

European Audit Committee Leadership Network

March 2019

EACLN

VIEWPOINTS

Oversight of corporate culture

Culture informs and drives individual and collective behavior within an organization. Agility, resilience, and ingenuity are all examples of potentially desirable cultural elements. Excessive risk-taking or a willingness to disregard process are cultural aspects which could lead to serious problems. The culture of a company does not live solely in a particular unit, location, or area of professional expertise within a company; corporate culture is both a reflection of the behaviors and norms throughout an organization and a roadmap for individuals' future decisions. Because it can be difficult to assess and influence culture at large, global organizations, non-executive directors are eager to understand new and different approaches to culture oversight.

On 5-6 February 2019, members of the European Audit Committee Leadership Network (EACLN) met in London to discuss oversight of corporate culture. They were joined by Novo Nordisk's Mogens Thorsager Jensen, corporate vice president of facilitation, business assurance, and Kim Bundegaard, senior vice president and chief compliance and data protection officer, for a discussion about the Novo Nordisk Facilitations program, in which a team of skilled experts from the company conducts cultural values audits.¹

Executive summary

- **Corporate culture is important to key stakeholders** (page 2)

Major institutional investors and corporate governance policy makers have been focusing on corporate culture in recent years. Input from these stakeholders resonates with EACLN members, who are thinking about how corporate culture affects their role as audit chairs.

- **Companies use a range of methods to understand and shape culture** (page 3)

EACLN members heard from Mr. Bundegaard and Mr. Thorsager Jensen about Novo Nordisk's facilitation program, through which the company conducts values audits of its business units on an ongoing basis. With this established and successful cultural audit example in mind, members considered ways in which culture could be assessed and influenced at their own companies. They explored: methods for assessment; reporting lines within cultural oversight functions; and, the role human resources, internal audit, and other traditional functions might play in those efforts.

- **Board and audit committee oversight of corporate culture** (page 7)

Novo Nordisk facilitators submit consolidated reports on dozens of facilitations to the board annually. The board chair, audit committee, risk committee, and other board members each contribute to corporate culture oversight. This example stimulated EACLN members to consider how they, as audit chairs, might oversee culture at their companies.

Corporate culture is important to key stakeholders

In recent years, investors, regulators, and other stakeholders have emphasized the importance of a positive corporate culture. Moreover, they are pushing companies to disclose more about how they maintain a consistent culture throughout a large organization.

Investors are focusing on corporate culture

In 2016, following a series of interviews with investors and corporate governance experts, the CFA Institute issued a report that focused broadly on potential corporate governance reforms, and more specifically on the intersection of governance and culture. “Participants were consistent in their discussion of culture as a new focus in corporate governance,” the report stated, adding that “Investors are increasingly paying attention to company culture as an indicator of potential business risks.”² The report concluded that investors want boards to think about culture and are pushing for enhanced disclosures about it: “Investors expressed a growing focus on elements of disclosure that reflect drivers of company value, including indicators of less traditional factors, such as company business models and company culture.”³

State Street Global Advisors (SSGA), one of the world’s largest asset managers, provides a recent example of institutional investors’ emphasis on corporate culture. On 15 January 2019, Cyrus Taraporevala, SSGA president and CEO, issued an open letter to the board members of more than 1,100 companies in the FTSE 350, S&P 500, and other indices around the world. In it, he announced SSGA’s 2019 intention to focus on corporate culture as one of the “growing intangible value drivers that affect a company’s ability to execute its long-term strategy.”⁴ Mr. Taraporevala said that, despite the value that lies in corporate culture, “we have found that few directors can adequately articulate their company’s culture or demonstrate how they assess, monitor and influence change when necessary.”⁵ He called on companies to analyze corporate culture to test its alignment with strategy, initiate mechanisms to monitor progress, and improve reporting to aid directors in determining their role in cultural oversight. Mr. Taraporevala was careful to clarify, “We do not believe it is the responsibility of the corporate board to *manage* a company’s culture—that is the responsibility of senior management ... you should expect to discuss this issue with our asset stewardship team during their engagements over the next year.”⁶ Mr. Taraporevala’s letter reinforces and supplements the messaging in other recent letters from BlackRock’s Laurence Fink⁷ and Vanguard’s F. William McNabb.⁸

Policymakers are revising corporate governance rules to emphasize board oversight of corporate culture

Consistent with stakeholders’ expectations that boards take an active role in oversight of corporate culture, policymakers and regulators have recently revised rules to stimulate more active board influence. While these mandates are aspirational and principles-based, they make clear that boards should consider culture in their decisions.

- **United Kingdom.** In July 2018, the Financial Reporting Council revised the UK Corporate Governance Code to reflect its updated set of principles for good corporate governance, including the following principle: “The board should establish the company’s purpose,

values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example, and promote the desired culture.”⁹ The revisions also urged the board to “assess and monitor culture. Where it is not satisfied that policy, practices, or behaviour throughout the business are aligned with the company’s purpose, values, and strategy, it should seek assurance that management has taken corrective action.”¹⁰

- **The Netherlands.** In late 2016, the Dutch Corporate Governance Code Monitoring Committee issued an amended code that includes the following language: “The management board should adopt values for the company and its affiliated enterprise that contribute to a culture focused on long-term value creation, and discuss these with the supervisory board. The management board is responsible for the incorporation and maintenance of the values within the company and its affiliated enterprise.”¹¹
- **Japan.** In June 2018, the Tokyo Stock Exchange released Japan’s revised Corporate Governance Code, which includes the following among its stated general principles: “The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.”¹² As a related supplementary principle, the code notes, “The board should review regularly (or where appropriate) whether or not the code of conduct is being widely implemented. The review should focus on the substantive assessment of whether the company’s corporate culture truly embraces the intent and spirit of the code of conduct, and not solely on the form of implementation and compliance.”¹³

Companies use a range of methods to understand and shape culture

Boards and audit committees have shown increasing interest in assessing and shaping corporate culture. But for nonexecutive directors, a firm’s culture can be challenging to fully assess because they do not work in the organization on a daily basis. It is common for management to share results of employee surveys with the board, but members are interested in ways to gain greater insight into a company’s culture.

Novo Nordisk’s unique approach to auditing culture

To better understand Novo Nordisk’s approach to culture assessment, members met with two of the company’s executives, Kim Bundegaard and Mogens Thorsager Jensen. These executives oversee a team of 10 full-time employees, as well as other Novo Nordisk employees who are seconded to the team, who are responsible for conducting more than 60 facilitations, or cultural values audits, per year.

In April 2018, Lars Fruergaard Jørgensen, president and CEO of Novo Nordisk, published a LinkedIn post in which he described the Novo Nordisk Way, which sets the tone for the company’s culture, and the role of facilitators in assessing that culture on an ongoing basis.¹⁴ “Their contribution,” Mr. Jørgensen wrote, “is key to ensuring that we walk the talk by living up to the statement of our values in the Novo Nordisk Way.”¹⁵ The company uses these facilitations to ensure global compliance with the Novo Nordisk Way and to test employees’

behavior against the company's 10 published "Essentials." The audits also help to create a simpler, more agile company. Mr. Jørgensen further explained that "they have a unique ability to act as messengers across our large and diverse organisation."¹⁶ Facilitators' key responsibilities and services include providing assurance, driving standards and supporting compliance, and communicating emerging issues and trends. The facilitators conduct their own audits and work closely with other specialized assurance departments, including financial, business ethics, and quality audits. Though the process is structured and highly detailed, Novo Nordisk's Mr. Thorsager Jensen said, *"We try to stay ambitious and not get bogged down in complexity."*

A critical aspect of Novo Nordisk's success with facilitations is the top-to-bottom commitment at the company. At the EACLN meeting, Mr. Thorsager Jensen identified four defining attributes that are critical to the success of these cultural audits: (1) a clear set of values against which to audit; (2) crisp and concrete reporting; (3) getting the right people into facilitation—people with substantial experience who speak to management with credibility; and, (4) a clear methodology that is used consistently. In addition, he said it is important that the CEO is vocally supportive of the program.

As a result, employees are not just willing but eager to cooperate with the facilitators, and are accountable to their recommendations, just as they would be to a supervisor within their unit. *"The key point,"* Mr. Thorsager Jensen said, *"is that if management doesn't buy in, it fails. If groups or a manager don't buy in, or they do but aren't listened to, then it fails."*

The stages and methods of the Novo Nordisk facilitation cultural assessment process

The Novo Nordisk facilitations team uses a detailed process to identify, scope, and conduct its cultural audits. The process begins with an assessment involving data collection, risk analysis, and risk-grid mapping to select business units for examination. *"We have 225 units. We do an annual risk assessment of each unit based on the likelihood of potential issues and the unit's relative importance to Novo Nordisk,"* Mr. Thorsager Jensen said. For example, sales volumes generated by a business unit can determine if it receives annual cultural audits, or one every few years.

Once a unit has been selected for an audit, the facilitators develop a master plan and make initial contact with the unit. At this stage, facilitators meet with the unit head, collect data and stakeholder information, and prepare interviews. Facilitators then conduct individual interviews with 10% to 15% of the unit's staff, organize an opening meeting for all of the management team, and conduct management workshops. A central piece of the facilitations is the series of one-on-one interviews—which frequently run a full hour—within the subject business unit. Mr. Thorsager Jensen described them: *"We have conversations without questionnaires. We try to get a conversation going about their job, what it entails, how they feel about it, and how they like working for Novo Nordisk. You need to spend the time, not just 15 minutes. You need an hour in an interview to build up trust. Sometimes it takes 30 to 45 minutes before the employee starts to open up."*

In addition to spending the time, one-on-one, to learn from the interviewee, facilitators tailor the conversation to the employee and the business function that person occupies. *“For some medical sales employees, we’ll have a patient-focused conversation; for other sales-oriented employees, we’ll have a performance management or personal development discussion. It really depends on the kind of the situation. We’ll have covered so many people in management, administrative functions, and other areas that we’ll have covered the whole unit,”* Mr. Bundegaard said.

EACLN members wondered about how such a thorough examination is received by the company’s employees. Before attending the meeting, one member confessed to being *“a bit skeptical of culture audit because of the difficulty of the role of internal audit. There’s not always openness by the auditee.”* At the meeting, another member asked: *“How do employees react? Are they comfortable? Do they respond with honesty? What is the perception of this process?”* Mr. Thorsager Jensen reported that the response to audits is very positive. *“Employees are excited before the facilitation team arrives. They see this as a way to get good ideas. We look for best practices across Novo Nordisk. We document these practices and share them with others. It’s very beneficial.”*

EACLN members were particularly interested in the role of traditionally culture-oriented departments. After hearing about the Novo Nordisk Way and the facilitations process, one member noticed: *“You’ve never said the word HR.”* Mr. Bundegaard acknowledged that culture leads people to think of human resources. *“But this is very important to facilitators and the units they audit: independence,”* he said. *“We work closely with human resources, but we detect, and they mitigate.”* Other members wondered about the lines of reporting. The discussion with Novo Nordisk stimulated members to think about the ways in which a program might be implemented at their companies.

Other means of cultural assessment

There are a variety of other methods that companies use to assess culture. From casual discussions with peers and direct reports, to formal cultural audits by third parties yielding extensive qualitative and quantitative findings, means of cultural assessment take many forms. Some of the widely used tools for gathering information on culture include:

- **Social media and internet monitoring.** The proliferation of social-media sites and other digital locations for employees to share experiences has generated a wealth of information about companies’ cultures. Matt Charney, social-media engagement manager for the global job website Monster, recommends conducting a social-media corporate culture audit: *“Monitoring social media channels like Twitter and Facebook, along with discussion forums like Glassdoor.com and Quora, can help identify some of the recurring themes and conceptions associated with your company culture and employment brand.”*¹⁷ These comments can then be compared with the company’s employer branding materials and value proposition; the audit can also help identify *“the most active, and influential, voices who are discussing your workplace culture online.”*¹⁸

- **Focus groups.** Focus groups provide employees with the chance to discuss their experiences at the company and contribute to internal cultural awareness in a more structured environment than social-media platforms.
- **Surveys.** Accurately capturing the ubiquity of this tool, one member said, “*We do surveys. I don’t know of a company that doesn’t.*” Surveys are perhaps the most widely used culture assessment tools in the workplace,¹⁹ but they have limitations. Their utility largely depends on whether their questions are crafted to elicit useful input, whether employees actually return illuminating responses, and how, if at all, management uses that information to adjust behaviors.
- **Ethics or whistleblower hotlines.** Another resource that members said can be useful for understanding culture is monitoring what is being reported on the company’s hotline.
- **Site visits.** Some members reported visiting company worksites. This provides a limited opportunity to see how the company operates, and it may inform a non-executive director’s approach to the cultural discussion with management.

Methods of influencing culture

Just as assessment is foundational to a cultural audit, the understanding obtained through assessment may be viewed as just a step in the direction of generating change at the company. Surveys, interviews, and hotlines can illuminate major issues, but culture change only occurs when these results lead to tangible actions.

Novo Nordisk facilitators begin to influence culture midway through the process of auditing a business unit. Once facilitators initiate a report to the unit, they have daily wrap-ups and management workshops. The unit being audited then submits a plan of action based on the findings of the audit, takes those actions, and reports to the facilitation team on the progress of those actions. In the final steps, the facilitations team produces consolidated reports for executive management twice per year, and annually to the board.

The process, which can take months from beginning to end, results in a thorough assessment and concerted efforts to act on what facilitators and business-unit employees have learned. Recent additions to the facilitation process include “culture coaching” through which facilitators “identify gaps and improvement opportunities in relation to cultural focus areas” like “think bigger,” “cut complexity,” and “be more agile.”

Managers ultimately achieve results by empowering the facilitators to understand how the business unit operates and where there might be opportunities for improvement. “*We don’t shy away from difficult findings,*” said Mr. Thorsager Jensen. “*If we do shy away, it won’t be effective.*” Managers, employees, and everyone throughout the organization, he added, “*know they have to comply and respond to findings.*” At times, this can mean making difficult decisions and taking decisive action. Mr. Thorsager Jensen and Mr. Bundegaard noted that in a recent year Novo Nordisk terminated associations with 70 employees and 10 suppliers because those individuals and entities did not meet the standards of conduct required under the Novo Nordisk Way.

Board and audit committee oversight of corporate culture

Members and guests raised several considerations for audit committee chairs and other non-executive directors interested in taking a closer look at culture at their companies. While no strategy is effective at every company, audit committee chairs suggested a handful of general approaches to improve board oversight of corporate culture.

Novo Nordisk consolidated reporting

The board and audit committee play an important role in the success of the facilitations program at Novo Nordisk. Mr. Bundegaard reports directly to the board chair in addition to the audit chair. *“If we make presentations to the board about culture, often it is to the member responsible for human resources, but also it’s a presentation intended for the full board. We might also present to the risk committee. We also talk to the board chair. The board, audit committee—if they don’t believe in it, it won’t fly at all,”* said Mr. Bundegaard. The audit committee oversees the facilitations program at the company, and reports developments in the oversight of the Novo Nordisk Way to the full board.

In addition, the facilitations team prepares consolidated reports for executive management twice per year. There is also an annual review with the board to discuss the approximately 60 facilitation assignments they handle yearly and report on trends. At that point, the facilitations, whose assessments gave rise to action items for the business-unit auditees, have begun to achieve results. *“Often, mitigation action has already been put in place,”* said Mr. Bundegaard. But that is not the end of board engagement. *“We have some touch points throughout the year. I have a direct line of reporting to the chairman of the board and to the audit committee chair.”*

Other efforts at board oversight, and the role of the audit committee

What role should the audit committee play in cultural oversight? In many cases, unlike at Novo Nordisk, that role is minimal. *“Culture is not really a core competency of the audit committee,”* said one member before the meeting. Though most members are at least aware of cultural issues, they are uncertain about where the audit committee can provide valuable oversight.

One member reported an involved process by which an ethics and compliance committee within management reported to the audit committee on cultural issues. This was a rare exception; in most cases there is no formal reporting to the audit committee about corporate culture. A board member can visit a workplace, including on a surprise basis as one member reported doing, to see how work is carried out on a daily basis. However, such exposure goes only so far in understanding what really transpires, in the aggregate, throughout a global organization.

Above all, members were eager to find opportunities to raise issues of corporate culture with the audit committee and the board generally, and with their management teams. Members

raised relatively few concrete ideas for future efforts at cultural oversight, signaling that this remains a nascent topic for audit chairs.

Their input, though, combined with Novo Nordisk's substantial experience in this area, presents a handful of guiding practices:

- **Seek widespread organizational commitment, particularly from management, to achieve accountability and results.** Establishing the right tone at the top simply is not enough to create and maintain a desired company. Lower-level managers, employees, and internal oversight functions should participate in and be accountable, too.
- **Allow goals and oversight efforts to evolve.** Regularly revisiting the means and ends of assessment and influence can be just as important as beginning the effort. Principles or values may need to change to reflect the company's evolving business model or strategy, and methods of assessment and influence may need to be adapted to keep up with the evolution of the company.
- **Questions can get at the big picture and the nitty gritty.** Novo Nordisk distributes a pamphlet²⁰ internally at the company which, "as a starting point for reflection—and to open up conversations," asks the following questions:
 - "Would our competitors be intimidated if they could see our plan?"
 - "What can you learn from the best?"
 - "Would you do this if this was your own shop?"
 - "What prevents you from dealing with the issue now?"
 - "What is the cost or loss if we don't proceed or invest now?"

Conclusion

Audit committee chairs want to know more about how companies understand and influence their own cultures. They can benefit from a range of tools to assess culture. But cultural assessment is only part of a broader effort to understand and refine behavior at a company. Audit committee chairs can engage with management and their fellow board members with an awareness that developing the right culture for a company sometimes first requires envisioning cultural identities. It also requires a repeatable process to assess behaviors against those identities and to communicate the opportunities to foster change.



About this document

The European Audit Committee Leadership Network is a group of audit committee chairs drawn from leading European companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisors as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, management, and advisors who become systematically engaged in this dialogue, the more value will be created for all.

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Appendix 1: List of participants

EACLN members and alumni participating in all or part of the meeting included the following:

- Mike Ashley, Barclays
- Aldo Cardoso, Bureau Veritas
- Carolyn Dittmeier, Generali
- Eric Elzvik, Ericsson
- Edgar Ernst, TUI
- Renato Fassbind, Nestlé and Swiss Re
- Byron Grote, Tesco, Akzo Nobel and Anglo American
- Liz Hewitt, Novo Nordisk
- Arne Karlsson, Mærsk
- Dagmar Kollmann, Deutsche Telekom
- Helman le Pas de Sécheval, Bouygues
- Richard Meddings, Deutsche Bank
- David Meline, ABB
- Marie-José Nadeau, ENGIE
- Erhard Schipporeit, SAP and RWE
- Carla Smits-Nusteling, Nokia
- François Thomazeau, Bolloré
- Isabel Torremocha, Repsol

EY was represented in all or part of the meeting by the following:

- Hywel Ball, Managing Partner, Assurance, United Kingdom and Ireland
- Andrew Hobbs, Partner, Europe, the Middle East, India, and Africa (EMEIA) Public Policy Leader
- Jean-Yves Jégourel, EMEIA Assurance Leader

Appendix 2: Discussion questions for audit committees

- ? How are key stakeholders addressing corporate culture?
- ? How do companies understand and shape culture?
- ? What roles do the board and audit committee play in oversight of corporate culture?
- ? What questions are your management teams fielding from investors and other stakeholders about corporate culture?
- ? How are legal or regulatory changes shaping the conversation about corporate culture at your board?
- ? What corporate function should be responsible for assessing and shaping corporate culture? Why?
- ? What tools are most useful for understanding a company's culture? How are your companies utilizing these tools?
- ? Are your colleagues on the board and audit committee open to taking a more active role in cultural oversight? How might you meet resistance there?
- ? If management resists new or regular board efforts to see and influence culture at the company, what are the possible responses?
- ? Given that board members want to play a bigger role in cultural oversight, would more rulemaking effectuating that change be a good thing?

European Audit Committee Leadership Network

The logo for the European Audit Committee Leadership Network (EACLN) is a white circle containing the letters 'EACLN' in a bold, sans-serif font. It is set against a blue background with a white geometric pattern of interlocking lines.The logo for 'VIEWPOINTS' is a blue, rounded rectangular button with the word 'VIEWPOINTS' in white, uppercase, sans-serif font.

Endnotes

- 1 The European Audit Committee Leadership Network comprises audit committee chairs of leading global public companies with over \$10 billion in revenue. This document reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Italicized quotations reflect comments made in connection with the meeting by network members and other meeting participants.
- 2 George Dallas and David Pitt-Watson, *Corporate Governance Policy in the European Union: Through an Investor's Lens* (CFA Institute, August 2016), 20.
- 3 Dallas and Pitt-Watson, *Corporate Governance Policy in the European Union*, 17.
- 4 Cyrus Taraporevala, *Letter to State Street Global Advisors Board Members* (State Street Global Advisors, January 15, 2019).
- 5 Taraporevala, *Letter to SSGA Board Members*.
- 6 Taraporevala, *Letter to SSGA Board Members*.
- 7 Larry Fink, *A Sense of Purpose* (BlackRock, January 2018).
- 8 F. William McNabb, *An Open Letter to Directors of Public Companies Worldwide* (Vanguard, August 31, 2017).
- 9 Financial Reporting Council, *The UK Corporate Governance Code* (London: Financial Reporting Council, July 2018), 4.
- 10 Financial Reporting Council, *The UK Corporate Governance Code*, 4.
- 11 Corporate Governance Code Monitoring Committee, *The Dutch Corporate Governance Code—Unofficial Translation* (The Hague, Netherlands: Corporate Governance Code Monitoring Committee, December 8, 2016), 26.
- 12 Tokyo Stock Exchange, *Japan's Corporate Governance Code: Seeking Sustainable Corporate Growth and Increased Corporate Value over the Mid- to Long-Term* (Tokyo Stock Exchange, June 1, 2018), 2.
- 13 Tokyo Stock Exchange, *Japan's Corporate Governance Code*, 10.
- 14 Lars Fruergaard Jørgensen, "Unlocking the Value of Honesty in the Workplace," LinkedIn, April 5, 2018.
- 15 Fruergaard Jørgensen, "Unlocking the Value of Honesty in the Workplace."
- 16 Fruergaard Jørgensen, "Unlocking the Value of Honesty in the Workplace."
- 17 Matt Charney, "How To Define Corporate Culture," Monster.com, accessed January 11, 2019.
- 18 Charney, "How To Define Corporate Culture."
- 19 See, for example, DecisionWise's employee culture surveys.
- 20 *Novo Nordisk Way, The Essentials, Focused Changed Leadership Dialogues* (Novo Nordisk, January 2019).