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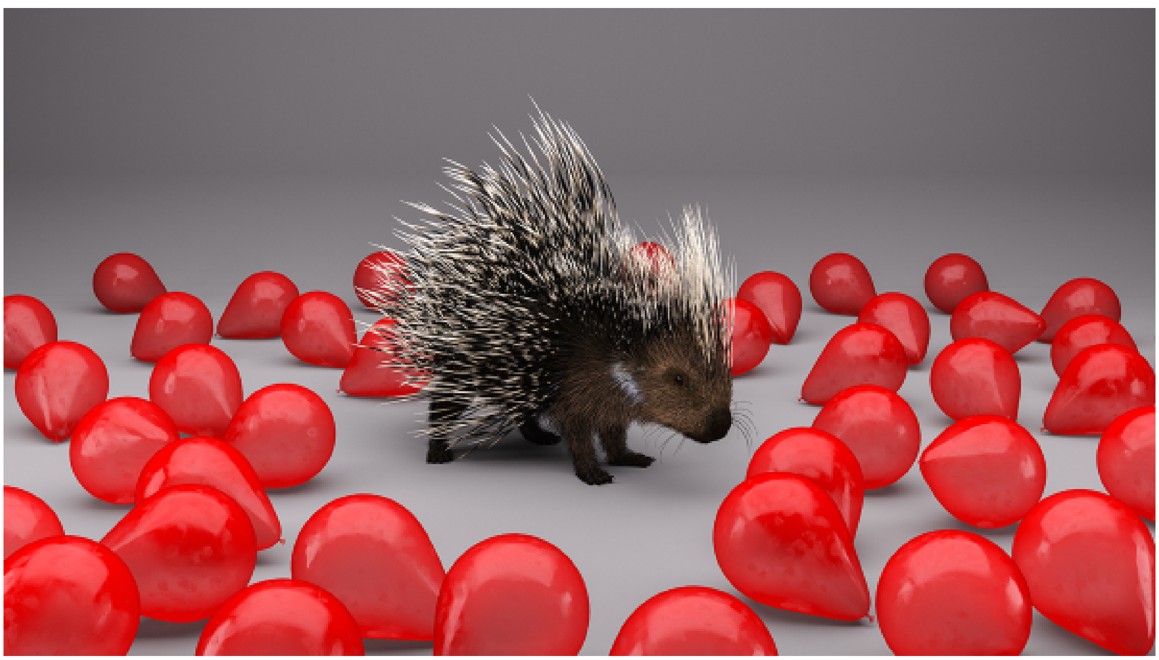

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It may be unfair to dub 2019 the year of corporate misconduct (2008 was a real doozy), but we've certainly seen a lot of it. In fact, one in five employees report experiencing a *cultural crisis* – a significant incident indicative of troubling workplace attitudes and behaviors – in their organization in the last year or two.

What's more, an even greater percentage of employees, 30%, expect to experience a cultural crisis – such as sexual harassment, gender discrimination, financial mismanagement, cheating of customers, inattention to safety, or poor behavior in the leadership ranks – in the *next* two years based on their perceptions of their employer's behavior. United Minds' research, conducted this fall in partnership with KRC Research, also shows that just 28% of employees strongly agree that there is alignment between their company's actions and its stated values – a finding that should give us all pause.

The reality is that culture, which is often thought of as a company's most precious asset, is increasingly a liability for companies that don't tend to it. Continued advocacy around #MeToo, new levels of scrutiny from investors and regulators, and increased activism on social media are forcing boards and CEOs to be accountable for culture in ways they haven't been before.

Against this backdrop, many of our clients are very deliberately asking themselves: "What about our culture is putting us at risk?" and more than half have told us that they are committed to "strengthening and evolving" their cultures as a business priority in 2020. To their credit, they are embracing a proactive approach to this particular type of risk management, an approach we call "cultural vigilance."

So, how do organizations make the shift from reactive cultural clean-up to proactive cultural vigilance? We asked ourselves that exact question earlier this year. We began by polling Weber Shandwick's global community of crisis practitioners, asking them questions like: What conditions precipitate the cultural crises you've worked on? What have you see on the frontlines? That led to a deep literature review and a national survey of 1,000 full-time employees who are 18 years and older and work for companies with 500 employees or more. Our aim was to gather as many research-based indicators of cultural risk as possible and test them to determine which are most predictive. Of all the indicators that organizations measure, track and assess, we wanted to know which factors matter most.

Using a statistical technique to analyze our survey data, we narrowed the list to six items that together account for the majority of cultural risk. When employees agree that their company is not being vigilant in one or more of these areas (listed below in order of predictive power), a cultural crisis may be looming.

Risk #1: Inadequate Investment in People

This is the factor most predictive of cultural risk, and so it follows that an investment in your employees is an investment in a healthy culture, and ultimately in better business outcomes. When employees join a company they are entering into what's often called "a people deal" where they receive compensation, career development and various benefits in exchange for the work they do. When employees perceive that their employers aren't living up to their end of the deal, they're less inclined to live up to theirs, often becoming disengaged, displaying passive aggressive behavior or letting work quality slip. When these conditions exist at scale, companies very quickly become vulnerable.

Human resources and communications teams must partner to define a clear employee value proposition — the collection of programs and perks that answer the question “What’s in it for me?” — and then make it known and make it true. As it is, a quarter of our survey respondents agree that “their employer does not do very much to support or care for its employees.”

Risk #2: Lack of accountability

One-third of survey respondents believe their company doesn’t consistently hold people responsible for misconduct. When employees are under the impression that there are no consequences, or that consequences are handed out unevenly, they may use it both as a justification for not reporting poor behavior (why bother?) and as a reason to be less careful about their own actions. Doubt about the company’s commitment to its values creeps in and the “See something, say something” mentality that defines collective cultural stewardship often falls by the wayside.

Many companies are taking steps to improve in this area — from ensuring whistleblower protections to making disciplinary actions more widely known (while keeping names and specifics confidential). When one of our clients who had been under regulatory scrutiny realized that compliance had become a scary concept for its employees, it launched a campaign to humanize its human resources and legal functions, and the employees in them. A global creative campaign along with targeted training helped demystify the reporting and investigations process, provided opportunities for employees to get to know their HR and legal colleagues, sought to make reporting violations a normal part of every employee’s job, and ultimately replaced employees’ fear with trust in the company and its commitment to integrity.

Risk #3: Lack of diversity, equity, and inclusion

The #MeToo movement was a much-needed wake-up call for corporate America. With matters of sexual harassment and gender discrimination at the fore, more than half of companies revisited their policies, while others appointed diverse board members, established diversity & inclusion (D&I) councils, strengthened their employee resource groups, and tackled non-inclusive ways of working. While we can’t know how many crises have been averted because of these efforts, we do know that a lack of diversity, equity and inclusion in the workplace is the third most predictive indicator of cultural risk, and that more work remains to be done. As recently as last summer, diversity leaders were still identifying organizational culture as the number one challenge standing in the way of their objectives.

Certain industries are known for cultures that contribute to non-inclusive environments, typically because of a lack of diversity in the employee population. The tech industry regularly makes that list. One of the few studies on why people leave the tech industry found that 40% of “tech leavers” indicated that unfairness or mistreatment such as stereotyping, harassment, and micro-aggressions played a major role in their decision to leave. Underrepresented men and women experienced stereotyping at twice the rate of white and Asian men and women. For these employees, a focus on culture would have made a significant difference: Nearly two-thirds indicated that they would have stayed if their employers had made an effort to fix unhealthy norms and behaviors.

Risk #4: Poor behavior at the top

We all know that employees take their cues from those in authority, which is why it's not surprising that poor behavior at the top is also a predictor of cultural risk. Executives are under intense pressure to deliver results and far too many are rewarded on *what* they achieve without factoring in *how* they achieved it. According to our survey, almost one-third of employees say that their leaders don't behave in ways consistent with company values.

2018 saw a string of CEO departures all for impropriety, including the chiefs of Barnes & Noble, CBS and Lululemon. So significant was this trend that for the first time in 19 years the number-one reason CEOs were ousted from their jobs was not poor financial performance, but ethical lapses, according to PWC. It found that 39% of the CEOs who left their jobs in 2018 left for "reasons related to unethical behavior stemming from allegations of sexual misconduct or ethical lapses connected to things like fraud, bribery and insider trading." Boards are to be credited for making tough decisions to put values above all else when CEOs misbehave.

Risk #5: High-pressure environments

High-pressure environments are yet another predictor of cultural risk. Thirty-seven percent of employees in our survey say their companies are not always vigilant about managing these types of environments, often resulting in profit and growth coming at the expense of values and ethics. In fact, this is the area where employees rank their employers the lowest and identify the biggest opportunity to improve. Unrealistic deadlines, overly aggressive sales targets, and poorly structured incentive systems can lead people to take extreme – and often illegal – measures to deliver business results.

This is the area where employees rank their employers the lowest and identify the biggest opportunity to improve. In addition to better regulating the burdens placed on employees, some companies are building the resilience of their people so they can better handle difficult situations. These efforts range from providing on-site support services during busy seasons to appointing wellness officers tasked with tending to employees' emotional and physical well-being to providing training that gives staff a decision-making framework they can leverage to make ethical choices in high-stakes situations.

Risk #6: Unclear ethical standards

The final predictor of cultural risk is unclear ethical standards. Our research shows that company values – which should provide a north star for employee behavior – often don't exist, aren't known, or aren't enabled by systems and processes. One-third of employees whose companies have values don't feel confident explaining them, and employees can't live what they don't know.

Emerging from a very public scandal, one of our clients needed to reset expectations of its people and align around a global value system that would transcend geographic boundaries and local cultural norms. Their approach? Engaging employees globally in co-creating five core values that would drive critical behavior shifts and resonate in each market around the world.

Of course, having values, principles, or beliefs is just the first step; enabling and enforcing them is what will ultimately lower cultural risk. With a deep network of employee culture ambassadors, an annual global values week and ongoing values-driven internal communications, the company has been able to keep its shared beliefs top of mind.

How to Guard Against Cultural Risk

Like any form of risk management, becoming culturally vigilant takes time and effort. Based on our work helping companies respond to high-profile corporate crises and scandals, we've identified these five steps to help firms begin building a cultural vigilance capability.

1. **Secure explicit commitment from the top.** Research has consistently shown that active and visible executive sponsorship is the top contributor to the success of any change effort. Begin by ensuring the board and CEO understand the business value of cultural vigilance and have embraced responsibility for its oversight.
2. **Charter a cultural vigilance team.** Members typically include the heads of Communications, Legal, HR, Diversity & Inclusion and Risk Management with representation from various business lines and levels of the organization. This group should be directly accountable to the CEO who is directly accountable to the board on this topic. Culture must not be delegated to HR alone.
3. **Define (or refresh) your behavioral expectations.** If you have values, assess how well your employees know and live them. Don't be afraid to change them, refresh them or throw them out (while holding on to those that are core to who you are). If you don't have values, initiate an inclusive process to define them. Ensure they support not only the culture you're trying to foster but the business strategy you're trying to achieve.
4. **Design an ongoing cultural vigilance strategy and act on it.** With your Cultural Vigilance team, determine how you will monitor culture. Adopt a culture diagnostic that can be fielded regularly, and a routine review process that leads to immediate action on known issues. Engage groups such as culture champions (internally) or customer advisory councils (externally) that can be your eyes and ears in spotting cultural risks and generating solutions. Leverage tools like communications, training and incentive systems to respond to findings and shift behavior for the better.

5. **Weave culture into strategy development and annual planning processes.** Too often leaders develop their business strategy in a vacuum without being guided by core principles or considering whether organizational norms will support or stand in the way of their objectives. Strategy and culture must be evaluated often, and in concert with one another, as symbiotic drivers of strong business performance.

Now more than ever, companies must build and maintain cultures that not only embody their stated values and ways of working, but are built to withstand today's volatile business environment. By becoming vigilant, organizations can surface their cultural vulnerabilities before others do, and take action to stop crises before they start.

Sarah Clayton is executive vice president of United Minds, where she helps CEOs and other senior leaders design and execute transformation strategies that improve organizational performance. She specializes in driving culture change in support of business objectives, and led the development of the firm's culture offerings. With more than 15 years of experience leading end-to-end change management programs, Sarah has advised clients through M&As, corporate restructurings, leadership transitions and enterprise-wide technology adoption.

