond simply driving performance, developing a healthy corporate culture is also vital to maintaining a company's reputation. The brand damage caused by corporate scandals can carry with it huge financial and legal implications.

In many of the most high-profile cases of the last decade, we've seen that poor corporate culture is time and again at the root of illicit or damaging activity.

A healthy culture, on the other hand, prevents the lower-level infractions which can develop into systemic issues if left unchecked.

The culture of an organization has significant inertia, that is, once a negative culture is in place it can be extremely difficult to change or improve it. It's therefore vital that the board takes a leading role in monitoring and shaping organizational culture from the top-down as early as possible, in order to ensure the most positive outcomes.

We can look at culture in terms of a company's relationship with and behavior towards each of its key groups of stakeholders - management, workforce, shareholders, customers, and the wider society in which the business operates. In each case, the board has an important role to play in guiding and defining that relationship.

Empowering company management

Boards should ensure that management is properly equipped to evaluate and influence the company's activities within the context of the legal and regulatory frameworks in which it operates. Risk management is a critical area of focus, and a comprehensive strategy should be in place with progress monitored regularly by the board.

It's the responsibility of the company's management, led by the board, to ensure that employees are adequately informed on how to identify potential risks, that clear processes are in place for risk reporting, and that there is a chain of responsibility for the escalation of reported risks where necessary. Ultimately that chain ends at the board level.

Amman
7th Circle, Amman, Jordan
T +(962) 6 586 6448
M +(962) 79 988 4111
Info@MEIoD.org

Dubai
Downtown Dubai, Dubai, UAE
T +(971) 4 401 8506
M +(971) 56 651 4081

Engaging and reassuring employees

Employee engagement is central to the culture of any organization and ensuring that all employees understand and support the company's mission, vision and purpose is key to achieving that. Engaged employees are far more likely to uphold the ethical standards of the company, and this is ever more important given the increasing trend towards hybrid or remote working practices. The board must ensure that the workforce continues to feel connected and supported to avoid any lapse in standards.

It also falls to the board to ensure that all employees feel empowered and protected when reporting on emergent risks, that they are comfortable sharing information about compliance or behavioral issues, and that they receive relevant and timely feedback on their input which confirms that their voice is being heard.

Encouraging shareholder participation

A company's shareholders are key to effective governance, and it falls to the board to protect their rights, including those of minority shareholders. Effective boards should go further and proactively engage with shareholders to exercise those rights.

To foster an inclusive and interactive relationship it's not enough to assume shareholders will contact the board or raise questions at the AGM. Instead, boards should reach out to encourage, invite and facilitate participation and attendance. Without this level of engagement, they may feel forced to resort to shareholder activism if they do not feel their rights are being respected and their concerns met.

Shareholders can only add value through their involvement if they are fully informed. Boards have a duty to provide full and complete disclosure of relevant information, going beyond merely meeting their legal or regulatory obligations, to ensure that their shareholders can offer input based on an accurate picture of the company.

Ensuring customer satisfaction

While the board will not directly interact with customers, part of their responsibility is to create a culture in which customer care and the customer experience are prioritized. Transparent and honest communication with customers is equally as important as with shareholders or employees and has a positive impact on retaining customers and increasing their lifetime value when executed well.

Building a successful company culture is also reliant on listening to customers, and the board should ensure that appropriate feedback channels are established, promoted, and monitored. Boards should regularly review customer sentiment, complaints, and feedback policies and outcomes to ensure the relationship is managed correctly by the executive function of the business.

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Making a positive contribution to society

A company's relationship with the society in which it exists can be described in terms of corporate citizenship. Depending on the size of the organization, corporate behavior may have a local, national or global impact.

In any case, maintaining a positive perception of the business is a key responsibility of the board, including in its dealings with partners, suppliers, regulators, service providers, and the public in general. The board's handling of environmental, social, and governance issues is key to defining this perception.

Developing an integrated culture

In summary, building a positive corporate culture hinges on the board placing itself at the intersection of executive, employees, shareholder, customer, and public relations and ensuring that the overall strategy aligns with the interests of these disparate groups. Communication in each case must be truly two-way, with the board upholding the highest possible standards of honesty and transparency, while proactively encouraging feedback, and acting on it as appropriate.

About the Author:

Maali Q. Khader is a highly experienced, effective, and trusted lawyer. Today she is a luminary in the corporate governance, sustainability, legal training, and advice sectors.

Maali holds a few concurrent roles, chief of which is CEO of the influential Middle East Institute of Directors (MEIoD), delivering advanced environment, social and governance (ESG) advisory and training to several prestigious organisations.

Since 2012, as Founder and Board Member, Maali has driven change and excellence across a number of leading organisations.

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