ViewPoints
FOR THE AUDIT COMMITTEE
LEADERSHIP SUMMIT

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Board oversight of corporate culture

On June 9–10, 2015, members of the Audit Committee Leadership Networks in North America (ACLN) and Europe (EACLN) met in New York, with one session dedicated to a discussion about issues related to corporate culture. This *ViewPoints* presents a summary of the key points, along with background information and selected perspectives that members and subject matter experts shared before and after the meeting.[1] For further information on the networks, see "About this document," on page 11. For a full list of participants, see Appendix 1, on page 12.

Executive summary

Corporate culture is emerging as an important consideration for boards and audit committees, touching as it does every aspect of a company, from strategy to compliance. But overseeing corporate culture can be a difficult prospect for non-executive directors who have limited exposure to much of the company and limited ways to influence the culture. At the summit and in discussions before the meeting, members focused on the following themes regarding board oversight of corporate culture:

- **Corporate culture as a board priority**

  Corporate culture permeates and influences every part of a company. Of particular importance is the role culture plays in corporate strategy and performance. Board directors at the meeting noted that if a company wants to take a new strategic direction, then it will often have to change the culture as part of that effort. Culture is also increasingly on the agenda of regulators, with some, such as those in the United Kingdom, now holding boards directly responsible for oversight of corporate culture. Other companies are under deferred prosecution agreements or corporate integrity agreements from the US Department of Justice which require the board to take responsibility for reporting culture changes to the corporate monitor. Members noted the difficulty in overseeing corporate culture in global companies and questioned whether a single culture can work or whether regional differences should be considered. Members also said different cultures might be needed within a single company if it has diversified business lines, but they pointed out that unifying such cultures is sometimes necessary to capture synergies and execute strategy.

- **How the board can shape corporate culture**

  Members agreed that the board is limited in the role it plays in directly shaping (rather than overseeing) corporate culture. A company's culture can be a nebulous concept, and audit chairs said the best proxy is to look at observable and measurable behaviors. Members said that culture starts at the top of the company and the single biggest influence they can have is on the hiring, firing, and compensation of the CEO. The question of whether the culture needs to change can play a part in the selection of the new CEO. But members also said boards need to be vigilant in organizations with long-tenured executive

[1] *ViewPoints* 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.

leadership, to avoid complacency about the culture. To motivate culture change in a company, boards can use executive compensation as a tool to steer culture in the right direction by influencing management behavior.

- **Board oversight of corporate culture**

  For directors, who are not involved in the daily operations of a company, overseeing culture can be difficult. Members discussed a variety of ways to overcome this obstacle. Members discussed a variety of means they have seen or used to overcome this obstacle including making sure culture is a regular feature on the board and audit committee agenda. Another suggestion is for boards to conduct regular site visits to company locations and talk directly with employees. Several members suggested that management create a culture dashboard that captures data such as employee feedback, hotline calls, and management reviews as culture indicators. External sources of information, such as customer complaints, could also feed into the dashboard. Internal audit or a separate culture audit team could help manage the dashboard and collect information for the board to monitor, such as progress on employee training on culture issues. Members also said the external auditor can play a key role since it touches many parts of the global company and is exposed to a variety of company cultures.

For a list of discussion questions for audit committees, see Appendix 2 on page 13.

Corporate culture as a board priority

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,"* a member said. 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.[2] At the meeting, a member with experience in Europe and the United States remarked: *"On both sides of the Atlantic, I've seen a real readiness for engagement to define culture and positively change it."*

But members also noted the link between culture and how a company performs and executes its strategy. *"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,"* a member said. For example, in pre-meeting discussions, a member, who is on the board of a consumer-facing company, said one of the first tasks a new CEO took on was to change the culture of the company to better "orient the company around customers. Everyone is convinced this is where we should be headed."

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.[3] In a June 2014 speech, Securities

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[2] For more on this topic, see the Bank Governance Leadership Network, *Addressing Conduct and Culture Issues in Banking*, *ViewPoints*, (Waltham, MA: Tapestry Networks, April 28, 2015).

[3] For more on corporate culture and compliance issues, see Americas Audit Committee Networks, *Improving Corporate Culture, Processes, and Reputation*, *VantagePoints*, (Waltham, MA: Tapestry Networks, Issue 4, June 2015), page 2.

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 behaviors within a company."[4] Authorities in other jurisdictions are also looking at company culture as part of their oversight. Indeed, in the United Kingdom, board oversight of culture has been added to the corporate governance code for all public companies – on a comply or explain basis – and such trends often have a habit of traveling across Europe and the Atlantic.[5]

But some members expressed concern about deeper regulatory involvement in company culture: *"The last thing I want is for a regulator to say we have to regulate culture,"* a member said. Another member said regulatory trends toward holding boards responsible for culture puts the focus in the wrong place: *"It's management's responsibility. Boards can express concern or frustration with management, but to carry out the culture, that's management's job. I don't think regulators understand what boards do."* However, some members said regulatory issues – as well as delayed prosecution agreements or corporate integrity agreements from the US Department of Justice, in which boards are required to examine company culture more closely and report to a corporate monitor on culture changes – can shine a light on culture issues in companies that might otherwise have been missed. *"We came out with a better culture because we had to deal with some things through regulatory issues that we didn't plan on and it helped,"* a member said about a compliance issue that raised cultural problems at one company. Members agreed that strong oversight of culture, either by management or by the board, is key to keeping regulation at a minimum.

Regulators make culture a priority in oversight of financial services

Regulator interest in culture is particularly acute in the financial services industry. The Financial Stability Board, which coordinates national financial authorities and international standard-setting bodies, cited weak risk culture as "a root cause of the global financial crisis, headline risk, and compliance events."[6] At a recent meeting of the Bank Governance Leadership Network (BGLN), one supervisor noted, "I was in a meeting of senior supervisors from around the world, and culture was on everyone's agenda,"[7] adding that most are still in a "period of experimentation."

One exception is in the United Kingdom, which has moved beyond experimentation and is now at the forefront of regulatory oversight of banking culture and to which other authorities are looking for ideas. For instance, the UK's financial services regulator, the Financial Conduct Authority (FRC), is now assessing culture as part of its oversight: "We are putting a particular emphasis on understanding the culture within a group: the way you conduct your business, what you expect of your staff, and your

[4] Mary Jo White, "A Few Things Directors Should Know About the SEC" (speech, Stanford University Rock Center for Corporate Governance Twentieth Annual Stanford Directors' College, Stanford, CA, June 23, 2014).

[5] Financial Reporting Council, "RFC Updates UK Corporate Governance Code," news release (PN 58/14), September 17, 2014.

[6] "Guidance on Supervisory Interaction with Financial Institutions on Risk Culture: A Framework for Assessing Risk Culture," Financial Stability Board, April 7, 2014.

[7] Bank Governance Leadership Network, *Addressing Conduct and Culture Issues in Banking*, *ViewPoints*, (Waltham, MA: Tapestry Networks, April 28, 2015), 14.

(continued) Regulators make culture a priority in oversight of financial services

attitude towards your customers. Your culture underpins everything you do, setting the tone for the behaviors you promote and reward. You must decide what type of culture is suitable for your group, and demonstrate it from the top down."[8] For boards specifically, the FRC is assessing whether the culture is supported by regular discussions on conduct at the board level and how boards engage on culture issues, including, "whether it probes high return products or business lines, and whether it understands strategies for cross-selling products, how fast growth is obtained and whether products are being sold to markets they are designed for."[9]

The UK's Senior Managers Regime holds executives and non-executive directors explicitly accountable for boardroom decisions and includes a "presumption of responsibility," which will reverse the ordinary burden of proof and require improved evidence of oversight to show that "reasonable steps" have been taken to prevent, stop, or remedy breaches of ethics and culture.[10]

Single culture or multiple subcultures?

Members said developing or reinforcing a single corporate culture brings unique challenges, particularly for large, global, diversified companies. *"I do worry and we do talk about this a lot with the legal department and internal audit and even management, about how do we run a company that has one standard of ethics on a global basis? How do we teach it? How do we maintain it?"* a member asked. Of particular concern is establishing an effective culture of compliance in parts of the world where, as one member stated, *"this approach is still not completely established within the society."*

Members warned that vigilance is needed because problems in a specific region can have an impact on the entire company: *"Personally, I think you have to have minimum standards. One of the things [my company] is dealing with is whether there are countries we can do business in or not. Sometimes the answer is no."*

Several members also raised the issue of how companies that have grown through mergers and acquisitions, or that are diversified in autonomous business lines, may have a variety of subcultures operating. One member described a company that had grown through numerous acquisitions and then decided to consolidate into a few core businesses as a new growth strategy. However, the leadership was divided across the divisions, and in order to carry out the consolidation, a cultural change was needed to integrate the leadership. *"It involved strategy, structure, and personnel to make that type of change and then constant follow up. We have made significant gains in the past five years but it's still a work in progress,"* the member said. At the meeting, another member added: *"You have to have respect for the people you are acquiring and try to integrate them into your culture or take aspects of their culture and incorporate them into your own."* Another member said sometimes more than one culture is needed, citing the example of a

[8] Financial Conduct Authority, *The FCA's Approach to Supervision for C1 Groups* (London: Financial Conduct Authority, March 2014) 12.
[9] Ibid., 13.
[10] Bank Governance Leadership Network, *Addressing Conduct and Culture Issues in Banking*, 15.

company that is split between a long-standing industrial business that needs a more traditional culture, and a business line focused on future opportunities, which needs a culture more akin to a tech start-up.

How the board can shape corporate culture

Most members were quick to point out that corporate culture is driven by the CEO, and they highlighted the importance of an organization's tone at the top. *"Culture starts with the board, and selecting the CEO is selecting the culture,"* said one member. Another member agreed but 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. That's about as good an impact as we can have."* Toward that end, a member said the board needs to play a role in defining what culture it wants at the company: *"Every company has an engrained culture; it is what it is. The first step is understanding what it is and whether you like it or not. Then 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.

The board can also act as a role model for the desired culture of the company. The way the board challenges management and handles discussion and dissent should reflect the company's desired values and behaviors. As one member noted, *"Even as board members, people observe us, people see how we interact. Most of us have conflict of interest training. It helps the compliance department to say every board member signed [a code of conduct agreement] or took a test."*

Selecting a new CEO

When boards are presented the opportunity to choose a new CEO, there is an immediate cultural dilemma. *"If [you select] an outsider, you have to consider if they can adjust to the culture. If it's an internal promotion and you need to change the culture, you have to ask if they can do it,"* one member said.

Even when the type of candidate is aligned with the objective, an individual still might not be the right fit. For example, one member served on the board of a company that had a strong culture owing to the work of a departing CEO. To maintain that culture, the board chose an internal candidate as the new CEO, *"which one would have thought would not have led to significant culture issues,"* the member said. While the successor had a good track record, including recruiting leadership talent, the new CEO then alienated many of the top leadership, including those he had recruited. *"It was not a culture of teamwork. The board was faced with losing a lot of the team or making another change at the top, so we made a change at the top. It was clear to the board that it was a failure of culture,"* the member said.

At the meeting, one member highlighted another dilemma: the leadership style that works for one phase of a culture change may not work for the next phase. The member explained: *"There's a transformation phase in which you need a certain style and ways of working, but then after a while, you need to change that style and that's not always easy to do. Then the board needs to change the CEO. You need to change the culture, you need to lead during the change, then you need to lead after the change, and that may take different people."*

Another member said, *"One of the most difficult things to figure out is when to change CEOs – every CEO should go out on a high. They should do what they can for the company and then move on when it's accomplished. There's a difference between the skills needed during the transition and then running the company well. If the board doesn't make that change, it will end up with cultural problems down the track. The CEO should go out on a high because if you have to sack [the CEO], then you've failed."*

Overcoming complacency

While a change in CEO may alter the culture, several members also said having long-tenured leadership can present its own set of culture-related problems. One said, *"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."* Another member added, *"There's a phrase: 'if it ain't broke, don't fix it.' But I don't like it, it stifles innovation."*

At the meeting, a member recounted how their board once had to take drastic action to change a culture that wasn't working: *"The board undertook a coup d'état. They threw out all upper management."* The resulting culture changes also flowed back up through the board: *"Traditionally, they had board meetings in a huge oak paneled room, but the new board tried to establish a new culture. At the first meeting, in Arizona, we went hiking up Camelback Mountain. We did rope exercises and trust falls – team building to break down the wall between management and the board."*

Using executive compensation to influence behavior

Linking executive compensation to culture, particularly if the board is trying to foster a cultural change, was also mentioned by members. One member described a company that had a culture in which business units had a lot of autonomy and did not communicate with each other, and when the board decided this culture needed to change, the unit leaders were reluctant. After years of trying to institute change, this past year the company began tying compensation to how people cooperated across the company, a system which has seen success. The board also helped foster meetings between leaders, managers, and other key players in the divisions, in which the division teams worked together on company-wide issues.

Several members also suggested that compensation be tied to key cultural issues throughout the company, such as hotline calls or health and safety. *"If you take [employee hotline information] seriously, it should become part of the compensation scheme. Otherwise why have a hotline?"* a member said. An EY partner said auditors are also querying companies about how remuneration ties to culture during the audit: *"As an auditor, if we don't understand the link of culture to remuneration then we can't do our job."* But when it comes to the CEO and a troublesome culture, compensation is not the issue, according to another member: *"If the culture is wrong, you fire the CEO. It's not a matter of compensation; it's a matter of continued employment."*

Integrated reporting highlights corporate culture

As more companies move to integrated annual reports, corporate culture issues have become measurable goals that are reported to the outside world and for which the company is held accountable.[11] For instance, many integrated reports include not just financials and sustainability measurements, but also report on customer loyalty, employer rankings, employee engagement and retention, and other indicators of company culture. A member suggested that these goals can be tied to compensation and help highlight cultural changes. *"With integrated reporting, not only are we reporting financial figures, but we are also reporting on softer issues. Company culture aspects play a top role in these reports. [These] cultural targets are now part of the compensation scheme."*

Board oversight of corporate culture

Once the right leader has been hired, boards of global companies still face challenges in overseeing 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,"* a member said. At the meeting, members said that there is still uncertainty regarding how the board and management should be interacting on issues like culture. One member went on to say, *"I'm not sure how the board is supposed to play with the company, and I don't know if the company knows what board committees should be doing."*

While cultural problems often emerge in the midst of a crisis, members said boards should try to identify cultural deficiencies before a crisis occurs. Members also said it's important to examine culture through different aspects to help address specific culture problems. *"You have to unpack the culture and look at what's really important. One of my companies had a safety problem. We had to change the culture of safety. Over three years, and with constant monitoring, we did, and we remunerated people based on the safety record,"* a member said.

Challenges to effective board oversight

Members said it 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, we need to review culture. It's always a risk,"* a member said. Another member agreed, saying that after a new CEO was brought in to change the company's culture significantly, the board held 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, we 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 member agreed saying that the board *"needs to have continuous discussions with the CEO about values and culture."*

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[11] For more on integrated reporting, see Audit Committee Leadership Summit, *Integrated Reporting*, *ViewPoints* (Waltham, MA: Tapestry Networks, Issue 25, 2014).

But members also said culture is a difficult area for boards to oversee, particularly because they do not work at the company full time, do not visit all of the company's offices and facilities in the regular course of their role, and are often exposed to only the top tiers of management. As one member said, *"It's difficult because we only drop down into the organization periodically."*

Emerging practices in effective board oversight

Members discussed several oversight practices that they use to gain insight into the company's culture, raise issues, and encourage a positive corporate culture.

Build relationships with key employees and visit company sites

Members discussed spending considerable time meeting personally and developing relationships with employees throughout their companies. *"It's about how to find the right people who can tell me about the company culture. It's both people who have been there a long time and those who have been there six months,"* a member said. In particular, members value relationships with employees who do not regularly present to the board or the audit committee. *"You try to build relationships … with certain line managers. Sometimes they are willing to let their hair down, especially if something goes off the rails,"* a member said. However, members also discussed the diplomacy that non-executive directors need in these discussions: *"It is important to have broader interaction with more than just the CEO. And when you do have interactions, you need to be sensitive that you are not undermining [executive] management."*

Members also discussed the benefits of going into the field and meeting employees outside the boardroom. At the meeting, a member described an approach that was implemented at a telecommunications company: *"We had a new chairman, and he insisted that each of us as board members spend a day each year with one of the linemen at [the company]. We'd put on jeans and go to businesses and houses and install telephones for a day. It's important for board [members] to get out and learn the culture from the line level."*

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. One member said, *"They didn't know I was a director; it was quite funny. I said [the CEO] will be pleased by your performance, and they went white."*

Create a culture dashboard

Several members raised the idea of creating a dashboard that boards can use to assess and monitor company culture. One suggested, *"You can look at a lot of things to assess the culture. There are strong correlations between scores on various measurements. I would like to create a dashboard for the board. The company should build a process for monitoring indicators and then we can examine the outliers."* Several members agreed that the outlying data is the key: *"We are looking at the [indicators] for not so much how they stack up against each other but for how they change and how they move together. You might have several indicators moving together in a certain direction. That could be an indicator of something bigger."* A member said these indicators can show signs of trouble early, adding, *"It almost always comes back to a problem with management. Sometimes they build a wall around themselves."* But making sure good data is going into the dashboard poses its own challenge, a member said: *"The question I pose is how do you audit the process to make sure the managers in 72 countries are monitoring and collecting good data?"*

Members mentioned the following items that could be included in such a dashboard:

- **Employee survey results.** A number of members suggested that employee surveys can offer a window into the company's culture: *"Surveys help to see if there is buy-in to the leaders."* But members also said surveys alone may not give as full a picture of the culture or the degree of progress that many may think is being made on cultural change: *"It's hard to weigh culture from [employee surveys]."*
- **Employee hotline calls.** Members reported that employee hotlines can also be helpful for raising issues in the culture. *"When something comes up, sometimes through the hotline, it's important to pay attention to it and get to the bottom of it if they raise red flags,"* a member said. However, members also warned against relying on hotlines as early warning signals: *"By the time it gets [to the hotline], it's already in the culture. And some locations are not as prone to using hotlines as others. Things might go on for a long time before [you hear about it]."* Members also diverge on whether to receive information on all the calls that can reveal underlying management problems, or simply the calls related to audit committee matters, such as allegations of accounting fraud.
- **Management performance appraisals.** Several members mentioned using management reviews as part of the assessment of culture. One said, *"One of the data points on culture is, how are the leaders? This goes to the human resources side of the business: How is management appraised? Do you see common threads?"*
- **Data from specific culture areas.** Several members said it helps to break down culture issues into categories, such as health and safety, customer relations, and compliance. Data on the number of accidents or customer complaint calls can then be measured for improvements over time. *"We follow up on customer complaints. It's not formalized, but it is part of the story,"* a member said.

Create a separate culture team

Several members mentioned the use of a separate internal team – with members taken from all areas of the business – that plays a similar role to internal audit, but it examines the culture of the company specifically and feeds its findings into a culture dashboard. *"The extraordinary thing is the culture is audited. The culture team is separate from internal audit,"* said one member. The member said every employee, including board members, goes 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 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 are then used in a dashboard with red, yellow, and green status updates for each site and are used as criteria for recruiting and performance reviews. Executive management receive quarterly updates and the board of directors receive annual reports. An EY partner said 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.

One member mentioned that their company was applying the concept of a separate culture team within the board itself by creating a special committee, though specifying its activities have been a challenge: *"Senior managers came in and we didn't know what we should be asking, and they didn't know what they should be talking about. It took us awhile to find topics we should be talking about and not micromanaging. It's been a fraught process."*

Listen to external stakeholders

External sources – including customers, suppliers, the financial community, regulators, and other stakeholders – can also provide information about the company culture, members reported. *"It is good to get out and see operating parts of the business. It's good to hear what customers think of the company,"* a member said. Several members said it is useful to look at what issues regulators are asking about to see if there are cultural issues that may need to be addressed. SEC Chair White has suggested directors ask regulators directly for this feedback: "Talk to them. Perhaps visit them. I know of an audit committee chair who visits all of his company's major regulators once a year, including the international regulators. You may get an earful from time-to-time, but it will be invaluable input for you as a director."[12]

Engage internal and external auditors

Members reported that internal audit and the external auditor are helpful in gauging a company's culture. *"You can count on external audit and internal audit to be your eyes and ears,"* a member said. In particular, internal audit can help the board reinforce a culture of compliance and help facilitate cultural change. Said one member, *"We look at the internal audit head as someone who can help change culture."* The member said this was particularly useful for global organizations in which the auditor can help the board *"see the culture in every country."*

Members also said internal audit can help measure the culture: *"Internal audit maintains culture. 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. *"We're now trying to formalize internal audit roles in values. They are on the ground and in good position to look at culture [against the company values]. If you have a values list, it becomes a framework to report against and doesn't become too personal."* Another member said 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?"*

Several members also pointed out that 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."* An EY

[12] Mary Jo White, "A Few Things Directors Should Know About the SEC."

partner said the profession is incorporating culture into its work: *"We are recruiting different people with culture backgrounds and they are becoming part of the [audit] team."*

Conclusion

Members agreed on the importance of culture for a company and on their role in overseeing culture: *"It's the board's responsibility – we are the conscience of the company, we provide an outsider view of whether [the] company is healthy. We have a moral responsibility."* Members agreed that hiring, firing, and compensating the CEO and senior management is the main tool they have in changing the culture of a company. They also agreed that culture needs to become a standing agenda item for the board to make sure complacency doesn't become an issue and that a strong culture remains a focus of management and employees. To help oversee that monitoring, members see a dashboard with cultural indicators from across the company as a useful tool. Having either internal audit or a separate culture team monitor culture and feed data into the dashboard is also a practice members said is useful.

About this document

The European Audit Committee Leadership Network (EACLN) and the Audit Committee Leadership Network (ACLN) are groups of audit committee chairs drawn from leading European and North American companies committed to improving the performance of audit committees and enhancing trust in financial markets. The networks are 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 advisers 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, members of management and advisers who become systematically engaged in this dialogue, the more value will be created for all.

EYG no. CJ0268

Appendix 1: Participants

Members participating in all or part of the summit sit on the boards of nearly 50 large-, mid- and small-capitalization public companies:

- Werner Brandt, Audit Committee Chair, Lufthansa and RWE
- Ángel Durández, Audit Committee Chair, Mediaset España
- John Edwardson, Audit Committee Chair, FedEx
- Liz Hewitt, Audit Committee Chair, Novo Nordisk
- Judy Richards Hope, Board Member, General Mills and Union Pacific (alumna)
- Lou Hughes, Audit Committee Chair, ABB
- Shonaid Jemmett-Page, Audit Committee Chair, GKN
- Mike Losh, Audit Committee Chair, AON and TRW Automotive
- Heidi Miller, Audit Committee Chair, General Mills
- Pierre Rodocanachi, formerly Vice Chair and Audit Committee Member, Vivendi
- Guylaine Saucier, Audit Committee Chair, Wendel
- Erhard Schipporeit, Audit Committee Chair, SAP and Deutsche Boerse AG
- Tom Schoewe, Audit Committee Chair, GM
- Martine Verluyten, Audit Committee Chair, STMicroelectronics and Thomas Cook

EY participants in all or part of the meeting included:

- Les Brorsen, Americas Vice Chair, Public Policy
- Steve Howe, Area Managing Partner, Americas
- Jean-Yves Jégourel, Assurance Leader, EMEIA
- Frank Mahoney, Americas Vice Chair of Assurance Services
- Christian Mouillon, Global Risk Managing Partner
- Mark Otty, Area Managing Partner, EMEIA

Appendix 2: Questions for boards and audit committees

- How should the CEO and other senior leaders define and embed or reinforce the corporate culture? What actions can board directors and senior executives take to demonstrate a commitment to cultural change if one is required?
- How does management or the board of your company diagnose a problem with the corporate culture?
- What is the relationship between culture and compliance in your company?
- Are there particular business lines, locations, or sectors that are more vulnerable to culture problems? Has the situation improved or worsened in these areas over the last few years?
- How does your company resolve the tensions between global corporate policy and local business customs and practices?
- How does your board address cultural change with long-standing leadership?
- Is compensation linked to culture in your companies? What results have you seen from linking compensation to cultural goals?
- How do you as a board director assess a company's culture? Is it possible to understand the culture before you join the board?
- How does your company's employee hotline process operate? How much information does the board see? How does management filter the information it sends to the board? How well does the process work?
- How often do you talk about culture in board meetings? With senior executives? What issues are raised in these conversations?
- How do you measure the progress of cultural change efforts? What items might be included in a board dashboard for monitoring company culture?
- How are codes of conduct reinforced? What training do employees receive? Is this training tailored to individual regions?
- Do you conduct site visits to assess culture? What results have you seen from such visits? With whom do you talk, beyond executive management, to assess the culture at your companies? What conversations do you have with employees?
- How can regulatory feedback be used to assess the company's culture?
- What role do internal audit and the external auditor play in assessing the culture at your companies?