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The role of culture in crisis prevention

The KPMG Board Leadership Centre

Crisis prevention has taken on greater urgency for management and boards as corporate crises – often self-inflicted – continue to make headlines. In these situations, the topic of board responsibility quickly moves front and centre, particularly if warning signs went unheeded or corporate culture was to blame – "Where was the board? And could it have done more to prevent the crisis?"

Speaking to senior directors about their experiences we found that building and maintaining the right culture in the business is as much about the way in which we listen to our employees as the way in which we speak to them.

The starting point for boards and management teams in preventing crisis situations is to make sure the fundamentals are in place; such as tone at the top, an ethics and compliance programme, a whistle-blower hotline, employee training, a robust risk management process, etc. And being in place isn't just about being effective – they need to be visible.

Yet, as a number of recent corporate crises have made clear, fundamentals are essential but not sufficient on their own – they must be supported by the right culture.

" *You are not truly living your values until it costs you money"*

We had the opportunity to hear from a number of seasoned directors on what "good" culture looks like in the context of crisis prevention and what we heard falls into two main themes – firstly, how we can best create a safe environment which supports people who want to do the right thing, and secondly how we monitor that environment.

For more on this topic, read the full report 'The board's role in crisis prevention and readiness'

Creating a safe environment

Beyond setting the tone and walking the talk, companies should create a culture in which it is safe for people to do the right thing. The CEO and senior leadership need to be visible and approachable, with the goal of creating an open and relaxed atmosphere that encourages people to come forward and speak up.

So how do we ensure that people are comfortable asking questions, disagreeing, and raising difficult subjects?

Recognise the power of performance targets

Most people want to do the right thing, but generally speaking, they will aim for the targets they're given. Management needs to put the right targets in place.

Create a culture of accountability

People pay attention to who gets hired, fired, and promoted. There's no substitute for being objective about leadership, holding those people accountable, and paying them for performance. It enables all employees to get a sense of what is expected and rewarded.

Emphasise values and purpose in the decision-making framework

If your company involves operational level employees in decision making processes, be clear that the company will stand behind employee decisions that are grounded in the company's values – whether that's safety; customer service; good citizenship; etc.

Also, recognise that corporate loyalty is less of a motivating factor than it once was. Incoming generations tend to care more about the larger purpose behind their work, which is values-based, not company-based.

Monitoring the environment

To keep the environment safe we need to monitor culture and incentives across the enterprise, and this needs to be done with a healthy scepticism.

What's driving behaviours and results? What gets rewarded? Spotting yellow and red flags requires a combination of probing dialogue in the boardroom, applying an audit lens, and on-the-ground exposure to the everyday culture of the company.

Audit incentive programmes

Is pay driving too much risk-taking or the wrong behaviours? A formal risk assessment or audit of compensation incentives down through the organisation can help determine whether incentives are working as intended.

Focus on outliers-negative and positive

How did an individual or a business unit get such phenomenal results this quarter? How did we triple our performance over that of our peers? If it sounds too good, ask more questions. Insist that the board be informed about anomalies – good and bad. Be sceptical.

Understand the criteria for hiring and promotions

Review hiring criteria and shortlisted candidates – particularly at the senior level – for alignment with the company's values. What criteria and philosophy is human resources using for hiring, promotions, and succession planning two or three levels down the line?

Ask the auditors what they're seeing

Auditors are naturally attuned to the pressures facing employees and business units, e.g., lack of resources, tight deadlines, and tough growth targets. Interactions with internal audit can be particularly helpful in understanding the general attitude in the organisation, and when and where things are getting lax or are running well.

Spend time outside of the boardroom and beyond headquarters

There's nothing better than spending unstructured time visiting company plants and facilities. A few hours with the local management team and line employees can give the board an invaluable first-hand feel for the reality on the ground. Does it line up with what you're hearing in the boardroom?

So while there is never a failsafe approach to managing culture-based risks, the board's ability to assess company culture at all levels of the organisation can go a long way in preventing a full-blown crisis.

The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership – as well as lively and engaging networking opportunities, hosted at our dedicated meeting space Number Twenty. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

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