KPMG

FTSE100 Chairs' conversation about implementing cultural change

Audit Committee Institute

Conversation about implementing cultural change with Antony Jenkins - 6 July 2016

Businesses are operating in a climate of volatility and uncertainty resulting from issues as wide-ranging as the recent EU Referendum and a change of occupancy at Number Ten, to global challenges such as the unprecedented pace of technological change, mass migration, the rise of ISIL and a lower-growth environment. In such a business environment, the days where you *"can just plan out the next two, five or ten years are over"*. Organisations are learning that *"agility is key".*

One of the fundamental roles of leadership is to create culture within an organisation that allows the business to respond and react effectively. Culture is a powerful driver of organisational performance, so to improve performance leadership need to drive the right culture.

Culture is a topic high on the agenda of business leaders and regulators, with the Financial Reporting Council recently publishing the results of their culture study, exploring the relationship between corporate culture and long-term business success in the UK. For further details see the FRC report on Corporate Culture and the Role of Boards.

In this paper, we look at the key themes arising from our recent FTSE100 Chairs' conversation with Antony Jenkins – a prominent and insightful advocate for structured and considered cultural change programmes.

Implementing cultural change

Instigating any kind of significant change within an organisation requires serious commitment, hard work and determination, not least because human beings are on the whole hard-wired to be change resistant.

Antony acknowledged that culture change is *"not a panacea or a solution to bad actors"* and that there is *"no secret sauce"* for culture change, however, he set out five key steps that businesses may find useful:

1 – Define the desired culture

It is important that culture is owned by the board (and executive). This step should not be outsourced to, for example, a communications company. *"Any light between what is stated and what is required will most likely result in failure of the cultural change programme."* Defining culture may involve affirming the organisation's purpose, values and the behaviours that are seen to embody these as well as linking these through to the business strategy and its long-term goals.

2 – Align key processes with desired culture

How does the cultural definition impact key organisational activity? Businesses may need to look at processes such as how they hire, promote and reward people.

Equally, mechanisms need to be in place to address behaviour incongruent with the desired culture. *"Organisations will see straight through the initiative if people who exhibit 'bad' behaviour are promoted."*

3 – Embed culture in to decision-making processes

Integrity is key. An organisation is not truly *"living its values until it costs money."* There has to be a price to pay such as turning down a profitable business opportunity because the customers/clients values or *modus operandi* are at odds with your own organisational culture. It is at this point that the culture is seen as truly embedded and operational. Equally, *"it shouldn't be forgotten that an organisation is not truly living its culture until it makes money as well".*

4 – Measure the culture

The board need assurance that people fully understand the desired culture, and feel empowered to 'live' it day-to-day in their decision-making. This requires some form of measurement. Measurement also helps identify people who need help in getting to grips with the culture.

5 – Lead the charge from the top

Leadership drives culture and this starts with the board, from how they deal with people to how they deal with a problem. *"Do board members always treat people with respect? Think about it before you say you do."* Are board members always maximising how they learn from problems or what a successful business unit is doing well that sets it apart? How often are leadership asking questions such as *"What is it you are doing that means you are achieving? Why are you succeeding more?"*

Antony also outlined three things that directors can do:

A	Encourage calculated risk-taking and accept that some initiatives will fail. Too much risk aversion will kill any business. How often do you challenge whether people are taking enough calculated risk?
B	Collaborate on corporate governance. The board is the 'check and challenge' on the executive but where agility is key, a more collaborative approach is important. The board and the executive are jointly responsible for the success of the organisation.
C	Positively champion the desired culture *all* the time. The behaviours board members exhibit set the tone for the whole organisation. Even things such as checking emails in the middle of a meeting will be noted. It is the responsibility of board members to model the behaviour. *"Every action you take will be acutely observed."*

Other areas covered in the discussion:

Barriers to cultural change

There is a natural human inclination to resist change – cultural or otherwise. Even (or perhaps, especially) senior leadership may find themselves more risk averse and less likely to stray from the *status quo* as their careers progress. Self-preservation may be a factor – 'going public' about a change programme can be difficult for some leaders as it could be perceived as exposing their organisation (and leadership to date) to criticism. *"Acknowledging the need to improve can create a hostage to fortune."* Individuals may be wary of exposing the company's weaknesses. *"Publishing externally really holds the organisation to account."* Clearly, *"resistance to change within the senior ranks is the very opposite of what you need in an agile organisation"*.

Furthermore, in any organisation there will be a normal distribution curve for engagement in initiatives such as culture change. Perhaps ten to fifteen percent of people at one end of the curve who are passionate and driven about change, with ten to fifteen percent being more resistant at the opposite end. The majority - sitting somewhere in the middle – are likely to be open to engagement.

Tackling those people who are resistant to change can be challenging. One question businesses may have is whether change can be accelerated by *"changing the people"* – particularly those not engaged in the process. Although quick wins and short-cuts may appear attractive to some, Antony held the view that while hiring individuals with an affinity to the desired culture may help, it is unlikely to have a significant impact overall in a (say) 5-10 year programme.

Achieving a consistent culture across a business with different distinct aspects to their operations can prove especially challenging. For example, the retail arm of a company may find itself with different norms and behaviours emerging to another part that operates at a B2B level. Therefore it is important that any core values are applicable and understandable irrespective of the business unit or geography. Antony described this as *"doing business in the right way"*.

Authenticity

It is not unusual for behaviour incongruent with a business's culture to be tolerated (or at least have a 'blind-eye turned to') where an individual performs outstandingly in one aspect of their work. For example, a salesperson who regularly exceeds sales targets but whose behaviour towards colleagues is not ideal. This calls into question the area of 'authenticity' and how board members can lead the way and champion the desired culture through their own observable behaviours. Take 'respecting individuals' – a value common to many organisation's stated values - it could be argued that most people would naturally treat others with respect but what is really important is how is this demonstrated in practice. It is crucial that values do not end up as *"anodyne fluff"*.

Antony highlighted behaviours to look out for such as; board members ensuring they offer thanks and give feedback to those presenting to them at meetings or making sure they hold meetings regionally on occasion where this is feasible. Attendees were asked to reflect on occasions where employees (who perhaps had had sleepless nights in preparation) were asked to 'stand-down' due to board meeting over-runs and question how that sat with common value statements such as 'respect the individual'. *"Being authentic is the thing, the tone from the top is key."* Seemingly insignificant actions can speak volumes to employees in an organisation.

Measurement

Measuring culture is perceived as difficult, but there are survey techniques and other tools designed to help organisations answer some basic questions. Antony talked about tracking whether employees (and other stakeholders):

- understand what the culture is
- observe the culture being lived
- feel able to live the culture - what are the obstacles?
- are proud to work for (or be associated with) the company

Employee satisfaction surveys can, when properly designed, look below the surface and provide meaningful metrics – for example, is a business area scoring poorly as a result of staff reporting into certain individuals or is it a generally-held view?

In many organisations, internal audit play a key role in providing the board with assurance that the 'right' culture is embedded across the organisation. A recent report from the Chartered Institute of Internal Auditors "Organisational Culture: Evolving approaches to embedding and assurance" can be found here.

Technology

Technological advances are increasingly important both in terms of how culture needs to respond to technological changes and how technology can facilitate culture change. Consider the rise of social media and the visibility of a company's activities on Twitter and LinkedIn. Then there are analytical tools to provide greater access to data and leading indicators across all aspects of an organisation's operations, including culture. Furthermore, developments in technology will increase task automation which brings with it its own cultural challenges. Fintech, for example, is expected to result in job losses in financial services in the next few years which will undoubtedly create some anxiety and uncertainty amongst employees.

Looking more broadly, there are questions to be asked around establishing corporate culture in an environment where fewer *"actually go out to work".* With a much more mobile workforce and an increasingly virtual existence, there is a further impact on workplaces and the dynamics created. Some organisations already have mechanisms in place to counteract this. Uber, for example, have managed to successfully create a uniform culture despite a distributed workforce by defining a culture, implementing it, taking decisions in line with the culture and measuring it to the point that the customer experience of using Uber is consistent no matter where it is accessed.

Agility

Agility is key to a successful culture, but not always simple to achieve. Antony spoke about boards and individuals needing sufficient 'bandwidth' to be able to remain agile in their approach and if they are always fully consumed with day-to-day activities, then it is unlikely that they will be truly agile. Conversely, high performing organisations tend to do the basics very well and this creates the time and space to be agile in their approach. This agility allows the consideration and development of issues *"beyond the board pack".*

Members in attendance	
Tessa Bamford	Wolseley
Guy Elliott	Royal Dutch Shell
Shirley Garrood	Hargreaves Lansdown
Christine Hodgson	Standard Chartered
Shonaid Jemmett-Page	GKN
Alison Nimmo CBE	Berkeley Group
Dr Brendan O'Neill	Informa
David Sleath	Bunzl

KPMG hosts	
Tom Brown	KPMG
Tim Copnell	Audit Committee Institute
Jimmy Daboo	KPMG
Tracey Stead	Audit Committee Institute
Adrian Stone	KPMG
Mark Summerfield	KPMG

Future event:

Our next FTSE100 event is a **"Conversation about managing through a crisis"** taking place on Tuesday 27 September 2016 at Number Twenty.

Baroness Dido Harding (Chief Executive of TalkTalk Group) joins us to discuss crisis management, reflecting on real-world experience of the challenges involved.

Tea and coffee will be available from 7:45am, breakfast will be served at 8:00am, with the discussion closing by 9:30am. Should you wish to sign up to this event please email us or contact us on 020 7694 8855.

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