

Culture: Asset or Liability? The role of a director.

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A little bit about the author: Carolyn Taylor is particularly known for her ability to make complex concepts simple and actionable, and for her direct style when working with executives. Carolyn's book 'Walking the Talk: Building a culture for success', is available through Random House Publishing.

Have you noticed how in the past few years the word 'culture' has crept beyond the HR departments and into the lexicon of executives and boards of directors? The recent troubles of high profile companies have appeared in our media, described as being caused in part by 'cultural failings'. When the executives of Shell overstated their oil reserves, it was because of cultural obsession with short term profits. When a trader in UBS loses the bank \$28 billion, it was in part because of a culture of arrogance and lack of management controls. When BP had its oil spill disaster, the cause was a culture of cutting corners and arrogance.

Culture – far from being the soft and fluffy thing that makes employees feel good – is a major contributor to performance.

The director of a company has a responsibility to ensure the company operates in the best interests of the owners, and this includes not allowing a culture to develop which could

increase the risk of unethical, fraudulent, inefficient or arrogant behaviour. Whenever you are on the board of a publicly listed company, charity or corporatized government entity, or the owner of a small or medium sized business, you must understand how to influence culture.

What is culture?

Culture is created as a result of the message employees receive about how to behave around here. As human beings, we are hard-wired to adjust and fit in to the communities of which we are members. This is essential if we are to become accepted socially, and in the case of an employer, if we are to keep our job. Employees pick up these messages about expected behaviour, and adjust their own accordingly. Those who cannot or will not adjust tend to either leave of their own free will or be ejected.

These messages tell us what is valued in this organisation, and they are received from three sources:

Source of message	Played out through
Behavior	<ul style="list-style-type: none"> ■ Behavior of others, especially those in positions of authority. ■ What is done, rather than what is said. ■ Behavior 1-on-1, in teams and in large groups.
Symbols	<ul style="list-style-type: none"> ■ How time is spent. ■ How money is allocated. ■ Office space (who gets the best offices!) ■ Titles and status symbols. ■ Who gets promoted and favored. ■ How communication works.
Systems	<ul style="list-style-type: none"> ■ What gets measured. ■ What gets reported on. ■ Remuneration system. ■ Budgeting and goal setting. ■ Structure.

Walking the talk

Behaviours, symbols and systems are the outward displays of what is valued. For example, if an organisation really values customers, then it will spend a great deal of meeting time on considering their needs. It will promote individuals, who are customer-centric, include customer satisfaction measure as a part of the scorecard on which remuneration is based, and prioritized IT spend on systems that make the customer's life easier.

Many companies, however say they value customers, but their actions tell a different story. They do not walk the talk. Their diaries reveal almost no time is spent with customers with internal affairs absorbing their interest.

Spend on an IT solution that will allow front line staff to have at their fingertips all a customer's information is bumped off the priority list by a new general ledger system that will allow the finance people to more easily consolidate the data from several different divisions. The voice of the customer-facing staff is never heard at the board level. True values shine through what we do, not what we say. Culture is established through the everyday decisions we make, the priorities we assign, our choices, our behaviour.

The role of a director

As director, you may not be close to these day-to-day decisions. Your job is to build your confidence that the culture is one that will ensure that the organisation's behaviour is ethical, sensible from a risk perspective, safe and conducive to success. You must be able to assure yourself of the quality of the culture, and also ensure that the board's contribution to the culture is appropriate.

No culture can completely eliminate the presence in its midst of a rogue – a dishonest and malicious individual with intent to harm. However certain cultures dramatically reduce the possibility that such an individual would stay in employment with the company for any length of time, even without any criminal or unethical act having been committed. The basis for a sound culture is the strength of its values

Being values-driven

Value-driven people, and organisations, make decisions just because they are the right thing to do. They have other criteria for decision-making beyond that of profit performance and not breaking the law. They would continue to make certain decisions in the absence of a law, just because they are 'the right thing to do'. Building a values base to your organisation is the most reliable mechanism to protect yourself as a director,

Let's take the analogy of road safety. There are speed limits – they are the rules. Many drivers drive at about 5-10kph above this figure. They know at this level the speed cameras will not catch them, or that if they do the fines are not prohibitive. There is a rule, and they bend that rule just as much as they think they will get away with it. Other drivers go more slowly. They drive at a safer speed because they believe speed kills. They value safety. This is the difference between values-based and rules-based organisations. In rules-based organisations the sport is bending the rules. Values-based organisations don't do this – not because they are afraid they will get caught, but because they support the spirit of the rule.

You can test your organisation for values-based decisions by listening to the number of times management tells you that it cannot do something because 'it would not be the right thing to do'. The board plays an important role

in supporting management becoming more values-based. You are communicating your expectations through your questioning and your own attitudes. Your role is to protect the interests of the owners. You determine the interpretation of that role. Unquestionably it is possible to deliver in the short term a profit which is at the expense of treating customers, the community and employees fairly. Are you OK if this occurs? What does performance at any cost mean in your organisation? Can you define the boundaries of 'any cost'? These boundaries will be indicators of your values. If people are values-driven, they tend to apply this to every part of their life. You cannot expect your organisation to be values-driven with regard to not overstating a financial position but be OK that its activities damage the communities in which it operates. Once employees realise the organisation is prepared to compromise what is right, to achieve the bottom line, they will spread this attitude from one sphere of organisational life to another.

If analysts want to build their confidence that a particular stock will not in the future suffer a catastrophic decline caused by the revelation of unethical behaviour, they would do well to probe and test for the strength of the organisation's values in general. Values-based organisations are less likely, to produce such an occurrence because everyone in the organisation knows that they will be supported in making values-based decisions and that indeed they are expected to do so.

Performance pressure is intense, and the analysts' expectations push companies to the limits. As a board, your role is to protect the interest of shareholders. This poses some challenging questions associated with values. The Board has the opportunity to lead the values in an organisation. But many CEOs do not feel supported to take a stand on a values decision which will negatively impact short term profit. They may not tell you this, they may not even be consciously aware of it themselves, but they have picked up the messages over a long period of time about what you value and what you expect.

Board actions

There are several steps a Board of Directors can take to ensure the organisation's culture is an asset and not a liability.

1. Measurement.

You can measure how strong values are upheld in an organisation through cultural assessment tools. To what extent does the organisation and its employees stand true to what it believes is right at times of performance pressure? Because culture can feel subjective, it is important to achieve some objective data for directors and management to be able to review culture in the same way as it reviews other important drivers of the business.

1. Self-reflection.

An important piece of work for a Board is to test the message sent to the organisation by its own behaviours, symbols and systems. Include yourself in any culture assessment, ask the organisation what messages they receive about what you, as a board, value, through the decisions they see an interest. Hold discussions with your fellow directors about whether you, as a Board of Directors, are facilitating a values-driven organisation through your own behaviour.

2. Test for key attributes.

There are a few strong indicators of a good culture which will be visible at board level. These are:

- Transparency, a no-surprise culture
- Listening, accessibility, lack of arrogance or bullying – this sets the environment for problems to be surfaced
- Partnership between line and functional roles, which will ensure there are internal checks and balances on behaviour
- Accountability, being held to account for both performance and compliance.

If you have doubts, as a director, as to whether any of these are present within the management group of the organisation, then you should push hard to evaluate more formally the cultural/values competence of those who are running the organisation. The absence of any

one of these traits can set the scene for some of the behaviours that have been the undoing of the organisation who have hit the press in recent times.

Directors cannot afford to ignore culture. Although it is often tagged as too nebulous, too fluffy to warrant board attention, this attitude has cost some directors dearly. Just as IT initially seemed a topic too complex and technical for a Board of Directors to get their hands around, so culture has reared up into our awareness as an area of significant risk and opportunity. It is possible to manage culture in the same way as other drivers of organisational performance. It requires taking the time to understand how it works, and putting in place reporting disciplines to manage it. Most importantly, and this is the most challenging aspect, it requires the willingness to recognise that as a director you contribute directly to culture through your own behaviour and the decisions you make and support.