Reviewing culture: who's doing what

"Culture" is a word bandied around increasingly in the boardroom. That's partly because there's a much greater recognition of its immense importance in securing strong performance, in managing risks and in protecting reputation.   And in part it's driven by "culture" being given a higher regulatory profile – and the FRC now has a major initiative underway on the topic. But it's a slippery concept and boards often find it difficult to work out what to do in practice. So what are boards doing?

At a major gathering of company secretaries last week, we did a quick survey. Out of 37 companies from across diverse sectors (and including 14 FTSE 100), half told us that their board is "fully engaged in regular assessment of culture and ethics" – so that's good, with only four boards barely having it on the radar. The sources used to get a view vary widely and there's no pattern to what's being used. Just over half are using a report from internal audit, and the same number are using management metrics (eg satisfaction indicators). Only 40% are using staff surveys and only a handful are using exit interview reports. Perhaps surprisingly, only 30% are getting reports on "culture and ethics" from risk management, despite the widespread recognition that good behaviour is key to good risk management. None of this is conclusive, of course, and it's a smallish sample (we're planning on some more extensive research in 2016). But it – along with what we see in our work – has prompted a few thoughts on things for boards to think about.

Good practices to consider...	Things to avoid...
As the approach to reviewing culture develops, make sure you are clear on how the oversight responsibilities are shared between board committees and which one is taking the lead and ensuring that all the dots are joined up. The Code seems to point to the Audit Committee, but an Ethics Committee or a separate Risk Committee, if you have one, could just as well be the natural home. But wherever responsibility sits, make sure there is good liaison across the committees so that each is getting out of it what it needs.	Letting it become the purview of just one committee. There are different angles – ethics, compliance, internal control, risk management, HR, remuneration – crossing committee boundaries, so each will have its own interest which should be captured in the work done. And when it comes to reporting, several different pictures might be needed.
Whichever committees are involved, make sure the management's responsibility to work with the committee is clear and accepted – and the committees' expectations are precisely set out. "Culture Review" will mean different things to different people so the objectives, scope and anticipated output need defining.	Assuming that everyone else means the same by the word "culture" as you do... And failing to discuss what style of reporting the committee would like, leading to disappointment and wasted time. Given that the "culture review" will be a new area, with all involved feeling their way, Board and Management will need to work out together what's needed.

Good practices to consider...	Things to avoid...
Think carefully about which management function is best placed to give you what you need. We've seen any and all of Internal Audit, Risk Management, HR and Compliance involved – no single one is "the right place". But each will have its own focus, and none will necessarily be exactly in line with what the Board wants. And each will have different competencies or outlooks which may – or may not – be well-suited to the task.	Starting out with a mismatch between expectations, capability and natural focus. For example, is HR well-placed to undertake a structured, evidence-based review? Do Internal Audit have the broader skills needed to "audit" behavioural matters? Will Compliance really address the wider control and behaviour issues?
Before commissioning new sources of information, first look at existing sources which act as indicators of "behaviour and culture". There will be quite a few and you might be seeing some already but not looking at them through a "culture lens". For example, HR stats, customer and supplier feedback, legal cases, audit findings…	Starting a new programme (probably at a significant cost in time and money) without considering how far you could get with what's already available. It might give you an incomplete picture but even so it could help you decide what to do next.
If Internal Audit are asked to do what is often referred to as a "culture audit", make sure their methodology and skills are appropriate for assessing qualitative questions. The internal auditors are used to spotting control failures that can be the consequence of behavioural weaknesses – but it's not axiomatic that they're equally good at understanding the underlying behavioural issues and what's causing them.	Assuming that "culture" can be "audited" in the usual way. Gathering evidence that gives indications of problems is standard audit methodology, but getting beneath the surface of what's caused them isn't always audit's strong suit. And some auditors need to have "something to audit" and so want to assess behaviour against policy statements or other formal benchmarks, which will only get you so far.
Get out and about in the business with your eyes and ears open. Attitudes to control disciplines, to customers, to regulators… often all can become apparent quite easily when you listen to people talking outside the boardroom and see the sort of judgements they make in their day-to-day work.	Suppressing what your instincts tell you about undesirable attitudes and behaviours in parts of the business. Granted, as an NED it's not your job to manage – but if, for example, you see overlooked hazards in an untidy site, it's evidence of sloppiness that tells you something about management discipline and employee attitudes.
Recognise up front that you're not going to get a perfect picture. It will only ever be a snapshot – and a partial, indicative one at that. It will be a jigsaw, with a lot of pieces yet to fit in – and some still to be found.	Failing to start in the first place as it's seen as too difficult, only ever partial or indicative, and inescapably qualitative. All that is undoubtedly true, but it's a lot better than nothing. More than that – it's a good basis for a thoughtful, alert board to use its judgement.

The Effective Board Bulletin in January 2014 gave more ideas about what Boards can do http://independentaudit.com/publications/effective-board-getting-comfort-corporate-culture-behaviour/. And our publication "It's All About Behaviour" http://independentaudit.com/publications/behaviour/ gives more detailed suggestion on practical approaches.