

## How State Street Intends to Focus on Corporate Culture in Engagement

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State Street's [letter to board members](#) advises companies that this year they intend to focus on corporate culture as one of many key intangible value drivers. Through engagement, they have found that "few directors can adequately articulate their company's culture or demonstrate how they assess, monitor and influence change when necessary."

When engaging with directors and management on corporate culture, State Street will expect to understand the following:

- Can the director(s) articulate the current corporate culture?
- What does the board value about the current culture? What does it see as strengths? How can the corporate culture improve?
- How is senior management influencing or effecting change in the corporate culture?
- How is the board monitoring the progress?

To assist companies, State Street provides a Framework for Assessing and Monitoring Corporate Culture that outlines three key exercises that they "suggest" that senior management with oversight from the board undertake:

*Comparative Analysis.* Companies should determine the corporate culture needed to achieve long-term strategic objectives, be able to describe the existing corporate culture and conduct a gap analysis that examines the alignment of the current company culture and long-term strategy. If the culture is viewed to be aligned, then companies should next identify how to perpetuate the current culture by identifying the key drivers. If misaligned, then companies should determine the desired culture and figure out what needs to be changed.

An example given by State Street is the case of a new CEO who realized that the culture of his company focused on fault finding and finger pointing. Recognizing the gaps between the existing culture and a desired vision of a cohesive workplace, the CEO focused on making executive meetings a safe environment where information could be shared without blame.

*Implementation.* Companies should identify and implement the mechanisms to influence and monitor their progress. Boards and senior management need to consider identifying indicators reflecting the desired culture. Senior management is the most influential agent, and should take the leadership for implementation. Compensation incentives may be used.

An example given is the monitoring of human capital management, such as turnover, retention, employee satisfaction surveys, diversity and inclusion and pay equity or gaps among employees.

*Reporting.* Communication channels across the organization should be established to influence corporate culture. State Street notes that few companies can "effectively communicate their board's involvement in influencing [and monitoring] culture," but warned that they should be prepared to discuss their roles in this area given growing investor interest.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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