

Good Culture is an Organisation's Gold Standard

The role of boards, directors and regulators continues to be in the spotlight.

Unfortunately, the impression is too many are at a loss as to what is their role; and can that role ever be discharged.

Too often innocent people are hurt because of this apparent living fog enveloping many boards and directors. Clearly there is much more that needs to be done as too little appears to have been achieved so far.

Commissioner Hayne's interim report from the Financial Services Royal Commission was scathing, if nothing else, of our regulators. It appeared to the Commissioner that too much misconduct occurred and has gone unpunished. Regulators have failed to firstly identify what is considered permissible behaviour, and then there has been a failure to take the necessary steps if this is not delivered.

It seems simple really, but somehow it has become mired in a glue which bogs everything down to slower than a snail's pace. This somehow seems disrespectful of snails.

Revealingly, especially in the light of the Royal Commission, Australian Securities and Investments Commission (ASIC) rarely goes to court to seek redress for misconduct, while the Australian Prudential Regulation Authority (APRA) never did.

ASIC's chair James Shipton stated:

"We need to do more enforcement actions in relation to this misconduct. More of it and quicker and more robust, utilising court-based tools because that would be at the apex of the enforcement pyramid," he said.

"And realising that in the case of a number of financial institutions or segments of the financial institutions, that the previous tactics have not been as successful as we hoped them to be. Therefore, we need to up our ante and be more agile in the deployment of that enforcement tool."



Our challenging question is who “owns” this issue?

Is it the board; individual directors, MDs / CEOs, senior executives and management, regulators, consumers, staff (whistle-blowers), stakeholders, or all of the above? Of course, if everyone did their bit – played their role, then none of this would be before the commission.

It would be foolish not to acknowledge that all sectors and functions face these same broader challenges of honesty and openness and accountability and protection of people's data. The issue of integrity looms large for all of us no matter our roles or organisations. It is agnostic as far as its presence. Hence, we need to accept that no organisation is immune from the potential presence of poor culture and we all need to address it with an informed and active management approach.

Often people simplistically comment about culture as “how we do things around here” as if this is somehow informative or even helpful. Fundamentally, until culture is fully understood as something that is the very essence of an organisation's life, then its true value is not properly recognised.

Culture provides the organisation's operating environment and supports the behaviours that are present as a result of practices, policies and others' actions; all of which both define and reinforce what the leadership seeks their organisation's culture to be.

When was the last time your organisation measured its culture? And if recently, what one or maybe two key aspects were identified for action; and how successful has the follow-up been?

While some may believe more regulations and or more policies and procedures will improve culture, a growing number now query the true value of this proposition. In the 2003 HIH Royal Commissioner Justice Owen noted that *“All those who participate in the direction and management of (public) companies need to identify and examine what they regard as the basic moral underpinning of their system of values.”*

A similar sentiment was expressed by Solomon, R. C. 1992, 330 in “Corporate Roles, Personal Virtues: An Aristotelian Approach to Business Ethics.” *Business Ethics Quarterly* 2 (3): 317–339 when commenting:

“Business ethics is too often conceived as a set of impositions and constraints, obstacles to business behavior rather than the motivating force of that behavior ... properly understood, ethics does not and should not consist of a set of prohibitive principles or rules, and it is the virtue of an ethics of virtue to be rather an intrinsic part and the driving force of a successful life well lived. Its motivation need not depend on elaborate soul-searching and deliberation but in the best companies moves along with the easy flow of interpersonal relations and a mutual sense of mission and accomplishment.”

So there needs to be greater attention given to the behavioural and soft issues that drive culture and good conduct. Again, Justice Owen seemed to capture this well when stating: *“Essential to accountability is the concept of ‘stewardship’ — that is what is at the heart of governance. It is a question of culture and we ought to be working on principle as much as we should be working on legislation.”* And further *“Culture involves an understanding of why the law is as it is. The more you rely on the letter of regulation, the less likely you are to examine underlying principles.”*

It seems that if nothing else was done starting to concentrate on the inputs will deliver positive results. Those inputs can include important areas such as recruitment, promotion, recognition/bonus, performance management, communication and collaboration, and leadership development. No one, but all, are strong contributors in helping to shape and deliver “how we do things around here”; in other words, the organisation’s real culture.

The critical importance of sound governance demands a holistic approach when measuring and addressing the organisation’s culture. It requires everyone to be involved across all activities and even inclusive of some key stakeholders. Where an organisation confidently has all of the leadership team involved and driving the same message and requirements, then the impact is hugely positive. This also raises the importance of ensuring that there is total integration into everything that the organisation does. There is no separateness either in messages or in activities.

Culture and good conduct is not a flimsy concept nor a luxury add-on in the sound governance toolbox. It proves itself time and again as a very strong and critical lever that shapes the organisation’s culture, which in turn ensures success in delivering the organisation’s purpose. Need there be any stronger reason for leaders to embrace being stewards of an organisation’s culture than this Gold Standard quality.

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