CORPORATE CULTURE AS A BOARD PRIORITY

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Corporate culture is becoming a major area of concern among boards and audit committees. “Culture touches every aspect of the organization: strategy, business processes, employees. It's in everything we do. This is particularly true as problematic corporate cultures have created reputational risk, a notable example being the role corporate culture played in the banking industry during the financial crisis. If the intent is to fundamentally change the strategy of the company and improve the performance of the company, then culture changes are necessary to execute the strategy. The board plays a central role in that. One of the first tasks a new CEO should take on is to change the culture of the company to better orient the company around its customers.

The importance of cultural understanding in successful international companies is reflected from their marketing strategies which are grounded in the cultures of the target industries. Alternatively, a company with weak understanding of the target company's local culture can commit disastrous mistakes in developing the marketing strategy.

The entire Board is fully engaged in the affairs of the company. Board members are fully engaged in the company, from setting the agenda of the Board meetings to reviewing strategy and demanding strong controls to determining CEO compensation and succession planning. They also are increasingly engaged in regulatory and shareholder affairs. Several of the Board members meet regularly with our key regulators and major shareholders.

Management succession planning is a priority of the Board. Regarding succession planning, the Board always must be prepared for the “hit-by-the-bus” scenario, but ongoing succession planning for the medium and long term is the highest priority of the Board. Board members should have complete access to and relationships with the key senior people and continually interact with them, both formally and informally.

The full Board meets without the CEO at every Board meeting. Going way back, to Bank One's Board more than a decade ago and before it was mandated, the Board would meet without the CEO because it thought it was best for Board members to have an open conversation about the CEO and the company without feeling any pressure. The Board continues that practice today. New rules mandate that directors meet at least once a year.

Acknowledging mistakes — and learning from them. One of the things one learns after a couple of mistakes is to redouble efforts around culture — not reinvent our culture but recommit to it and ensure that it is an enduring strength of this institution

Culture and Compliance along with Ethics

The impact of culture on compliance In recent years, ethics and compliance have risen on the list of top priorities for large public companies, as regulators have increasingly noted the role culture plays in compliance.

Compliance—or rather, lack of it—is never far from the headlines. They just don't call it “compliance.” Instead, it's “horse meat in a hamburger , or compliance also refers to credit card breaches....Noncompliance is a less direct way of saying, “breaking the rules,” or, simpler still, “cheating.” Noncompliance starts with individuals—and it can stop there, too.

In a June 2014 speech, Securities and Exchange Commission (SEC) Chair Mary Jo White said, “Deficient corporate cultures are often the cause of the most egregious securities law violations, and directors, both directly and through the oversight of senior management, play a key role in shaping the prevailing attitude and behaviours within a company. Boards can express concern or frustration with management, but to carry out the culture, that's management's job. Regulators don't really understand what boards do.

Companies that have grown through mergers and acquisitions, or that are diversified in autonomous business lines, these business lines may have a variety of subcultures operating. However, the leadership gets divided across the divisions, and in order to carry out the consolidation, a cultural change is needed to integrate the Leadership. It involves strategy, structure, and personnel to make that type of change and then constant follow up. It is very important to have respect for the people one is acquiring and try to integrate them into a culture or take aspects of their culture and incorporate them into your own so as to blend different cultures thus creating a harmony.

Investigation: when a company is very concerned with appearance and damage control that they are unwilling to engage in the examination required to root out entranced ethics and corruptions including a disciplinary or remedial measures to be taken. Huge fines for noncompliance always seem to make the news. Some companies pay up, but others simply go under. Choosing to be noncompliant (and it is a choice) is a game in which there are a number of ways to lose—all of them costly. For example, the government could throw a big red penalty flag. There could be a large fine. Audits and litigation could crop up. Shareholders could get angry. Customers and talented employees could flee. Or all of the above—at the same time.

The best way to achieve compliance is to make it an unalterable part of your corporate culture. By creating a "culture of compliance," you might not solve all your problems, but you should be able to show that noncompliant employees are just that, rather than symptoms of a systemic problem. That critical distinction can reduce the cost of enforcement actions should they become necessary. Corporate culture reflects what manager's reward. Making compliance a way of life often requires board and C-level support, but it can also take hold at the workgroup level. Anyone can make the decision to be compliant and encourage or demand that others do likewise. When building your culture of compliance, it's worth considering whether the cloud can be a shortcut to reaching your goal.

Cloud back up services from a trusted partner let you move your data offsite to a secure facility with the assurance that the data remains safe during transmission, storage and access. That partner should also be able to offer Web-based management tools to help make cloud-based backup easy and cut down on training time.

With a partner that has repeatable processes in place for getting backed-up data to and from its secure location, your backup can meet regulatory requirements. Your partner should also be able to update you when the rules change, as they often do.

How Board can form a Corporate Culture?

"Culture starts with the board, and selecting the CEO is selecting the culture," it is rightly said.

The board role in shaping culture starts before selecting a new CEO:

The most dramatic impact the board can have is deselecting a CEO. It's always a culture issue. It's not company performance or numbers. There are culture problems. Every company has an engrained culture; it is what it is.it is a collection of over years of engrained values and belief systems. The first step is understanding what it is and whether one likes it or not.

An important and pertinent question is how does the board positively influence defining the desired state? And how does the board enable the CEO for the transition?

An EY partner said the board can also play a role in making sure the desired culture is embedded in the company so that it is upheld even when senior leadership is not around.it is important that an organisation is process and system driven instead of personality driven. The board can also act as a role model for the desired culture of the company. The way the board challenges the management and handles discussion and dissent should reflect the company's desired values and behaviours. Hence one can say that board plays an integral part in corporate culture.

Culture and Complacency

How does the culture evolve where the same people have been in charge for a long time? That leads to a culture of complacency. When something goes wrong, there's more complacency in accepting it. The desirable culture should not necessarily be the one that has grown organically.

There's a phrase: "if it ain't broke, don't fix it Strategy implementation expert John Kotter cited complcency as a key driver in Kodak's bankruptcy".

He believes that the film giant's failure to respond to digital cameras was actually due to their remarkable success. Since the organization was highly profitable, management was less likely to listen to employee's ideas. Since employees didn't feel heard, they grew complacent and stopped sharing thoughts on improvement. Simply put, complacency is a disease that can affect even the most healthy and successful companies. Your organization needs to create a true north statement and associated values.

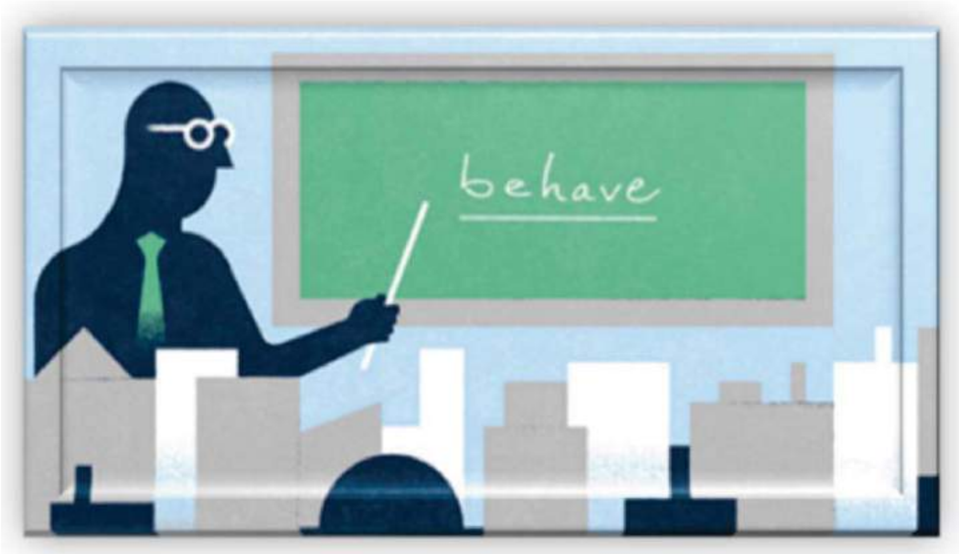
Root causes for the issue:

1. Employees don't understand your values
2. Policies are not people focussed: ineffective personnel policies are the equivalent of cultural sabotage
3. Hiring processes are not orderly: Most companies hire employees based on individual background and skill set. Lean organizations hire much differently. Instead of focusing on an individual's ability to perform a specific job, they will look for
   - Ability to Contribute to a Tea
   - Aptitude and Eagerness to Lear
   - Lean Skills, Including Listening, Flexibility and Commu nication
4. Leaders don't walk the talk: If your leaders are actively anti-lean, have complacent attitudes, or don't follow the rules they set for your associates, it's going to show. In a worst case scenario, it could even lead to an all-out rebellion
5. Employees are not engaged with customers

Board Oversight of Corporate Culture

Oversight of culture is one of the most difficult things to do. You can't put it in a box; it's full of grey zones. You have to be sensitive to the overall environment. Challenges to effective board oversight is important for the board not to let the company get complacent about culture and to query management about it often to keep it on the minds of everyone. "Once a year or even every three months, one needs to review culture".

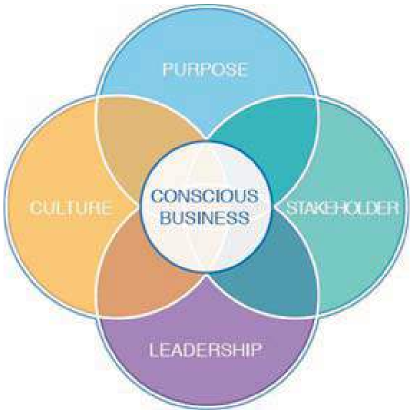
It's always a risk after a new CEO is brought onto, the board should conduct regular executive sessions to discuss the CEO's progress on culture issues and then relaying the feedback to the CEO: It's a constant check. If signals are that the CEO is not meeting expectations, discuss it and go back to the CEO to address it. It's a constant process. It's about the CEO, his direct reports, the



structure, it's everything.

Another way that directors meet employees is by holding board or committee meetings near a company operation away from headquarters. These visits often include factory tours, meals with local management, and other opportunities for informal interactions. In retail businesses, board members also have the opportunity to test the culture for themselves by acting as customers. By Creating a separate cultural team, every employee, including board members, should go through cultural training on company values and codes of conduct. Then the separate culture team conducts audits against the values, visiting sites and interviewing employees, managers, and internal stakeholders of each unit. They should also examine documents and business practices and use all these factors to measure each unit against the values and codes of conduct of the company. The findings should then be used in a dashboard with red, yellow, and green status updates for each site and are used as criteria for recruiting and performance reviews.

The Executive management should receive quarterly updates. And directors receive annual reports. This type of structure can also help make culture part of the fabric of the company so it is not completely dependent on who is in leadership. This will make sure that a company is not personality driven butt process.



Listening to Stakeholders is also very important

Internal and external audit Culture is so linked to personality. If you have a proper group of internal auditors, they are able to measure the culture. In particular, a member suggested that internal audit can audit the culture against a defined set of company values.

Internal audit can help frame how the board assesses culture:

In every audit there is an assessment of culture: Are management and staff living by the values? Are they quick and responsive? Internal audit also reports verbally on people: Does the leadership have the right attitude.

The external auditor can help offer a sort of benchmark on the culture: “The external auditor is a good source [of information]; they go deeper and see other companies.”

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