

# The Director's Role as "Outside-Insider"

*Corporate boards are uniquely positioned to oversee company culture*

**T**he Report of the NACD Blue Ribbon Commission (BRC) on Culture as a Corporate Asset could not be more timely, as today's headlines show. Bringing together directors and governance professionals, the BRC explored the role board members and general counsel can – and should – play in assuring culture is an enabler, not an impediment, to long-term value creation. Below, the leaders of the effort, Nick Donofrio and Helene Gayle, discuss the project and offer practical guidance for oversight of a "soft" topic that in reality plays a rock-solid role in business success – and failure. Their remarks have been edited for length and style.

**What led to this focus on corporate culture? It seems that other recent Blue Ribbon Commission (BRC) reports informed this one.**

**Nick Donofrio:** You're quite right. This was a natural progression. Our thinking is always focused on trying figure out how to help directors be better directors. Their responsibilities are constantly changing. It became evident that the issue of culture was just not going to go away. The more we looked at it and the more common it became in news events, the more it became obvious it was the topic. We settled on it quite quickly at NACD. We recruited Helene to be the co-chair, and we had more than 30 commissioners participate.

**Was the number of participants a reflection of interest? How do they decide to join?**

**Donofrio:** Yes, it is a reflection of interest. Helene made a list and I made a list and we went after those folks. Very few said no. They wanted to engage. These are the kinds of issues that NACD looks for and then tries to make a difference. There have been a myriad of reports, and at the recent global leadership conference two weeks ago in Maryland people were talking about this topic from every perspective you could imagine – the perspective of audit, the perspective of compensation, the perspective of board governance.

The performance in the marketplace of some companies and boards supports the thesis that this is the right time to talk about culture and get the board engaged. This is meant to help directors. It may help other people, too, but our audience is the directors that in the end are left holding the bag. There's no one else. It's you. You have to answer the simple questions, the hard questions, the embarrassing questions about where you were when this was going on. Why didn't you see this? Why weren't you engaged?

**Helene Gayle:** Some of the previous reports, such as the report on long-term value and the report on diversity, are forerunners of this effort. Some things get left out in an environment that's focused on even shorter-term gains. In particular, the focus on long-term value creation was a forerunner to looking at culture. As Nick said, NACD wants to get out in front and look at the most pressing issues for corporations and their directors today. This issue of culture is more and more in the forefront. We're seeing examples of companies where the culture is bad and bad things happen, and of companies with good cultures that lead to good performance.

**There's a positive and negative way to look at this. In the report, you talk about culture as a "handbrake" that can help companies avoid a downward slide and culture as "rocket fuel" and a genuine strategic business asset. We're again hearing people ask, "Where were the directors?" What about the positive side? What's the upside of a strong, unique, resilient culture?**

**Gayle:** We want to emphasize that. Bad cultures keep getting highlighted, but good cultures have incredible potential to add value and help companies become top performers in an era when everyone is looking for a competitive advantage. A strong culture can propel a company forward at a time when there's much disruption and when trust in corporations is lower than it has been in many years.

**Donofrio:** The nature of a company's culture is self-evident when you start dealing with that company. The word culture embodies a shared set of assumptions and beliefs that make up the unique character of an organization. Those are put in place by the leadership of a company. Most CEOs believe they have a right to lead the company in whatever direction they think is right. That's why they were chosen by the board.

Along with that goes stewardship of the culture of the company. All of a sudden, you're not interested in why or how things are done. You're interested solely in *whether* they were done. You become so focused on results – compulsive, even – that you forget to ask the other questions. When you outperform the market, why did you outperform it? How did you outperform the market? Those things don't seem to register with most directors. I've made the point again and again when I speak on this topic. You have to ask, "How did it get done?" You can't just ask, "What got done?" You have to stop obsessing over results. Effort matters. I'm not saying we forget about results and only measure effort. I would never do that. But we seem to have completely abandoned effort.

**We're also becoming more of a data-driven culture. Does that make it even harder to look beyond results to the how and the why?**

**If as a director you can't honestly feel and understand the culture of a company in a short period of time, you should worry.**

– Nick Donofrio



**Donofrio:** You can actually use data to your advantage to do a better job of understanding the effort and not just the result. We get into many arguments over this. "Where's the line drawn? When does the board cease to be the governing representative and when does it start to become the delivery entity? What right do you have to even talk about culture? It's got nothing to do with results."

We make this point very strongly in the report. We talk about the culture of the board as well as the culture of the organization. They go hand in hand. I don't even need to bring up the most recent examples, but where was that board when all this was going on? How complicit were they? Why didn't they ask these questions as opposed to simply focusing on the results?

I know it sounds trite but I'm on enough boards and have been in enough boardrooms to know that too often we just breathe a sigh of relief and say, "Let's go along to get along." I'm not against collegiality, but as an individual board member you have to be willing to speak your mind. You have to be willing to speak, look for and listen to truth.

**You mentioned that a proactive effort to focus on culture can help companies facing serious disruption in their industries. How can culture help a company manage disruption?**

**Gayle:** Our observation in the report is that if a company has a strong culture – the right culture aligned with their strategy – it's going to be able to see around corners, work better as a team, bring out a diversity of opinions, and use its people and their talent to help prepare for disruptors or whatever the trends in society may be.

Will it absolutely keep a company from being thrown off kilter? Probably not. There are too many forces at work. On the other hand, we believe the company that has a strong culture is going to be more resilient and more likely to understand its environment and know how to better operate in it.

**Donofrio:** Most company value propositions are built on talent. You need the talent to execute what you want to do. You have to step back and ask where people want to work. They want to work in a company with a culture they understand, trust and buy into. I don't care if you're a millennial or a perennial, that kind of environment builds an innovative culture, and innovation is what everybody is looking for. You can't be an innovative company if you don't attract the right talent – and, to Helene's point, an inclusive talent. We've proven over and over again that the more inclusive the environment, the more you enable people to collaborate and better understand

problems and be more innovative. The culture that underpins that has to be supportive or your value is illusory. It will literally slip through your hands if you even get a chance to touch it.

*The report talks about moving beyond a compliance-focused approach and leaning in to culture. The BRC provides some immediate actions boards can take. What are some of the things that boards can do tomorrow (and the day after tomorrow) to put a greater emphasis on culture?*

**Gayle:** We were trying to make the point that compliance is just one piece of culture. One of the things that we recommend is that boards, along with their management, be specific about what their culture is – that they define. There are multiple dimensions to culture. They often reside in different board committees and other parts of the organization. That can include everything from your incentive structure to how you manage performance to alignment with your stated values and purpose. All of those components define what a culture is. Oftentimes, people haven't looked at how you pull those things together to better define the culture.

As a board, our role isn't to define the culture. Our role is to make sure that the culture is defined and to monitor and oversee just like we do for strategy and company performance. Our responsibility is to make sure that we have the right metrics in place so as directors we can judge for ourselves what the culture is and that our board is aligned with that culture.

**Donofrio:** If you're a board member, you can start by asking the CEO to bring you their definition – their understanding of the corporate culture. The BRC was very cautious to not suggest that we build culture committees. That's not what this is about. It's got to permeate everything you do. Wherever you engage as a director, you need to understand what that culture is, what the shared assumptions are. You can then look for it in audit, in compensation, in governance, in technology, at every turn with the mindset that it's not just about results, it's about effort.

These are the pragmatic sides of this issue. As a director, and I don't want to indict all directors, we tend to want to step back. "We're so busy, we're doing so much, that's the CEO's job, we shouldn't be doing this..." If as a director you can't honestly feel the culture of a company and understand it in a very short period of time, you should worry.

*Let's talk about the role of the General Counsel and legal team. What can the General Counsel or Chief Legal Officer do to support a positive, resilient culture that can help the company thrive and help it survive in difficult times?*

**Donofrio:** It's not just the Chief Legal Officer. Every committee is staffed by some legal function, whether it's the General Counsel or someone else. Across the entire legal function, their attitude needs to be to keep pushing these issues in front of the board and make sure the board is being thoughtful about culture.

I know lawyers understand exactly what I'm saying about effort and results. They know the balance better than anyone. When the results are way out of whack, they become suspicious because good lawyers are that way. They have



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to feel free to enable the board to see when that effort was manipulated, managed, forced, contrived. They have an obligation to make sure that it comes through. That's not their decision – what to do about it – but their obligation is to make sure that the board is seeing a balanced view. If you stick with that simple thought around effort and results as a board member, enabled by a good General Counsel, everything's going to move faster and get better sooner.

I'm not loading this all on the General Counsel, but in many ways the General Counsel can be the enabler for the release of this report into the committees and the company.

**Gayle:** You pointed out very clearly the important role that the General Counsel can play. But the CEO is the Chief Culture Officer. The CEO is responsible ultimately for culture. But the role of the General Counsel is a special one. It often can be the voice of moral authority. That said, we all felt very strongly that it is the CEO's responsibility to both help define culture and to be the standard bearer for the culture of the organization.

*There's a great phrase in the report about the "buzz at the bottom" of a company. It's very difficult to understand a culture from the outside. Directors are both outside and inside. How can they do it?*

**Gayle:** Clearly, there's an advantage to being a bit removed because people are so immersed in their own culture – somebody said it's like air; it surrounds you all the time. If you're working in your own culture every day, you may not have the objectivity that it takes to see what's going right and to avoid what's going wrong.

*There's a quote in the report here about breathing your own exhaust.*

**Gayle:** Exactly. That slight distance of being an outside-insider, if you will, as a director probably provides that objectivity. That said, going to board meetings is never going to be enough to understand the culture. Directors have a responsibility to get inside, see the operations, talk to other staff besides those present at board meetings. I think it is incumbent on directors to figure it out. Good CEOs encourage that. I've sat on boards with CEOs who actively encouraged us to know key staff so that we would be more in touch with the real issues on the ground.

**Donofrio:** When the CEO doesn't want you to do that, that's usually a signal that there's something wrong with the culture. If they're keeping you away from people, it's probably a good indication that something is out of whack.

We're not suggesting that you live there 365 days a year, but there needs to be an interactive model. Helene said it well. If all you do is go to board meetings or committee meetings and expect that's going to help you determine the culture of the company, you're wrong. And you need the CEO to agree with you and sign up for it. If not, you probably picked the wrong CEO. Either you get out or you get them out.

**Nick Donofrio**, a member of the Board of Directors of the National Association of Corporate Directors (NACD), spent 44 years at IBM, serving in a variety of roles, including Executive Vice President of Innovation and Technology. In 2008 he was elected an IBM Fellow, the company's highest technical honor, and in the same year received the first U.S. National Nuclear Security Administration Gold Medal ever conferred on a non-U.S. government employee. He currently serves on the boards of Advanced Micro Devices Inc. and Delphi Automotive plc, and chairs the innovation and technology committee for both companies, the board of Bank of New York Mellon, where he chairs the technology committee, and is a Director of Liberty Mutual and The MITRE Co.

**Helene D. Gayle**, CEO of The Chicago Community Trust, formerly served as CEO at McKinsey Social Initiative, a nonprofit that addresses complex social challenges, and President and CEO of CARE USA, a leading international humanitarian organization. An expert on global development, humanitarian, and health issues, she spent 20 years with the Centers for Disease Control, and then worked at the Bill & Melinda Gates Foundation, directing programs on HIV/AIDS and other global health issues. Dr. Gayle serves as a Director on the boards of The Coca-Cola Company, Colgate-Palmolive Company, the Rockefeller Foundation, the Center for Strategic and International Studies, the New America Foundation, the ONE Campaign, and the Atlanta Metro Chamber of Commerce.