

Organisations' cultural assessment and transformation

May 2016

While the conduct of financial institutions at home and abroad has garnered considerable attention of recent years, a number of other industries have also had their fair share of poor press. Questionable practices in the construction sector, utilities and telecommunications, as well as large retailers and their suppliers, have rocked the public's confidence time and again and led people to question the moral integrity of these organisations. Governmental bodies and agencies are similarly positioned. Concerns around bullying and harassment and a perceived lack of inclusiveness are giving them good reason to reconsider their own cultures.

It is not surprising then that leading organisations have begun to reflect on the culture and sub-cultures of their organisations. They are intent on assessing whether issues exist, their underlying causes and what actions could be taken to either change or enrich their organisational culture.

Of course, culture has always been fundamental to an organisation, points out KPMG's Sally Freeman, National Partner in Charge, Risk Consulting, and current culture initiatives should be undertaken to provide tangible benefits that support the medium and long-term sustainability of an organisation. Certainly it should not simply be viewed as a quick fix solution after being caught out doing the 'wrong thing' or negative press.

For businesses, a positive culture can be a differentiator in a saturated landscape, both for staff, customers and investors. For governments, it's about being well placed to respond effectively to changed service delivery models, low productivity and yet another cut in the public sector budget.

Says Freeman: "There is such a focus on culture at present. However it shouldn't just be about

organisations having to defend their culture. It should be about these organisations being proud of their culture. Organisations with the 'right culture' can create real opportunity and sustainable performance from that."

Thinking big on culture

Culture is generally understood as "the way things are done around here." In an organisation, it relates to people, performance, individual beliefs and leadership.¹ It encompasses *risk culture* which addresses the articulation, communication, measurement and management of risks within an organisation. It also takes into account *conduct risk*, which seeks to identify and address risk in product design and sales practices and behaviours that have an impact on customers.

We believe organisations need to tackle the issue of culture in its broadest sense to effect lasting change. While conduct risk and risk management are critical factors – and gain significant attention from regulators, boards and management – they are not enough in themselves.

1 See Schein, E.H., *Organisational culture and leadership*, San Francisco, Jossey-Bass, 1985.

It is only by taking a more holistic approach, understanding and addressing an organisation's core strengths and weaknesses as regards leadership, individual beliefs and other organisational mechanisms (such as structure and policies and processes (*intent*), and associated operationalisation (*execution*)), that a genuine transformation can occur.



The balancing act

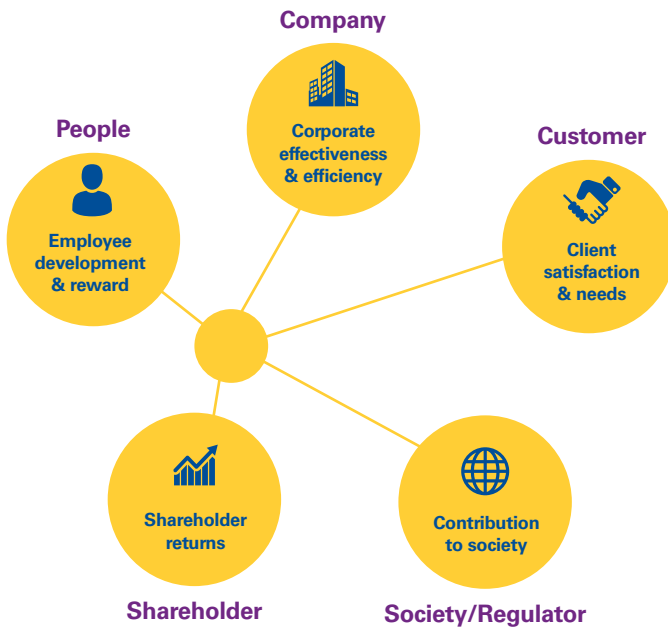
Organisations serve a number of important stakeholders, including customers, shareholders, employees, society, and their own organisation.

Organisations, and individuals within organisations, face decisions on a daily basis which reflect these competing interests and potentially favour one stakeholder group over another. Unfortunately, rather than being carefully considered, these decisions are often unconscious or based on 'the way we have always operated'.

A consequence of this can be an almost unnoticeable drift towards shareholders and employees at the expense of customers and society.

The problem is it is very difficult to see this from inside an organisation. Further, such skewed behaviour isn't going to be adequately captured through a one-off culture survey. This means organisations need to be having a continual conversation about what they are doing, whether or not their orientation is evidently biased in one direction or another, says Stefanie Bradley, Partner in Charge, People and Change, KPMG.

"Whenever they are making a critical decision, they need to ask themselves whether they are servicing their people, their shareholders and customers. They need to consider the extent to which their service aligns with their organisation's values, purpose and strategic direction. It is essential that this is an ongoing commitment, a genuine part of the everyday conversation."



Considering culture

Certain indicators may point to whether an organisation has a positive (or poor) culture. "We see good examples in the utilities industry where they tackled safety head on, or you look at the issues coming out of Defence around bullying and harassment and they are addressing these issues from the very top of the organisation," says Bradley.

KPMG Partner for Human Rights & Social Impact Services, Richard Boele, points to KPMG's own ability to roll out a domestic violence program. "An organisation that's successfully rolled out that kind of program – addressed those kind of tough issues – with its workforce gives you more confidence overall."

Ultimately, however, identifying an organisation's current state of culture has a very strong social science background. "That's what we bring to answering the question at KPMG," says Boele. "It's that deep understanding of where your strengths and weaknesses are. Today we have a much broader set of tools to apply to that – whether quantitative or qualitative research, lead or lag indicators – to understand where your organisation is at culturally."

This isn't about one size fits all – a prescriptive list of dos and don'ts as it were. Clearly cultural considerations are unique to each organisation. "We can very easily fall into a trap of being black and white about what is a good culture or a bad culture for an organisation," observes Freeman.

This is inherently problematic and it is for this reason that regulators won't be drawn to define a 'culture check list', says KPMG's Steve Clark, Director, People & Change.

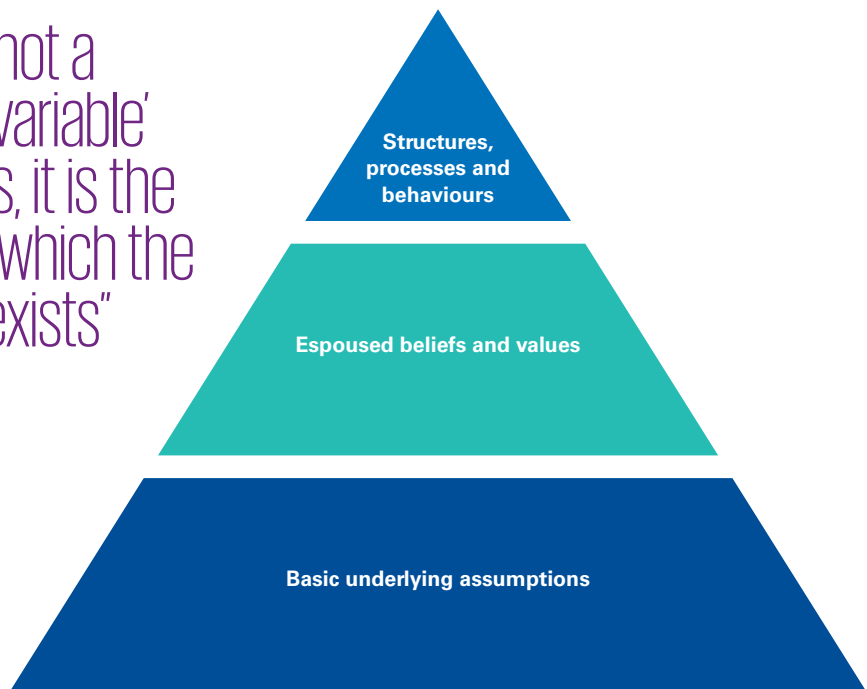
Nevertheless, there are a set of cultural parameters that leaders can look to in their organisation in order to assess and understand their culture and determine whether it's in the right spot – even though that right spot on each of the parameters will differ from organisation to organisation.

A cultural diagnostic

We believe the first step in any cultural journey is a cultural diagnostic of an institution or business unit. This involves an in-depth, often independent, appraisal of where an organisation's strengths and weaknesses lie in terms of its culture.

Edgar Schein's model of corporate cultural identifies three layers of culture, which are as relevant to the public sector as they are to the private sector.² They include the things you can see in any organisation, (structures, processes and behaviours); an organisation's norms and values, (such as espoused beliefs which drive behaviours), and basic assumptions, (being the rules that are taken for granted and hence almost indiscernible).

"Culture is not a 'factor' or 'variable' in business, it is the context in which the business exists"



An organisation should interrogate each of these layers to help understand and assess existing strengths and areas for improvement. This may be best carried out by an outsider through such tools as interviews, surveys and workshops, as well as reviews that consider key values chains in the organisation to identify where the critical decisions are made and communicated. It is only then that it becomes clear which stakeholders' interests are favoured and how these biases drive outcomes that reinforce or work against the desired culture.

Many culture assessment programs focus too heavily on staff surveys. These can be useful but results often simply describe the current state (but not the underlying causes), or provide an abstract view of culture through. Both of elements can be useful but without the context of how the organisation operates and individuals' underlying beliefs, they provide only a partial understanding of culture.

There is also the common problem that the underlying culture of the organisation rejects the attempt to impose different behaviours. As a result an organisation needs to develop actions and insights that address the underlying causes of behaviours and align these drivers to the needs of the strategic change program and its objectives.

² Schein, E.H., *Organisational culture and leadership*, San Francisco, Jossey-Bass, 1985.

Modelling good behaviours

There is no doubt the leaders of an organisation are an important element of the cultural change itself. This goes well beyond their ability to direct the necessary changes however. "They don't sit outside it; they are part of it," says Clark. "Rather than simply writing the values and watching the culture change, they've got to recognise themselves as critical in driving it."

It is also important to realise that these leaders go beyond the board and senior executives. In fact middle management is an indispensable part of cultural change as the leaders who have the most direct impact.

"If you look at any of the work around the ambiguity of change, the ambiguity of culture, the solution doesn't just exist in the boardroom," says Bradley.

Speaking out

If leaders are going to be effective at any level, however, they need to feel confident they can freely express themselves to ensure open and constructive engagement.

Similarly, employees throughout the organisation have to feel comfortable about speaking out. "One of the greatest risk mitigation measures from a cultural point of view is actually diversity – having an inclusive company culture," says Boele. "That's where organisations are often missing a trick. As soon as I see a board and it's all male I ask myself what the strength of culture is in that place because it suggests brittleness."

It's not just a matter of gender though. Ultimately, it's about diversity of thinking. He points to Westpac's former CEO, David Morgan, as an apt example. "The one question he always looked at in his people survey was, 'I feel free to speak out in my work place'. He believed it was the people who were prepared to stand up and call it that were the ones who would really help the bank identify where the issues were."

Taking this further, disparate sub-cultures can work well in an organisation, inspiring creativity and innovation.

Bradley warns against taking this too far however. "While they can work well for a period of time, they risk eroding the organisation's overall culture if not managed carefully. How you keep the core elements that are important and are working overall is the art."

Taking time

There is no doubt that both the public and private sector are under considerable pressure from the 24 hour news cycle and quarterly reports among other things.

"Holding firm to a position is critical when you're under pressure and not losing sight of the end game. It's a quality that's evident in successful leaders but it's really hard when you're under pressure and you have to report to a short-term interest body," says Bradley. "It's a matter of stepping back and working out what's going to be important in the long term."

Leaders who can respond to any short-term challenge by acknowledging mistakes were made, then step back and work out what's going to be important in the long term are invaluable here. "You need a culture that can enable that and not get into the bad habit of blame and criticism. You don't want to risk throwing out everything."

This is important to keep in mind when effecting cultural change – particularly for sectors such as financial services that are under considerable pressure from the regulators. Paying mere lip service to cultural change, or simply ticking the boxes, cannot result in a sustainable solution, says Freeman. "Organisations need to question whether they are putting things in place now because they are responding to regulators or because it feels like the right thing to do. Are they genuinely thinking about the medium term and longer term consequences?"

The case for change

While cultural change might appear daunting, there are many cogent reasons for embracing it.

Connecting the organisation with the people and communities it serves helps bring meaning and purpose to daily work. There is considerable evidence that 'purpose' is increasingly important in attracting and retaining the best talent. Research has also found links between such connections and sustained financial performance.³

Importantly, it also helps address the threat of disruption, including digital disruption, and enables organisations to respond appropriately to new competitive threats. For businesses, cultural change can provide for greater customer retention, market share growth and, ultimately, superior shareholder returns. In government, it allows its people to further improve what they are doing, providing even better services to the community and ensure that their services are making a difference.

A sound culture is also a significant risk mitigation. While the regulators haven't intervened in other sectors to the same extent as financial services, all organisations have to be cognisant of the potential for hefty fines and other costs if they fail to stem poor conduct.

Tackling the challenge

There is no doubt that effecting cultural change is challenging. "It is really tough," acknowledges Bradley. "Cultural change requires a huge investment of effort because organisations essentially try to maintain business as usual." For a change program to be successful it requires not just good communication, stakeholder engagement and workforce support."

The challenge of leading an organisation through such a process cannot be underestimated. "Visible sponsorship is not enough," says Bradley. "Successful transformational leaders have a set of specific abilities – we don't do enough to identify, foster and develop these in our leaders."

Embedding a systematic context

Understanding how the different facets that make up the organisation, visible and invisible, can be **harnessed to drive change better**

Story telling for meaning

Creating and delivering a **compelling message** to various communities that outline the 'why' but also the localised 'what'

Facilitating solutions

Being a facilitator of ideas and **removing perceived blockages** to change that might otherwise stifle momentum

Assessing organisational networks

Understanding and **involving the different networks** that operate formally and informally across the organisation to influence key stakeholders and the masses

Applying multiple mindsets

Ensuring the appropriate **skills and capabilities** are brought together to drive the change forward

Pacing implementation

Not doing everything at once, keep **driving the priority activities** – those that will deliver maximum value



Creating strategic space

Ensuring people have the appropriate **headspace to maintain focus** but also continue to think about the bigger picture

Juggling political dynamics

Understand the competing agendas that might be at play and navigating a path that maintains momentum and brings people with you

3 Sidosa, R., Sheth, J., Wolfe, D., "Firms of Endearment"; Pearson Education 2014.

Culture change is not just one thing and it takes time. "Just as culture assessment considers each layer of the organisation's culture, change interventions must also address each layer in a systematic way," says Clark. Developing values in isolation will not change culture. Changes must be reflected by addressing critical processes and structures. Interventions can also be designed to address basic underlying assumptions but these can take time to shift.

Yet while cultural change is a challenging undertaking, it is an essential element in an organisation's long-term sustainability. It is unlikely that any business sector or government department in Australia will escape significant transformation over the next decade. That will require new business models. Organisations that have invested in understanding and developing a strong culture will be best placed to face these challenges.

Contact us

Sally Freeman

National Partner in Charge

Risk Consulting

T: +61 3 9288 5389

E: sallyfreeman@kpmg.com.au

Richard Boele

Partner

Banarra

T: +61 2 9346 5858

E: rboele@kpmg.com.au

Stefanie Bradley

Partner in Charge

People & Change

T: +61 8 9263 7774

E: sbradley1@kpmg.com.au

Steve Clark

Director

People & Change

T: +61 3 9288 6937

E: steveclark@kpmg.com.au

Cathy Morcom

Associate Director

People & Change

T: +61 2 9455 9517

E: cmorcom@kpmg.com.au

kpmg.com.au

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

© 2016 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo and are registered trademarks or trademarks of KPMG International.

Liability limited by a scheme approved under Professional Standards Legislation.

May 2016. VIC N14091ADV