Culture: a new focus for Board Reviews (Briefing Paper #4)

Background

It is axiomatic that culture has a critical bearing on how corporations are led and governed. Recent studies of corporate failures have examined whether culture was a significant factor and asked some hard questions of boards. Culture is now the focus of new work being undertaken by the Financial Reporting Council (FRC).[1] The FRC notes that the board has a vital role to play in shaping and embedding a healthy corporate culture. The values and standards of behaviour set by the board are an important influence on corporate culture and there are strong links between governance and establishing a culture that supports long-term success. It has therefore launched a market-led initiative to gather insight into corporate culture and the role of boards; to understand how boards can shape, embed and assess culture; and to identify and promote good practice.

Towards a definition of culture

The Salz Review into failings at Barclays[2] devoted a major appendix to culture. What is culture, why does it matter and how can it go wrong? If bad culture is mooted as the root cause of the damage that can be wrought in corporate life, what kind of programme of cultural change is needed as the course for action to aid recovery? Salz adopted the anthropologist Redfield's definition of culture as "shared understandings made manifest in act and artefact." [3] The review continued: "in an organisational context we might understand culture as the practices and values, where practices are the acts or the way things are done and values are artefacts which are human concepts and are judgements about the way things should be done." A classic example of an artefact in the context of financial institutions in the City of London would be, "my word is my bond."

The GLOBE study is regarded as one of the most comprehensive studies of culture to date[4], also quoted by Salz. The research identified seven positive attributes of good leadership which were successful in all of the 62 societies which were its focus, all highly applicable to corporate boards, in terms of behaviour and values. It cited the following attributes of good leaders: *integrity* – they can be trusted; *generosity* – they are helpful; *fairness* – they are fair and equitable; *diplomacy* – they handle conflict well; *decisiveness* – they make sound and timely judgements; *competence* – they contribute to company performance; and *vision* – they articulate a desirable future.

Recent cases

Culture inevitably becomes the spotlight when corporate disasters are investigated. The Deepwater Horizon Study Group declared that the organisational causes of the Macondo Well Disaster were deeply rooted in the cultures of the offshore oil and gas industry. "BP's organizations and safety teams did not possess a functional safety culture." [5] Barclays' response to the Salz review was to initiate its Transform Programme, one of the projects of which concerned culture and values. The bank said: "we believe that building a sustainable, values-based culture will form the foundation of our long-term success." [6]

In an email to staff in the wake of the £250 million accounting scandal at Tesco, Dave Lewis, Chief Executive, said: "Turning our business around will require change in our culture, as well as in our processes and our brand proposition. We want to work in a business which is open, transparent, fair and honest. We all expect Tesco to act with integrity and transparency at all times."[7] Speaking at a recent conference, Sir Win Bischoff, FRC Chairman said: "How could for instance, Volkswagen, one of the most reputable car makers in the world, admired for its technical excellence, its long term approach and its global and iconic nature, apparently engage in behaviour, which at the very least, questions its culture?"[8]

Lessons from these examples include the need for clear leadership and policy set by the board, a process of installing consistency of purpose and respect throughout the organisation (particularly in respect of acquisitions and new staff) and constant vigilance to ensure that perverse incentives do not run counter to the board's cultural strategy.

Methodology for evaluating culture

The directors of companies are the guardians of the espoused culture of the organisations they lead and it is therefore reasonable to suggest that, as part of their governance duties, they review their mission and values, and the culture that underpins these. The board's role is to understand that culture and ensure that it is consistent with its mission and values. It needs to take time to reflect on organisational culture, its own culture and the relationship between them. It should critically examine whether it serves all stakeholders, and be able to monitor its overall progress with an eye to culture.

The board, as part of holding management to account, should assess the extent to which the executives drive and embed the desired culture. Are the corporate behaviour and values consistent with the culture? What steps are needed to be taken if there is a disconnect between practice and values? Performance management indicators should include assessment of the extent to which adherence to culture and values has resulted in the company delivering on its strategy and goals.

Board review implications

Well constructed board reviews should examine the desired corporate culture of the company and assess behaviour. Does the board demonstrate the values of integrity, generosity, fairness, diplomacy, decisiveness, competence and vision, and do these values translate into the business at large? How is conflict handled and are minority views respected? How does the board perform at moments of difficulty? There are subjective elements to this assessment but also areas of broad agreement of what represents current best practice and responsible behaviour. An externally evaluated board effectiveness review can act as a beneficial catalyst for the board's ongoing dialogue and development of its cultural strategy.

Conclusion

JWA Governance is supportive of efforts to challenge companies and other organisations (including public sector bodies and non-profits) through assessment and monitoring of their corporate and institutional culture and its bearing on strategy goal setting and performance. Its board review methodology ensures that this renewed focus on culture is fully taken into account as boards of directors seek assurance on governance.

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Notes

[1] Financial Reporting Council, *Culture project* [accessed at: www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/Culture-Project.aspx]
[2] Salz Review, *An independent review of Barclays' business practices* (London: 2013)
[3] Quoted in Malinowski, B., *Magic, science and religion* (Read Books Ltd.:1948)
[4] House, Robert J., et al, *Leadership, Culture and Organisations: the GLOBE study of 62 societies* (Sage Publications Inc.:2004)
[5] Deepwater Horizon Study Group: *Final Report on the Investigation of the Macondo Well Blowout* (March 1, 2011)
[accessed at: http://ccrm.berkeley.edu/pdfs_papers/bea_pdfs/dhsgfinalreport-march2011-tag.pdf]
[6] Barclays PLC: *Response to the Salz review* [accessed at: www.home.barclays/content/dam/barclayspublic/documents/news/471-392-250413-salz-response.pdf] (12 February, 2013)
[7] Tesco PLC: email to staff [accessed at: www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11124508/Read-email-from-Tescos-chief-executive-to-staff.html] (26 September, 2014)
[8] FT Banking Standards Conference: speech of Sir Win Bischoff, 8 March, 2016 [accessed at: www.frc.org.uk/News-and-Events/FRC-Press/Press/2016/March/Speech-by-Sir-Win-Bischoff-,-Chairman,-FRC-at-FT-B.aspx]