Article from

Risk Management

December 2017

Issue 40

Defining Company Culture in Five Questions

By Paul Harwood

Editor's note: This article was originally published on www.insuranceerm.com. *Reprinted by permission.*

An "inappropriate culture" often takes the blame for all kinds of corporate misdemeanor, but judging the culture and correcting the failings can challenge the best of firms. Paul Harwood suggests a strategy to help management get it right

It feels like there is convenient circular logic at play: poor outcomes are the result of the wrong culture; what is the wrong culture? One that results in poor outcomes.

The problem with the culture agenda is definition. Culture descriptions tend to involve lists of positive attributes, which are sometimes linked to outcomes, sometimes to activity, but overall can feel newspaper lonely hearts ads.

This language does not define something that can be managed, let alone measured. It feels like there is convenient circular logic at play: poor outcomes are the result of the wrong culture; what is the wrong culture?

One that results in poor outcomes.

Managers have no chance of succeeding in these circumstances. Facing a stacked deck, good managers leave the table. No wonder culture change exercises meet cynicism and disengagement from the sincere.

What's needed is a way to understand culture that goes beyond motherhood statements. Culture has to be described using words and concepts that are familiar to managers and that help them direct effort to achieve the desired result.

> The starting point is the question "what action can management take that affects culture?"

Can this be done? It's certainly worth considering. The starting point is the question "what action can management take that affects culture?"

This quickly decomposes into "what action can management take?" because all management action affects culture.

REWARD—AND THE REST

Management action can be split between reward and the rest. Rewarding people is the easy, fun part of management: recognition of success, payment of bonuses, vesting of incentives and suchlike. What's rewarded is a driver of culture. It's the area that has received significant regulatory attention, because poorly designed incentive schemes drive activity in perverse ways.

It's also perhaps a minor component of culture. The bulk of management time is spent managing performance, trying to ensure success, through recruitment, resource management, people and process management, plus all the work required to address achievement by attitude, contribution and outcome.

Reward can't be the only driver of culture. Remove reward mechanisms from the management playbook and what remains, everyday management, has a role in impacting culture. It may not be fashionable to say, but everyday management might have a greater impact on culture than managing reward. Significant rewards accrue to the few and for most, rewards are side effects, not drivers. Everyday management affects more people, involves more time and effort, and arguably has a greater impact on culture than rewards.

WHAT MANAGEMENT IGNORES

There is a further dimension to how management affect cultures: what management ignores. Managers can't be everywhere all of the time.

Especially in knowledge-based industries like financial services, professionals and practitioners are largely left to get on with their work, with varying degrees of autonomy. This thinking leads to a hitherto unexpressed perspective on culture. What if culture is primarily determined by what management ignores?

Ignoring activity sounds like a dereliction, but that's not the thinking behind the assertion. Culture may be what develops in the gaps left by management, and filled by people going about their work professionally, conscientiously, organizing their working lives to meet management requirements and then to suit their own ambitions, tastes and timetables. Culture may thus be dependent on the outlook of those who are trusted to organize their own work and that of others outside formal lines.

It doesn't take much probing to find influencers in organizations whose approach to work drives the atmosphere and diligence of

many of those around them. Indeed, research into change management suggests that finding and convincing these individuals, whose importance may well be informal rather than stemming from their position, can be a significant factor in the success of any change effort.

FTSE 100 CULTURE/VALUE STATEMENTS EXPRESSED AS LONELY HEARTS ADS. CAN YOU IDENTIFY THE FIRM?

Behemoth seeks edgy other to join crazy care of customers, never sleeping, continually creative and thinking about their legacy.

Are you a blunt-talking team worker? Are you determined, no matter the realism of the goal?

Desperately seeking ambitious people to be strategic and joined up (as opposed to the opposite). Must not mind long-term goals being continually assessed in the short term. Should be motivated by a multiplicity of adjectives (clear, consistent, transparent, regular, fair, effective).

IT'S ABOUT PEOPLE

Talk of management approaches alone misses the crucial point about culture: it is about people. To the individual employee, cultural cues come from sources that are more explicit and closer than the Board. In the game of work, keeping the immediate boss sweet is (usually) the key to keeping a job. There will be side considerations such as making the boss look good to her/his boss and making sure that activity is seen in the right light by others higher up.

Individuals are adept at identifying those with the power to influence their careers and taking steps to optimize perceptions. Being seen to do good work by those with power is a natural part of survival at work, or in any hierarchical human system.

How does this drive culture? The predilections and foibles of individual managers and influencers will be magnified across their sphere of influence, depending on their perceived power, demonstrating what is acceptable and what is not.

ASSESSING CULTURE IN PRACTICE

The challenge is to understand culture in terms that link directly to the management toolkit. The thinking developed thus far can be consolidated into four headline questions for employees throughout any organization: from your perspective (not from the Board room)

- What is rewarded?
- What is managed?
- What is ignored? And
- Who has most power over your activities?

To understand culture, a firm should ask its employees these four questions and collate the responses to give a picture of the impact of management action, or inaction, as seen by those on the receiving end.

Skillful collation of the responses will produce a summary which reflects culture at the required level, be it overall or by functional unit or geographic entity.

These are not survey questions. Surveys oversimplify and tend to be managed, perhaps unconsciously, to drive responses in particular directions. They cannot be posed by managers or HR, however well intentioned, because of the implicit tendency that good employees have to toe the party line.

"Have you see anything which gives you a qualm of conscience?" might (only might) lead to a concern being raised about payment protection insurance, or the engineering of emissions data, or the process to set Libor.

The headline questions are not designed as feel-good questions. They demand evidence. Employees should be asked to give examples of what management rewards, of what management manages and what management ignores. This sort of probing questioning requires skilled moderators.

To understand culture, the questions need to be presented face to face, by a trusted third party who can dig for evidence.

One consequence of this questioning might be that employees change their opinions when forced to confront their perceptions of management action.

This is unapologetically counter to anthropological investigations of culture, which seek to understand without disturbing. Reflection is a well-established technique for changing behavior. If the headline questions help to embed culture, that's a plus.

USING THE RESULTS TO MANAGE CULTURE

The responses to the headline questions are designed to show the Board the impact of management on culture and to identify those with significant influence. With this knowledge, the Board can consider how to adjust management approaches and span to affect culture and who might carry those changes.

Alternatively, Boards could, quite independently of intra-firm research, ask themselves what should be rewarded, managed (more particularly, how performance, contribution, attitude and output should be managed) and ignored (that is, where professionals and practitioners should be encouraged to pursue their work without excessive oversight) to meet their goals on culture. Boards can determine the cultural power brokers in their firm and how the use of their power should be monitored.

protection insurance, or the engineering of emissions data, or the process to set Libor.

Conscience is personal. Individuals assess what is right, what is wrong, and what is in-between, without the need for corporate culture or value statements, and without the need to justify the feeling from evidence. Considering matters from conscience implicitly requires the individual to take responsibility.

Using conscience at work chimes with the Financial Conduct Authority's re-framing of the conduct agenda around the actual or potential harm, and plays to the already-established focus on personal responsibility.

Boards need to know what is taxing the conscience of their employees. They may not agree with a given view, but they should have the opportunity to consider it. Publishing the Board's response to a conscience concern could be a genuine and practical demonstration of tone from the top.

SUMMARY

By asking employees what they see being rewarded, managed and ignored and establishing who really drives culture, Boards can design their management programs to drive the culture as they see fit.

More importantly, they can seek feedback that directly demonstrates whether they are succeeding.

By asking about conscience, Boards can understand what taxes their employees at a deeply personal level, and perhaps receive early warning of the next scandal or a catastrophic fault point in the making.

It's a brave Board that really wants to know about their firm's culture. But is there any alternative? ■

Paul Harwood is CRO and CFO at Holloway Friendly.

The resulting culture programmer is implemented, and the headline questions are used to check that it is having the desired impact, or otherwise allow appropriate changes to be made.

THE KILLER FIFTH QUESTION

Culture is universally accepted as a sensible route to preventing financial malfeasance. But looking over the financial scandals that have emerged in recent years, what questions about culture could have prevented them? It's hard to think of any, not least because bad things happen in good cultures, and angels persist in the most noxious cultures.

Perhaps, instead of asking about culture, firms should ask about conscience?

"Have you see anything which gives you a qualm of conscience?" might (only might) lead to a concern being raised about payment