BDO

# Culture as part of the Dutch Corporate Governance code

**The new Dutch Corporate Governance Code introduces culture as a separate theme in Good Governance. According to the Committee, culture is one of the driving forces of an effective operation of the company's corporate governance. Both Management Board as well as Supervisory Board are given explicit roles and responsibilities to ensure a culture that plays an important role in the enterprise's functioning and the degree to which it contributes to creating long-term value for the company.**

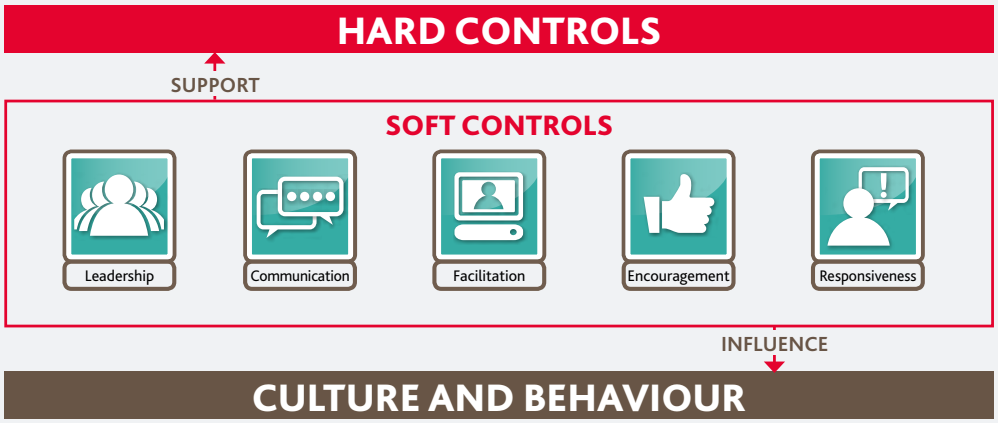
The Committee endorses the following principles:

- Management Board and Supervisory Board should stimulate a culture of openness and approachability;
- Management Board should inform the Chairman of the Supervisory Board about (suspected) irregularities within the organisation;
- Management Board is responsible for embedding appropriate culture within the organisation. In this respect the Management Board should:
  - adopt common values for the company that contribute to long-term value creation;
  - discuss these values with the Supervisory Board;
  - be responsible for the incorporation and maintenance of the values within the company. Attention must be paid to the following:
    - the strategy and the business model;
    - the environment in which the enterprise operates; and
    - the existing culture within the enterprise and whether it is desirable to implement any changes in this;
  - draw up a code of conduct and endeavor to ensure that all employees and other stakeholders of the company support this code;
  - propagate the culture by setting the right 'tone at the top' and displaying model behaviour. The Management Board should show that it expects the same of others in the company;
  - assure itself of the effect of the measures taken to embed the culture;
  - draw up a scheme for reporting actual or suspected misconduct within the company.

## Measure culture

For many Management Board members, culture is a difficult item to address. In the new Corporate Governance Code, they will become responsible to embed an appropriate culture that benefits the strategic objectives of the company. In order to manage culture, it is key to measure the existing culture. BDO has developed a scan to provide the Management Board and Supervisory Board a tool to measure current culture against desired culture.

new perspectives




## Soft controls

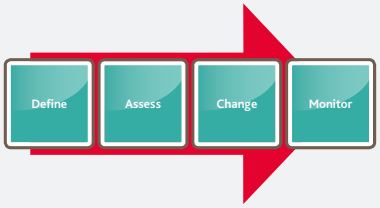
Soft controls are measures to influence behaviour and cultural aspects within your organisation. Soft controls can be divided in the following categories:

- Leadership (style, decision-making, tone at top, involvement);
- Communication (tone & form, accessibility, frequency, timing);
- Facilitation (time, resources, connect, flexibility);
- Encouragement (appreciate, motivate, participate, ownership);
- Responsiveness (address, enforcement, confidentially, learning, capacity).

Soft controls determine the effectiveness of hard controls (e.g. segregation of duties, procedures and authorisations) and are therefore an essential part of the internal control of companies.

## Influence the company culture

Even though behaviour and culture are not changed in an instance, there are steps to undertake as management.




We have developed the following structured approach:

1 *Define the desired culture.* First step is to make clear how the company strategy and core values translate in the desired culture and behavioural aspects. The identified desired culture acts as normative framework.

2 *Assess the current state of soft controls.* A baseline assessment of soft controls helps identify the strengths and pitfalls in the current state culture. Soft controls influence motivation, loyalty, and values of the company's employees. If they are used effectively, they contribute to the internal control environment of the company. The outcome can be used as input for the Management Board report in the Annual Report.

3 *Apply changes in the culture and soft controls.* Based on the normative framework and the current state of the company's culture and soft controls, interventions will be designed and implemented. Alongside initiatives should start to increase awareness and practical implementation of the code of conduct amongst the employees.

4 *Monitor the cultural aspects.* A periodic assessment will be conducted to ensure the actions realise the desired effects on the culture and the desired culture still aligns with the company's strategy.

## Closing remark

Complying with the Dutch Corporate Governance Code is one objective, taking decisions that create long-term value the most important one. In our view, Risk Management, Internal Control, Internal Audit and culture should contribute to long-term value creation.

## More information

**Geertje Strampel**
*Partner Risk Advisory Services*
Tel: +31 30 284 97 81
GSM: +31 6 28771581
geertje.strampel@bdo.nl



12/2016 – AD1636