Culture Eats Strategy for Breakfast? How do you improve your organisation's corporate culture?

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Introduction

Philippa Foster Back CBE, Director of the IBE, opened the event by welcoming guests. Having Paul and his students visit us is an annual event. Part of this quid pro quo arrangement is that Simon Webley, the IBE's Research Director, delivers training to Paul's students and Paul then gives a presentation for us. So once again, we are very happy to have Paul here with us.

Main item: Culture Eats Strategy for Breakfast? How do you improve your organisation's corporate culture?

Paul Fiorelli thanked Philippa Foster Back for her introduction. The Ethics and Compliance community are a community that are very willing to share their stories and expertise. When he comes over with his MBA students and asks E&C professionals and experts to deliver training or lectures to his students, they are always happy to accept. As such, they are a very giving community who are happy to share their passion with strangers.

The phrase "Culture Eats Strategy for Breakfast" originates from Peter Drucker, but what is corporate culture? The audience had different ways of explaining corporate culture. One participant said that corporate culture are the things that we think about, believe about and feel. Another stated that it is the things we tolerate or do not tolerate as well as the things we encourage or discourage. Other audience members said that corporate culture are unspoken rules, collective norms and shared stories.

The British dictionary defines corporate culture as "the distinctive ethos of an organisation that influences the level of formality, loyalty and general behaviour of its employees." Richard Farmer from Cintas explains that corporate culture is the glue that holds an organisation together and it is an invisible force. Culture includes common beliefs, ethics and values, and culture is to an organisation what personality is to an individual. No matter how talented a person is, if they do not buy into the culture, they will not be successful.

Culture is a company's greatest asset. Competitors can copy your procedures, but they cannot copy your culture. The audience were asked if they agree or disagree with these statements. One participant stated that he believes corporate culture to be the tone from the top. Another said that he works with a lot of companies who want to copy culture to become the Google of the energy industry. Another stated that a company is much like a child in that as much as parents want to raise good people, companies want to build a good culture.

Paul Fiorelli explained that corporate culture is the secret sauce to any organisation. If you are a high performer, but the organisation is not happy with your values, you will not be happy or successful at that organisation. But can values change? Linda Klebe Trevino is a Management Professor who has written about leadership. She says that we should talk about culture rather than programme when it comes to Ethics and Compliance. This is because it is easy to implement a programme, but difficult to create a culture. You have to keep in mind how a programme will be perceived, and whether staff are worried about values or about being penalised. In her 1999 paper entitled "Managing Ethics and Legal Compliance: What Works and What Hurts", Linda argues that three factors determine culture and these are shared values, the "tone" of the organisation, and the willingness to bring bad news forward.

Being a grandparent, Paul was not happy to hear that metal specks had been found in children's health products. The norms of the company Johnson & Johnson are stated in its Credo. While some companies have the motto "get rich or get fired", Johnson & Johnson believe in a different way of doing things. When the news broke that Tylenol pills had been tampered with and switched for cyanide pills, Johnson & Johnson did not only take Tylenol off the shelves. Instead, the company set out to reinvent the pharmaceutical industry by changing the way medications are packaged. They rolled out their new packaging in six weeks, and instead of gaining a competitive advantage, communicated how to make packaging safer throughout the industry. The Credo implications are positive for their stakeholders as the company showed that it is willing to act responsibly towards them. The philosophy "if we take care of everyone, we will do just fine" certainly applies to this story, but Johnson & Johnson has faced a number of challenges since, including phantom recalls of contact lenses and children's medication.

Tom McCormick at BP explains that just having a good tone at the top is not enough. Employees at a lower level will rarely interact with the CEO or the Board. Instead they take cues from their boss or their boss's boss. It is therefore important not only to consider the tone at the top, but also the mood in the middle and the buzz at the base.

Simon Blunt, a former Ethics Officer at AIG, provides a good example of the willingness of companies to bring bad news forward. This is as the number of ethical violations witnessed rarely equates to the number of Speak Up reports. This is because employees fear that nothing will be done about their concern and that they will be retaliated against for speaking up. Paul agrees with Winston Churchill's quote "I never worry about action, only inaction". Retaliation is not just about getting fired, and it is therefore important to conduct performance reviews and companies should follow a "speak up, listen up, follow up" process to ensure that employees are not retaliated against in any way. One way to achieve this is by looking at the trajectory of employees before and after they have spoken up, and asking if their performance trajectory has changed.

The answer to "why do we care" can be divided into two categories. The first is the regulatory case and the second is the business case. For the regulatory case in the US, good examples include The Federal Sentencing Guidelines for Organizations (FSGO), the Department of Justice (DoJ), and the US Department of Health and Human Services Office of Inspector General (HHS:OIG). According to the FSGO, an organisation shall "promote an organisational culture that encourages ethical conduct and a commitment to compliance with the law." These guidelines promote developing a certain organisational culture and demonstrate the impact of including the word ethics. There is a difference between compliance and ethics. Just because something is allowed within the law does not make it ethical.

The HHS:OIG provides guidance for clinical laboratories in its federal register, stating that "compliance efforts are designed to establish a culture within a clinical laboratory that promotes prevention, detection and resolution of instances of conduct that do not conform to Federal and State law, and Federal, State and private payor health care program requirements, as well as the clinical laboratory's ethical and business policies." When habits of virtue are repeated, they become second nature.

The DoJ has published a document entitled "Compliance is a Culture, Not Just a Policy" and it states that "if Senior Management does not actively support and cultivate a culture of compliance, a company will have a paper compliance program, not an effective one. Employees will pick up on the lead of their bosses. If the bosses take compliance seriously, the employees are far more likely to take it seriously. If they don't, the employees won't. It's as simple as that".

Back in the UK, the UK Corporate Governance Code reads "Boards must assess and monitor culture and 'seek assurance that management has taken corrective action' in cases where it is 'not satisfied that policy, practices or behaviour throughout the business are aligned with the company's purpose, values and strategy'". It also states "The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture." This Code was published on the 1st of January 2019 and signifies a new responsibility for boards.

Simon Webley explains that staff turnover and whether supplier invoices are paid on time are good indicators of an organisation's culture. While business ethics pays, that is not the real reason to engage with it. John Pepper, the former CEO of P&G, says that P&G employees stay at the company, despite interesting offers to work elsewhere, because of the people and the ethics.

The audience was then asked why organisations should care about culture. One participant said that it is good for the bottom line. Another stated that society now demands that we care about culture and values. Another said that it is in the interest of shareholders such as clients and customers. You would rather do business with a company that under-promises and over-delivers rather than a company that over-promises and under-delivers. You should also care about culture because most organisations value trust and doing business ethically builds trust. Other participants mentioned that sustainability and stewardship come into play. You should want to leave a company better off than when you started and sowing seeds for future generations that you will never see.

Grant Thornton's publication entitled "Beyond measure: Making culture count" gives eight reasons why culture matters. Among them is the fact that it positively affects the bottom line, it helps with the recruitment of talented people, and that it enhances productivity. The analytics company Gallup has measured employee disengagement, and found that there are three types of employees. The first group are engaged employees who value working hard for their organisation, and the second group are known as the disengaged, who do just enough to not get fired. The last group is known as the actively disengaged and make up as many as 30% of all employees. Employees in this group who will go out of their way to harm their own organisation and this is the type of employee that companies should seek to get rid of first.

The ECI, which used to be called the Ethics Resource Center, and can be described as the IBE's sister organisation in the US, has written a Research Brief entitled "The Importance of Ethical Culture". It finds that there are only positives associated with having a 'strong' culture and only negatives associated with having a 'weak' culture. But how do you improve an organisation's culture? After its missteps, Wells Fargo has created a commercial to earn back the trust of its customers and change the culture. However, news stories have revealed that Wells Fargo employees feel that the culture has not changed.

Jack Welch has listed four different types of employees that you may come across. Type I has values and makes the numbers, and this is the type of employee that you really want. Type II has no values and does not make the numbers so they would probably not get hired or kept on board in the first place. Type III has the values, but does not make the numbers. Finally, Type IV does not have the values, but makes the numbers. Who do you fire first? If high performers who do not have the values are allowed to stay, then you should not bother with trying to create a good culture. Type IV should be the first ones you fire because they are dangerous to the reputation of the organisation and will define the company culture.

Zappos is a US shoe company that has decided to hire and fire people based on the company's set of committable values. As such, interview questions are designed based on these committable values. One of these values is 'be humble' and this is a difficult one to incorporate into an interview scenario. How they get around this is to ask the driver who brought the candidate to the interview how they were treated. Also, when reporters come to speak to a company, they are often told who to talk to and who not to talk to. At Zappos, reporters are instead told they can speak to anyone as, because of their commitment to committable values during the interview process, they are confident that all employees' personal values match the company's corporate values.

The executive summary of the IBE's Briefing on Culture Indicators states that boards need Key Performance Indicators (KPIs) covering a wide range of data from different sources to see where patterns are emerging and be able to check indicators against each other. This publication is available for purchase on the IBE's website.

Q&A

The presentation was followed by questions from the audience. Among the issues raised were:

- If something goes wrong within an organisation, what is the best way to deal with this?
- When it comes to sharing stories where things have gone wrong, some see this as promoting negative cases. How would you counter this?
- Is having the Board involved the best way to improve culture?
- Going back to the four types of employees, you could have a high performer with values who gets arrogant and forgets values. How should you handle this?
- Can ethics committees be part of communicating what happens further down the organisation to Boards?

Close

Simon Webley, Research Director at the IBE, closed the event by thanking the speaker for a fascinating presentation. It is rare to see a session that tackles culture in depth, but it is definitely needed. The E comes before the C in Ethics & Compliance, but the C often comes before the E in practice.

All upcoming IBE events can be found on our website at www.ibe.org.uk.