CULTURE AND THE BOARD

If a culture is truly embedded in an organisation, it should be almost invisible. As has often been said, it's like the water in which fish swim. They don't see the water. It's their natural environment. And it's the same with organisations.

In this article I'd like to think about how we get there and why culture matters. First, though, let's make sure we all understand what we mean by culture. Some time ago, at McKinsey, Marvin Bower, the 'father of management consultancy', came up with the idea that culture is 'what we do round here'. I prefer the idea of its being 'what we *decide* to do round here', which suggests that we have to think about what we're doing and why, but the end product is the same. In 2012, the Institute of Risk Management published a report on risk culture in which they identified three characteristics, culture, behaviours and attitudes:

'The culture of a group arises from the repeated behaviour of its members. The behaviour of the group is shaped by their underlying attitudes. Both behaviour and attitudes are influenced by the prevailing culture of the group.'

A bit circular, but it makes the point that culture is about groups and the individuals within the group. The other important thing is that they have a common purpose. As Robert Salz wrote in his report on the failings at Barclays,

'There was no sense of common purpose . . .Across the whole bank there were no clearly articulated and understood shared values . . .and what should guide everyday behaviours.'

So there seems to be a general agreement that identifying and embedding values and behaviours in a firm is a good thing. But why? For me the most important thing is that a good culture, understood by everybody, gets work done better, improves decision making and gives a firm competitive advantage. The simple truth is that values drive value. Professor Roger Steare, Visiting Professor of Organizational Ethics at Cass Business School and self-styled Corporate Philosopher, put it well,

'Making money is an important measure of success, but a business won't make money for long unless it understands *how* it wishes to make money.'

Those are the positive reasons why embedding a good culture makes sense. But of course there's a flip-side. If you don't get it right, if you don't have a culture embedded across the firm, you end up, as the US Congressional Financial Crisis Inquiry Commission (2012) stated, with 'dramatic failures of corporate governance and risk management . . . and a systemic breakdown of accountability and ethics'. You reach a point, as I read recently, that many people would trust a bank if it was run by Google. Banking depends on trust and traditional banks, as the quote shows, are struggling to regain it.

Culture is also fundamental to mergers and organisational change. Almost all mergers fail to achieve their stated objectives and fail investors in the long-run. It's the same with organisational change. Management focuses on the financials and synergies and doesn't spend the serious time thinking first about the new culture which they want to emerge and how they're going to achieve that. Change invariably involves, for staff, uncertainty, demotivation and loss of identity and leads to defensive silos, as well as loss of productivity because people simply don't know 'the way we do things round here'. If management articulates the new common purpose and the *how*, the new culture, change - and mergers - would be far more successful.

And finally, in this list of negatives, is loss of reputation if you get it wrong, if you don't treat your customers, or society, or the environment fairly. Reputational damage is invariably one of the top three risks firms cite. But few make the fundamental connection between reputation and culture. Whether its banks, automobile manufacturers, horseburgers or big oil, if the culture's wrong the results can be catastrophic.

So what can the board do to get the culture right and get it embedded across the organisation? It's a truism that the important thing is the tone at the top, but it's a truism because it's true. If each and every person on the board and in senior management is not fully committed and is constantly and genuinely 'walking the talk', the whole project is doomed. I'm often amazed when I talk to firms and discover that the Culture Project is being implemented by, say, HR and/or the COO, which is fair enough, but bypasses the board completely.

Does the board embody the values which it has stated as being the definition of the firm's culture? Are those values brought in to every major decision at all levels of the organisation? Is there genuinely open debate, with challenge welcome so that if there are failures of culture they are raised and lessons are learnt? Does the board truly understand behaviour and why it matters? Indeed, does it takes itself off to do some training about behaviours and culture? I'd be surprised if the answer to each of those questions is positive.

And alternatively, do staff see a group of people at the top where there's infighting, or where there is a dominant individual or group of individuals, or who don't communicate or whose behaviour loses their trust? If that's the situation, and it often is, I suspect discussions about values and behaviours don't make much of an appearance.

As I said at the beginning, culture is essentially about values and behaviours. First, then, we need to articulate and communicate the values, which will inform the way we do business. They will tie in to and be part of the common purpose, the organisation's strategy and objectives, which is a core element of what culture is about. Again, as I go around, I'm struck by how often that common purpose isn't articulated beyond the boardroom - or even in the boardroom itself. If you don't know clearly what you're trying to do and why, at any level, the game's probably up and resources are wasted and lost.

And that phrase 'at any level' is important. It's all very well listing the core values in the loo, the lifts or the corridors. But what do they mean for each member of staff. What for each of them does good look like and what is unacceptable? Has that been defined - and agreed? Values work if they genuinely reflect the culture of the organisation, they are live and credible and reflect a dialogue with all stakeholders.

If we do that then the tone at the top will become 'the tune in the middle and the beat of the feet at the bottom', as Professor Mervyn King, author of the King Commission Codes of Governance in South Africa, so eloquently puts it. He goes on,
'If you get your strategy right and you get buy-in, you get ordinary people to do extraordinary things.'
Which seems to me to be well worth the price.

There are other elements as well: the need for clarity of individuals' roles and responsibilities which are understood by the individuals and everybody around the firm; open channels of communication so bad news gets quickly to where decisions about it are needed; getting the HR processes of selection and reward, including importantly promotion, dependent on culture and values.

Shortly before he left the FCA, Martin Wheatley gave a speech in which he quoted a research report from Cass and New City Agenda which said that despite all that's happened in financial services and the emphasis on culture and behaviour since the crisis, more than 50% of executives interviewed said that 'ethical flexibility' was important to career progression. Which is pretty shocking and shows the scale of the challenge. Changing behaviours of the leaders in many firms is not easy. Old habits may die hard but they have to change.

Woody Allen once said that 80% of success was just showing up. I firmly believe that the rewards for firms, for individuals and for society will be more than worth the effort of showing up and doing it.

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