The Board Perspective: Does Corporate Culture Matter?

By Dan Denison, PhD, Chairman, Denison Consulting and Robert Hallagan, Vice Chairman, Korn Ferry

An earlier version of this article originally appeared in the March/April 2017 issue of NACD Directorship magazine.

A Case Study in How Culture Can Make or Break an Organization

One of the most important roles of the Board of Directors is to serve as a key strategic asset for their corporation. The Directors are charged with safeguarding the firm's competitive advantage, ensuring that the firm is talent rich, and building a winning, ethical strategy supported by deep operating excellence that drives long-term shareholder value. But many Directors spend their time focused on key financial metrics and major strategic priorities, and fail to recognize that their mission cannot be fulfilled without paying attention to the culture and character of the organization. Building a forward-looking approach to the people, the talent, and the culture are the foundation of a high performance organization.

Years ago, corporate scandals at Enron and WorldCom caused directors a lot of embarrassment. But more recently, the same lack of oversight of corporate culture and leadership has led to a new round of dramatic failures. Wells Fargo fired 5300 employees involved in their "cross-selling" strategy, which had open millions of hidden accounts in their customers' names to meet their performance targets.

But the scale of this scandal makes it clear that the issue wasn't 5300 individual "bad apples," but rather the "bad orchard" that created them. Volkswagen lost huge credibility claiming that a decade-old process that affected millions of vehicles was a result of what the CEO described as "the terrible mistakes of a few people" just days before he got fired. It soon became clear that the implementation of this flawed strategy required the ongoing efforts of thousands of people all over the world. Both of these examples show how a failure in the corporate culture can lead to a failure in the business. Maybe it is time to make sure that corporate culture is front and center on the board agenda.

Directors often comment that culture is hard to define and hard to measure. Nevertheless, every director has the responsibility to take the time to study the concept and become a subject matter expert. The following case study shows how one company measured its culture and was consequently able to turn itself around.