CIPD

Championing better work and working lives

Research report

July 2016

A duty to *care?*

Evidence of the importance of organisational culture to effective governance and leadership

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 140,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

Public policy at the CIPD draws on our extensive research as well as the insights, expertise and experiences of our diverse membership. Our goal is to inform and shape debate, government policy and legislation on workplace practices, for the benefit of both employees and employers.

A duty to care?
Evidence of the importance of organisational culture to effective governance and leadership

Research report

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Acknowledgements

This report was written by Edward Houghton, research adviser at the CIPD, with the knowledge, guidance and expertise of the CIPD's research, policy and strategy teams, who kindly contributed throughout the research and played a valuable role in developing the final report.

Additional thanks to the Financial Report Council for their leadership and focus on the Culture Coalition, and their interest in this important topic.

Foreword

Healthy and positive organisation cultures matter. Culture is integral to organisation success and to the well-being of our workforces. For those who weren't already convinced of this, numerous highly public corporate scandals, most of which were rooted in poor or poorly aligned organisational cultures, have put culture in the spotlight once and for all. But changing or creating good workplace cultures is not an exact science, takes time, and is influenced by many variables. Even understanding what the culture or sub-cultures really are is challenging, and it is often said that leaders think they know what the culture is, but rarely fully understand it.

There are various tools and techniques in the market that help with the diagnosis of cultural issues, and typically reflect different dimensions of attributes, such as whether culture is singular or more diffuse, whether it is driven by lots of rules and policies, or whether the ways of working are more free-flowing and adaptive to the circumstance. It is often reflected by how decisions get made, by processes and policies, by symbols and rituals, and even the language that people use. Many researchers talk about positive attributes of culture or 'high-performing' cultures that drive higher levels of more sustained performance, including collaborative and learning cultures, high trust, innovation and growth mindsets, or how well the workforce is engaged. There are so many factors which interact to define effective cultures, simply copying and pasting aspects of high-performing organisations will not always get the desired result. In reality, organisations – and perhaps more crucially their people – are more complex than that.

Given that almost all definitions of culture agree that it is about people and behaviours within any organisation, to create effective cultures we must consider our employees, their relationships with one another, the jobs that they do, and their connection to the organisation they work for. Creating effective cultures starts with recognising just how crucial our employees are to the success of our organisations. They're instrumental not just in financial performance, but also to the social and environmental impact of business operations. As such, leaders need to recognise that every decision they make for their organisation has an important people dimension.

People provide the knowledge, ideas and sparks of innovation that deliver value for the business and can often result in real competitive advantage. The recent past tells us that when cultures turn toxic, trust breaks down, and performance and well-being suffer. The damage is often irreparable – not just in terms of financial valuations by investors, or the response of customers who often vote with their feet, but also in terms of staff engagement and the health of the workforce. Toxic cultures are unhealthy for people and unhealthy for business. If left unchecked, they can cause lasting damage which can impact us all.

This is why boards have a duty to understand the cultures of their organisations, and invest in creating the best environment they can for people to perform, aligned to the goals and needs of the enterprise. Business strategy, the business or operating model, and corporate culture are all inextricably linked and need to be understood together. Leaders need to focus on building trust, by opening and maintaining two-way channels of communication, by being authentic and in line with espoused values, and acting with integrity. We need boards to recognise a fundamental duty of care to their employees that must sit alongside a responsibility for delivering value to financial stakeholders. This means work must be productive and financially rewarding, as well as stimulating, engaging and healthy for each and every employee.

The Financial Reporting Council's Culture Coalition represents a desire and need to help boards and leaders better understand and account for culture, and to take action in addressing cultural challenges through effective engagement with the business. We welcome our partnership with the coalition, and their call to provide guidance and counsel as they take important steps towards driving more effective board action on culture through the UK Corporate Governance Code. We look forward to further championing this important agenda together.

Peter Cheese

Peter Cheese Chartered FCIPD
Chief Executive, CIPD

Executive summary

Context

Organisation culture is one of the hardest attributes of an organisation to articulate and measure, but also one of the most important and valuable. Positive and aligned corporate cultures can motivate employees to perform and engage with their work, align behaviours to common values and purpose, share knowledge and insights, be more productive and responsive, and build trust. However, when toxic, culture can cause significant issues for the business and its employees, leading to low performance and morale, high levels of staff turnover, and in some circumstances significant harm to the organisation and to the well-being of employees. In times of challenge and opportunity, a healthy corporate culture can make or break success of the business and of the people working for it, and many business leaders have talked about the central importance of culture to the success of the enterprise, often reminding themselves of the quote attributed to Peter Drucker about how *'culture could eat strategy for breakfast'*. It follows then that leaders of organisations must have a handle on the people aspects of corporate culture.

Governance and culture issues have been apparent in many of the recent scandals which have rocked multinational organisations across the financial services, oil and gas, and major retail sectors. In all cases, greater awareness at the board may have meant that the scenario which played out could have been very different. Boards in these situations overlooked, or were not aware of, data and insights which may have highlighted upcoming cultural and operational threats and provided the opportunity for greater management control to prepare for the issue, create solutions to resolve the challenge, or avoid it altogether.

The Financial Reporting Council's (FRC) UK Corporate Governance Code, published in 2014, positioned the board as a central element for establishing the culture of the organisation, maintaining the ethics and values against which the organisation should practise, and setting the 'tone from the top'. It was described as vital for long-term success and ethical practice that strong, accountable organisation governance establishes and maintains positive corporate culture. The FRC signalled in this work the value of culture, and as a result is looking more closely at how governance informs and leads to the development of corporate cultures.

FRC culture project

The FRC's culture coalition is exploring exactly how boards should consider the culture of their organisations, and crucially the steps which they can take to understand and develop positive working environments through evidence of good practice and tailored resources for the board. Working across four key themes of delivering sustainable success, people issues, embedding and assurance, and stakeholder issues, the FRC will publish a report of observations in July 2016.

The CIPD has been leading on the people issues theme of work, exploring through a rapid evidence assessment methodology the evidence for the importance of culture within organisations, and at board level. Working across the CIPD's extensive evidence base, the research has gathered insights against a set of core questions proposed by the FRC, and thorough analysis illustrates the evidence in four key themes.

Findings

Analysis of the CIPD literature illustrated that cultural measurement, analysis and evaluation is vital to senior business leaders in a number of ways (see Table 1).

Table 1: Findings

Theme	Description
Leadership and communication of organisational cultures, values and behaviours	• Leadership capability throughout the organisation has been shown to be vital if the organisation is to be led effectively against its operational and strategic targets. Research shows that building behavioural and value-based assessment mechanisms can help the board to assess leadership capability and bench strength. • Trust is an important aspect of leadership which must be managed and maintained by the senior leadership team and board. Frequent communications and open dialogue across the organisation is shown to build trust, but an active approach to trust must be taken if it is to embed with longevity. • Establishing and leading cultural transformation from the top is essential in embedding the desired culture. Measures that provide evidence of culture change and impact should be sought. • Alignment of core values at the top of the organisation through the board and executive committee is important for establishing a healthy corporate culture. Research shows that leading from a place of trust and integrity, and living organisation values, is vital in establishing and driving consistent behaviour.
HR strategy and operations: building productive and engaging cultures	• Reward culture can create challenging issues regarding fairness and issues with ethical practice. Behavioural science research shows motivators for performance often differ from the broadly accepted culture of performance pay, and that establishing high-pay cultures can reduce performance, not improve it. • The remuneration committee should be seeking assurance that pay and reward metrics include demonstration of the right behaviours, and that there are active processes to measure divergence from acceptable pay norms. • Other HR processes that play a significant part in sustaining organisation cultures include recruitment (seeking out attitudes and behaviours that align to corporate values), induction and training (reinforcing behaviours), and performance management (recognising and promoting the right behaviours as well as the right performance outcomes). The board should be aware of these and seek reassurance on how these processes align.
Engagement, employee voice and employee relations	• Positive levels of employee engagement together with evidence of good communications and support for employee voice through different channels are essential components of healthy organisational cultures. • Trusting, open relationships require continual management from the very top. Research shows that effective boards measure the value of relationships and create a culture of development and learning when building new connections. • Well-being including evidence of stress or other contra-indicators are valuable measures of culture which boards should have sight of. Research shows that active measurement of well-being may point to issues and opportunities for engaging, motivating and driving performance within the business.
Contextual factors: economy, diversity and technology	• Board diversity is now seen not only as a good indicator of better board decision-making, but is also important in reflecting the context, communities and customer base. • Greater transparency and information on the workforce or human capital of the organisation and its composition, evidence as to how it is changing (for example staff turnover, recruitment), investments in the workforce (for example training spend) and measures that provide some insights on culture and leadership (for example on employee engagement) should be more consistently reported to give greater insight and confidence to all stakeholders that the board and management understand these dimensions of their business. • Technology can enable greater connectivity across organisations and enable leaders to appreciate cultural aspects of the business. Creating stable HR information systems which gather, analyse and report on people data is crucial for boards if they're to make evidence-based leadership decisions.

Discussion

People and organisation performance are inextricably linked through culture – well-aligned, open and collaborative cultures encourage employees to be innovative, problem-solving, effective with customers, and drive success against objectives. Misaligned corporate cultures can create toxic environments which damage the processes through which the business creates value, creating substantial risk from misaligned behaviours, and disengage employees, stifling innovation and productivity.

There is much research evidence that shows that organisations with more positive cultural attributes will perform better over the long term (Hampden-Turner and Trompenaars 1997; Katzenbach 2010). Our research across the HR profession and with leaders in organisations shows why culture must be considered when decisions are being made which affect employees. Central to the responsibility of the board to deliver value for the benefit of all organisations' stakeholders is that of a 'duty of care' to employees: to maintain a culture which protects and enhances the health of individuals who work for and on behalf of the organisation. This must happen alongside the realisation of value for other stakeholders to the business, if the business is to realise long-term success.

The board can significantly influence the culture of the organisation, so it is vital that the culture and behaviours of the board itself show integrity and accountability and that they take ownership for the organisation culture. Senior leaders should see their wider responsibilities to all stakeholders of the business, including employees.

Therefore, boards must ensure that, as decisions are made and the appropriate checks and balances are applied, they assess how decisions may affect business culture or how the corporate culture may affect the implementation of those decisions.

Conclusions and recommendations

Boards should take full account of the culture of the organisation and well-being of their workforce, and take evidence-based steps evaluating, understanding, measuring and managing the culture of their businesses. It is the board's responsibility to understand the culture of the organisation and how it is changing or evolving, and to hold management to account. There should be open communication channels across organisation boundaries, to ensure that stakeholders, including shareholders and employees, have an understanding of the importance to which the board holds culture.

The complex and ubiquitous nature of culture makes it one of the most important aspects of the organisation that the board and its senior leadership team must understand and manage. The organisation's multiple stakeholders will each have a unique interpretation of the organisation's culture, and will articulate it through their own unique lens. This complexity means that the board must pay considerable attention to the culture of the organisation and ensure that it supports and emphasises the values of the organisation, and ultimately enables the business to perform financially, ethically and sustainably.

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Table 2: Top-level recommendations

Recommendation	Description
Value alignment	Align core values at the very top of the organisation, embed desired behaviours across the board, and apply a values lens to board decision processes. Boards should focus on trust as an enabler of positive and productive cultures.
Champion change from the top	Lead cultural change from the top, and evidence its impact on the business. Ensure that the board is diverse and representative of the organisation and community in which the business operates, while maintaining appointments based on merit and quality.
Develop leadership capability	Build leadership capability in line with cultural and behavioural values, and communicate its importance effectively.
Address the reward question	Align measures of performance, reward and culture to address issues of high pay and ensure that reward decisions take cultural alignment into account.
Invest in people capability	Invest in building HR and people management strategy and capability which focuses on leadership and management culture, and embed cultural values across all levels of the organisation.
Empower the board's committees	Empower the remuneration committee to challenge, and act with integrity and independence. Ensure that the board responds to the remuneration committee transparently and with full commitment. Maintain a focus on corporate culture to challenge the board to remain accountable for cultural issues, and highlight potential issues before they arise. Establish a culture committee to oversee cultural risks and opportunities, and hold the board to account on issues regarding culture.
Enable through voice and engagement	Build a culture of engagement and voice, communicating the importance of open and transparent values via top–down and bottom–up engagement processes.
Protect whistleblowers and those speaking up	Create employee voice and whistleblowing processes that protect employees who speak out about cultural and behavioural issues, and ensure that the board takes effective action to rectify concerns.
Measure and report	Improve the measurement and reporting of cultural indicators of human capital, both internally and externally, and communicate its importance to all stakeholders of the organisation using both qualitative and robust quantitative data and a clear and accessible narrative. This includes reporting on the quality of board relationships. Seek evidence that all HR processes, including recruitment, induction, training and performance management, reinforce and align with the desired behavioural norms and values.

Overview: culture in organisations

The CIPD was asked to respond to the Financial Reporting Council's (FRC) request for evidence of the importance and value of corporate culture to business, and the role that boards plan in setting, managing and leading culture in organisations. The work features as part of the FRC's Culture Coalition Project, to explore how reporting and governance can be modified to better help boards and organisations create more productive and healthy workplace cultures, and aims to tackle some of the significant challenges that leaders and their organisations face today.

Interest in organisational culture continues to grow and is characterised by the considerable increase in coverage that the topic now gets in mainstream media. This reflects a growing appreciation of the value of cultural measurement and management at all levels of the organisation, but no more so than at the very top. Boards and their senior leadership teams are slowly appreciating that culture is pervasive in nature, touching all parts of the organisation, and plays a fundamental role in either enabling or blocking strategy and in driving performance. The strategic decisions boards make are inextricably linked to and have considerable impact on the culture of the organisation. For example, strategic or business model changes need to be understood in their impact on the corporate culture, or how the

What is organisatinal culture?

To begin we should consider what is meant by the term 'organisational culture'. One definition which has come to gain broad acceptance is that organisational culture is '*a set of beliefs and values shared by members of the same organisation that influences their behaviours*' (Schein 1990; O'Reilly et al 1991), or as has been described in the more vernacular, 'how we do things around here'. This definition is useful as it allows the reader to reflect that culture will differ according to various aspects of the business, including its business operating model and variables such as context, leadership and innovative capacity, to name but a few. There are many more definitions of culture that are offered up in academic and practice-based literature; however, it is perhaps most useful to consider the particular characteristics of organisational cultures which are summarised by Langan-Fox and Tan in their 1997 work:

- It is stable and resistant to change (that is, real cultural change takes a long time).
- It is taken for granted and not consciously held (that is, it is not typically defined, easily visible or tangible).
- It derives meaning from the organisation's members (that is, it's about the behaviours of people individually and collectively).
- It incorporates a set of shared understandings (that is, it is based on common beliefs, values and accepted norms of behaviour within the organisation).

For a deeper exploration of organisational culture with academic thinking, it is possible to consider the construct's location within organisational psychology and philosophy, where it is often situated in one of three philosophical schools: rationalism, functionalism or symbolism. According to the rationalist perspective, which is mechanist in nature, culture is a means or tool for delivering against objectives efficiently. Debates within this realm consider culture as a way in which the organisation is able to deliver against its objectives through process development and efficiency. There is less consideration here for the individual within the cultural perspective, rather it applies a 'machine mindset' to culture within the organisation. The functionalism perspective differs, instead seeing culture as an organic concept derived from a pattern of shared values and basic assumptions, operationalised through measurable variables contextual in nature which, when considered, give a system perspective. Finally, the symbolism school views culture as a pattern of socially constructed symbols and meanings, expressed through the interactions and reactions of individuals within the organisation, and the meaning they apply to their experiences. This is arguably the most human and social in nature (Schultz 1995).

'Culture is intimately tied to value-creation in organisations today.'

culture will work with or against those changes. It is impossible to isolate strategy, business model and culture, and it is for this reason that boards need to pay attention to the nature of culture in their organisations.

While the philosophical debate is by its nature deep and rich in perspective, practice-focused research has centred on the positive cultural principles or dimensions that are more likely to drive superior and sustained performance, such as learning and growth mindsets, collaborative working, openness and transparency, devolvement of power and decision-making, and trust and empowerment. Culture is rarely uniform, and the larger the organisation, the greater the likelihood of variations in culture and behavioural norms across it. Every organisation, however, should be able to define common values, mission and vision that create that sense of who they are and what they stand for, even if strategy and operations are more devolved. Culture is naturally impacted by the diverse contextual, geographic, and social cultures of those individuals who work in the business. How much these variations become the dominant feature of culture can be managed, but again will depend on the operating model and strategic need. It is therefore a challenge to leadership as to how well they really understand the corporate culture, and what information or insights they have that help them understand it.

Complexity increases when organisations operate across multiple and diversified lines of business. Boards overseeing these multifarious businesses must understand the balance between trying to enforce a single pervasive corporate culture, and recognising the value, or reality, of multiple variations across business unit cultures. The strategic objectives and business model with which the business operates play an important role in defining what the culture of the business will need to be like, ultimately defining how the organisation operates. Some organisations choose to work through centralised operating models, whereas others distribute operational management and control and even strategic decision-making. These models imply that different corporate cultures must be supported within these operating models. Culture may therefore be recognised both as an enabling factor and an artefact of delivery against purpose.

External stakeholders, including shareholders, regulators, customers and prospective employees, are also increasingly aware of how valuable and important positive corporate cultures can be. This is evidenced through growing media focus on corporate behaviours, regulatory interest in understanding behavioural risk, and through the growth of services such as Glassdoor, the recruitment and job site empowering employees to share their views on organisations they have worked for. Culture is intimately tied to value-creation in organisations today, and must be a significant factor which senior teams leading organisations need to manage and understand if they are to deliver on the objectives they set for their organisation.

What the research says

Of the concepts in the corporate and strategy lexicon, corporate culture is one of the most contentious and complex. Perhaps because it is intangible in nature and so pervasive, it is a concept which has over time developed to become one of the contested areas of academic and practice thinking. This, coupled with a business and social environment which is rapidly changing because of increasing globalisation, technological capability and competition, means that boards and senior teams must now appreciate and conceptualise the culture of their business in new ways if they are to create workplace environments which are geared for healthy success and longevity, and deliver sustainable competitive advantage.

Culture interacts with all business processes, impacts decision-making, affects how change programmes work, and impacts the trust, engagement, well-being and productivity of employees. The culture itself plays out in employees through how they behave, and the values they apply to the work that they do and the relationships that they form. It is reflected through visible symbols, rituals and traditions, and even physical working environments, as well as policies, processes and practices, but most of it is more subtle and hidden. In this regard, culture can be described as the norms of behaviours, expectations and interactions across and beyond the enterprise, or what some would say as to how things happen or decisions get made in the absence of any other guidance or oversight.

Value statements that define the expected (or aspirational) behavioural norms are the most common way of trying to describe and then align and reinforce norms of behaviour and culture. Culture has to start from the top, and the alignment and consistency of behaviours of leaders, their focus on culture, and how they communicate through words and actions is the essential starting point.

Measuring culture has long been a challenge and there is clearly no single or absolute measure of a corporate culture. Instead, a range of measures and proxy indicators are important, both qualitative (such as employee engagement or satisfaction surveys, cultural diagnostics or leadership assessment), as well as quantitative (such as employee retention or turnover stats, workforce composition and diversity, performance metrics).

Professional service firms, and those that work closely with senior leaders, recognise the importance of the correct tone of culture for business. High on Deloitte's annual Global Human Capital Trends 2015, culture is considered part of many trends impacting the world of work today. While the majority of trends in the publication have a human and relationship

Table 3: Significant cultural trade-offs for boards (ACCA 2014)

Recommendation	Description
Cultural values as a wealth driver versus cultural values as a protector	Boards could consider what sort of values they want to have and work with in order to ensure that these values are lived throughout the organisation, and for which purpose – to maintain operations towards financial success, or to challenge status quo and protect present value.
Openness to mistakes versus zero tolerance	Boards could consider whether the organisation is open to hearing about mistakes and learning from them and whether staff believe there is sufficient openness to constructive criticism.
Leadership versus followership	Boards could consider their own leadership style and find out how it is perceived throughout the organisation. How do the board and CEOs want to lead?
Independence versus involvement	Boards could consider whether external directors are sufficiently independent in mind and sufficiently involved or engaged, and what steps could be taken to improve genuine commitment. The size and composition of boards should also be considered in line with their actual operational and strategic requirements.
Empowerment versus rules and tight rules versus loose rules	Boards could consider how much empowerment and leverage is appropriate for different groups in the organisation, and the level at which employee involvement and engagement should be set. This includes considering the degree of autonomy the culture espouses. Decades of behavioural research demonstrate that right behaviours need to be encouraged through individual accountability, rather than writing more and more rules.
Risk-seeking versus risk-avoiding	How clear is the board about why its members want or allow their organisations, and the teams within them, to take risk? What is the appropriate balance between risk and reward?
Human capital versus human cost	Boards may want to consider how the economic austerity will affect how new talents can be attracted and flourish within the organisation.

element, it is the 'culture and engagement' trend which is once again recognised as a top priority for many global companies. Issues within this trend include an inability to define culture by the top table, and poor understanding of the importance of flexible, empowering and transparent workplaces were reported as key issues facing the senior executive team and their boards. To counter this, the research points towards the importance of meaningful and engaging work, coupled with transparent mechanisms of communication and a live understanding of the changing needs of the workforce, as ways by which leaders of organisations can improve how culture impacts on their organisation (Deloitte 2015).

Case study: Lear Corporation (adapted from Gill and DiDonato 2015)

There are many case studies of organisations which have attempted culture change programmes with varying degrees of success, but one common theme across many is the integral role of senior leadership in the business to lead and embed cultural change. One such example published in the *Harvard Business Review* in 2015 is the story of Lear Corporation, a Fortune 200 automotive supplier. Recovering from a period of bankruptcy, the organisation was forced by the financial crisis to seek efficiency savings and radically alter its business model. Working from an individual and organisational values perspective, HR focused on embedding cultural change through four enabling phases of culture change: awareness, learning, practice and accountability.

Table 4: Lear Corporation – four phases of leadership cultural change (adapted from Gill and DiDonato 2015)

Phase	Description
Awareness	• communicating the culture change initiative through internal publicity collateral, such as mouse pads, posters and so on • leaders were integral in communicating the change programme frequently through clear and coherent messaging, fit for all levels of the organisation to understand
Learning	• training and development across cohorts of middle managers about new business behaviours, and cultural assessment techniques in team environments • away days exploring new behaviours, led by senior executives
Practice	• shifting business practice from short term to long term by altering the way people framed the organisation, their role and their relationships • updated performance management programme to embed and assess values-based behaviours and reward appropriately • restructuring and redundancy of roles which do not fit the new cultural model, including bad-behaving high-performers
Accountability	• assessment after six months' participation in the leadership development programme; after extensive learning and development programmes, including sharing across management level to ensure development conversations include values-based assessment • ensure that leaders in the programme own changes that are made to enable the new culture to develop, and encourage sharing of expertise across the organisation, including from senior leadership level

What the Lear Corporation case illustrates is the importance of structured leadership development and engagement programmes that address critical challenges that the business has recognised through assessment and development. As the case study concludes, the effects and impacts of the cultural change programme will not be understood until beyond the end of the first tranche of activity; however, initial signs of business performance uplift are encouraging, and show that the change initiative is having the right impact on the competitive edge of the business (Gill and DiDonato 2015).

Research by those advising organisations at the senior level points to greater appreciation of varying time horizons for assessing the quality of corporate culture. A more holistic perspective on culture has been suggested by the Association of Chartered Certified Accountants (ACCA) and the Economic and Social Research Council (ESRC), who partnered in research exploring cultural issues. Considering the importance of the long-term perspective, as well as the relationship the board has with its stakeholders, are suggested to be vital concepts for boards and their senior leadership teams to consider. A useful point to consider is how there is a 'thin line' between trade-offs which senior teams must consider when making decisions. Boards must use all the data available to them to assess where, on the decision continuum, the appetite for the business lies.

Governance roles working with the board have also been considered in contemporary research, in particular chartered secretaries and administrators. The Institute of Chartered Secretaries and Administrators (ICSA) conducted research in partnership with the *Financial Times* (FT) to highlight how company secretaries view organisational culture and employee development. The annual Boardroom Bellwether survey of FTSE 350 organisations found that just under two-thirds (64%) have taken action over the last year to address the culture of the board. The proportion is slightly larger when considering action of the board for the wider business, where 70% agreed they had taken action to address culture and behaviour within their organisation (ICSA 2015). Action is taking place to address issues with both board culture, and the culture of the wider business.

Where is corporate culture in policy and regulation?

The UK's Corporate Governance Code highlights the importance of organisational culture to effective governance. It states:

'One of the key roles for the board includes establishing the culture, values and ethics of the company. It is important that the board sets the correct "tone from the top". The directors should lead by example and ensure that good standards of behaviour permeate throughout all levels of the organisation. This will help prevent misconduct, unethical practices and support the delivery of long-term success.'

To help boards understand how they can set, assess and evaluate organisational culture, the FRC published revised Guidance on Risk Management, Internal Control and Related Financial and Business Reporting in September 2014. The guidance set a number of questions which boards should consider when assessing aspects of business operation, including its approach to risks and general management activity. Questions raised through the internal assessment process were offered in the guidance as stimulus for further discussion by the board, as a means of highlighting areas of potential failure or risk that the board must consider and act on. It is in this guidance where the Financial Reporting Council makes clear that there are aspects of human capital management, including people risk and culture, which boards must focus their attention on if they're to actively manage their organisations and mitigate any future risks to business (FRC 2014a).

'Considering the importance of the long-term perspective, as well as the relationship the board has with its stakeholders, are suggested to be vital concepts for boards and their senior leadership teams to consider.'

Questions which relate to human capital, risk and culture in the FRC guidance include:

1 How has the board agreed the company's risk appetite? With whom has it conferred?
2 How has the board assessed the company's culture? In what way does the board satisfy itself that the company has a 'speak-up' culture and that it systematically learns from past mistakes?
3 How do the company's culture, code of conduct, human resource policies and performance reward systems support the business objectives and risk management and internal control systems?
4 How has the board considered whether senior management promotes and communicates the desired culture and demonstrates the necessary commitment to risk management and internal control?
5 How is inappropriate behaviour dealt with? Does this present consequential risks?
6 How does the board ensure that it has sufficient time to consider risk?

External reporting requirements

The UK Government published new regulations in 2013 to require publicly listed companies to prepare a strategic report as part of their annual report. The purpose of the new strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 of the Companies Act (that is, the duty to promote the success of the company).

The regulations require that, to the extent necessary for an understanding of the development, performance or position of the entity's business, the strategic report should include amongst other issues information about the entity's employees. Such information is only required, however, if it is considered necessary for an understanding of the development, performance or position of the company's business. These regulations supplemented existing requirements to report the average number of persons employed by a company.

According to analysis by the National Association of Pension Funds (now the Pensions and Lifetime Savings Association), strategic reports have been a positive introduction and have been welcomed by many investors. However, with respect to proving more insights on the workforce and particularly organisational culture, the new disclosures are limited and have to date brought little in the way of new or enlightening information. In general, the additional disclosures are restricted to the area of diversity, with other issues evidently not being considered as meeting the materiality threshold (NAPF 2015). The CIPD's research into human capital management concurs with this perspective and suggests that the external reporting of key data, such as total cost of workforce investment, recruitment and retention rates, investment in training and development and employee engagement scores, alongside a clear context-based narrative, can provide useful information that can give some useful insights into organisational culture (Hesketh 2014).

CIPD research which explored the attitudes of members of the investment management community towards the quality of human capital reporting in annual reports found that a clear majority of respondents believe company reporting on HCM should be promoted and improved. The research also found that investors interviewed believe the materiality of HCM should be discussed in annual reports as a matter of course, and that current standards of HCM reporting are generally not fit for purpose. The research highlighted the CIPD's call for the creation of voluntary public reporting targets among FTSE 350 companies on agreed fundamental human capital metrics, as these would provide useful reference points for more consistent and insightful narrative reporting on human capital management – including organisational culture – and its links to business performance (CIPD 2015d).

Follow-on research by the CIPD built on this perspective, highlighting that while the quantity of human capital data being reported which relates to culture is increasing, the quality of data is low and it may be that significant issues are being overlooked (CIPD 2016).

Building HR’s role as advisers to the board

The CIPD’s purpose is to champion better work and working lives – by identifying and promoting practices in people and organisation management and development that are not only good for the financial performance of a given business, but also for the well-being of its workforce and for the long-term prosperity of the economies and societies in which we all work.

CIPD
Championing better work and working lives

People and relationships are the biggest drivers of risk and value in an organisation – research, experience and common sense all show that ‘good’ HR leads to good outcomes for businesses and their stakeholders. HR professionals have a unique understanding of what drives human and organisation behaviour and how to create organisational cultures in which people thrive and succeed. When they combine this expert knowledge with commercial insight and an ability to make professional judgements that take into account the needs of multiple stakeholders, they become important advisers to company boards and executive management teams.

The CIPD’s Profession for the Future strategy will ensure that the HR professionals of the future are fully equipped with the knowledge, skills and behaviours they need to fulfil this role of trusted and credible strategic adviser. The first step is to establish a new framework of professional standards that makes it clear what business leaders should expect from an HR professional, and what an individual needs to do to earn that badge of professionalism.

The CIPD’s Profession Map and Code of Conduct already give today’s HR professionals clear guidance on what’s expected of them and what good HR looks like. But in an increasingly diverse and constantly evolving world of work, good can look quite different in different contexts. Globalisation, technological advances and demographic shifts mean new challenges and opportunities are emerging all the time, so it’s becoming harder and harder for HR professionals to rely on so-called best practice. Instead, HR practitioners increasingly need to come up with unique approaches based on a combination of expert knowledge, situational judgement and a consideration for their ethical responsibilities.

By defining a new set of principles for the HR profession, the CIPD will help HR professionals think first and foremost about what they’re trying to achieve, and then how to achieve it in their unique context. The new Professional Standards Framework will give HR professionals greater clarity on the knowledge, skills, behaviours and ethical competencies they need to be an effective HR professional – no matter what context they find themselves in.

The CIPD believes that the HR professionals of the future will therefore play an important role in building and supporting organisational cultures that create shared value for all of an organisation’s stakeholders. They’ll do this by making informed decisions and credible recommendations to business leaders – but they’ll only succeed if leaders and line managers share the vision that work can and should be good for everyone concerned.

Methodolgy

The CIPD conducted an internal evidence review by applying a pseudo rapid evidence assessment methodology (GSR 2013) drawing on expert knowledge and publications from across the broad themes of HR and people management, investigating aspects of organisational culture which were proposed by the Financial Reporting Council (FRC) in their scoping work.

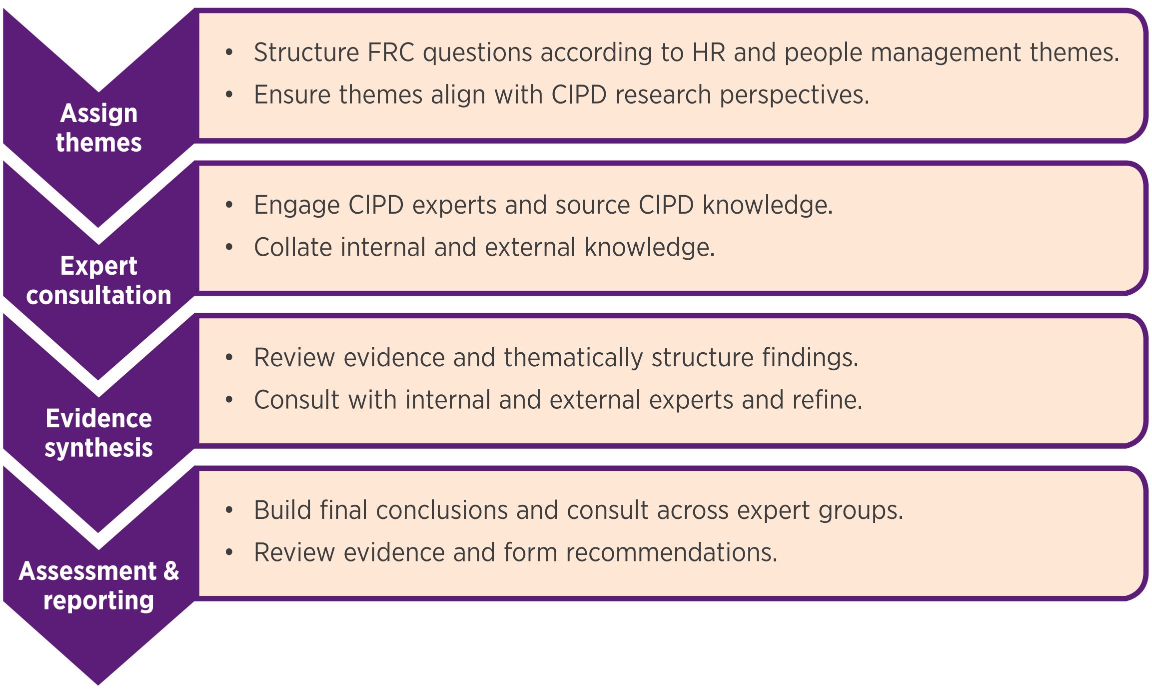
The questions that were proposed by the FRC which were to be considered in the evidence assessment were:

- How does the board satisfy itself that human resource policies, practices and processes and performance reward systems are aligned to values and support the desired culture?
- How does pay impact on culture and how can boards address this?
- What should be the role of the remuneration and nomination committees in supporting the board on culture?
- How does the board satisfy itself that senior and middle management promote and communicate the desired culture?
- How does the board access employees at all levels of the organisation and ensure that the employee voice is heard in the boardroom?
- How does the board satisfy itself that there is a 'speak-up' culture?
- How does diversity or lack of diversity impact on culture?
- How does the board consider the impact of digital issues and challenges, for example reputational risks of social media, strategic use of big data, digital expertise on the board?

We conceptualised the research questions into four themes:

1. HR strategy and operations: building productive and engaging cultures
2. Leadership and communication of organisational cultures, values and behaviours
3. Engagement, employee voice and employee relations
4. Contextual factors: economy, diversity and technology.

Figure 1: Applied rapid evidence assessment methodology



Findings

1 HR strategy and operations: building productive and engaging cultures

Within this theme we consider how the board understands culture and satisfies itself that the correct human resource management processes, practices and policies are in place, and are operating effectively. The role of pay and reward as factors which drive performance are also considered, as are the roles of various committees serving the board and its members.

Creating the agile organisation

Many organisations now see the value of agile working: creating a flexible approach to work which allows the business to respond to significant externalities, while focusing clearly on set objectives and performance targets. Operating with restricted resources, or through periods whereby resource levels are closely managed, is one way in which the performance of a business may come under pressure – agile workforces with the correct culture are required if organisations are to operate in this way.

There are many practice-based definitions of business agility, but one to note splits the definition into two useful categories (CIPD 2014a):

- workforce agility: flexibility in matching workforce fluctuations to demand; and
- operational agility: responsiveness and adaptiveness of processes and structures.

In *HR: Getting smart about agile working* (CIPD 2014a), the CIPD investigated how organisations build agility into their HR models, and mapped the challenges HR faces when embedding agile cultures and practices. Significant factors, such as organisational alignment to external factors, and resource restrictions, such as perceived cost, were noted as barriers to agility being more widespread and embedded in organisational culture. A key issue picked up in the research was the challenge of low trust with leaders, particularly with reference to introducing greater innovation in organisation and people management. If there are instances of low trust, it is less likely that the business will be receptive to new ways of working and make the changes needed to reach performance and well-being objectives.

Table 5: Principles for supporting organisational responsiveness to change (taken from CIPD 2014a)

Leading the strategic agility agenda	Using and championing 'agile' methodology
• Look to future-proof the business rather than wait for the issues to surface. • Act opportunistically to overcome habit (the 'burning platform' can be created, for example, by the arrival of a new CEO, technology disruption, office relocation). • Facilitate business refocus on its purpose and values to tackle risk-aversion and 'in the now' thinking. • Consider the external context and the internal culture and ways of working to understand where people management practices can make a difference to the business outcomes (change is not always necessary). • Adopt a diagnostic approach to change and access the organisation systematically (understanding the interaction between people, structure and processes).	• Determine your success criteria (business outcomes rather than isolated HR KPIs) and work back from those to plan how to achieve the end goal. • Collaborate with other business functions (particularly IT, finance and facilities) to build stronger platforms. • Experiment with scenarios (including a 'do nothing' scenario) in small areas to pilot and compare solutions. • Act on the in-house contextual intelligence rather than adopting ready-made solutions. • Plan for incremental rather than radical changes to be able to test and adapt if necessary. • Design flexible solutions that provide an overall framework, but can be adapted by business areas depending on their levels of maturity. • Use live evidence to demonstrate short-term benefits and gain trust for a longer-term programme of change.

'Reward is often one of the most publicly sighted drivers of poor culture and practices, often capturing the public imagination when considering cultural failures of well-known private institutions from across numerous sectors.'

The research offered a number of principles to help boards and their senior leadership teams to understand the value of agile working, and to enable the organisation to build the concept of agility into its working policies and practices.

This research built on earlier work by the CIPD, which explored the move from healthy cultures to agile cultures which are adaptive and enable organisational change according to evolving business needs and activity. *Next Generation HR: Time for Change – Towards a next generation for HR* (CIPD 2010a) describes how, throughout the evolution of the organisation, HR plays a facilitating role in guiding and enabling the dynamic strategic planning process – in essence, creating cultures and activities that enable a 'living strategy' that responds quickly to macro trends and opportunities that may arise for the business. To navigate these opportunities and risks, the business needs future-fit leaders who understand the changing context and the business's place in it. It is the role of HR to develop these leaders through building their capability and understanding of the business and the context – and to recruit effectively via an efficient and diverse talent development pipeline.

The role of reward

Reward is commonly sighted as one of the major drivers of poor culture and practices, often capturing the public's imagination when considering cultural failures of well-known private institutions from across numerous sectors. The CIPD's research *Show Me the Money: The behavioural science of reward* (CIPD 2015a) highlights the challenges that performance-related pay can create, and in particular the interactions between different types of pay and reward and the behaviours of employees, including senior leaders. The research explores the behavioural costs of different rewards, the diminishing returns associated with certain types of reward, and the high degree of flexibility with base pay which can create challenges with individuals regarding the perceived equity of the pay process and outcome as potentially damaging to an individual's engagement with the work that they do.

The cultural risks of misaligned performance and pay systems are also explored in terms of creating sustained low productivity and highlighting underachievement within the workforce, which demotivate and disengage the wider workforce. For example, poorly constructed reward systems and pay scales have been shown to create a sense of loss in employees, particularly middle management and senior leaders, whereby there is a perception of reaching a glass ceiling and creating expectations of progression which will not be met. Reward strategies must therefore take into account the evidence from neuroscience and management research that points towards constructive and destructive effects on motivation and engagement – particularly if they are misaligned with the values and behaviours that organisation is attempting to embed throughout the business (CIPD 2015a).

Aligning the policies and processes of the people function with the values that the leadership of the business is looking to espouse is an important step towards embedding culture through human resources. Of the principles which define how people behave in business, a crucial one which often dominates is fairness. For many employees this can include the differential between CEO or senior leader pay, and that of the rest of the workforce. Where there is an imbalance, or perceived imbalance, regarding the level of pay between employees and senior leadership, friction can occur and performance may suffer. *The View from Below: What employees really think about CEO pay* (CIPD 2015b) showed that when pay is out of kilter there can be serious corrosive effects on workforce productivity. When asked, employees believed that current levels of remuneration at the top of their organisation were having a detrimental impact on driving high performance, and in some cases, may be demotivating employees, causing them to look for work elsewhere. Boards looking to embed cultures of fairness, productivity and merit should look to the impact that they may be creating when rewarding high sums to CEOs without considering the rest of the workforce.

For many boards the single greatest influence they have on the culture of the organisation is the appointment, remuneration and dismissal of the CEO – if they get the decision wrong there may be severe repercussions felt across the culture of the business.

The CIPD report *The Power and Pitfalls of Executive Reward: A behavioural perspective* (2015c) explored in greater depth how executive reward is shaped and potentially biased by behavioural aspects at the top of the business, by applying a behavioural sciences perspective. The report looked closely at the steps that senior leaders can take to stem poor performance which may result in substantial differences in pay. The result showed that too much reliance is being placed on pay, bonuses and incentives, with an unhealthy focus paid to financial measures used by senior teams as overall measures of success.

The nature of the reward could also be changed; instead of complex deferred benefits that don't reward immediate good performance, there may be a case for smaller but more immediate bonuses that reward good behaviour and illustrate that poor culture and performance outside of the required standards of the business will not be tolerated or rewarded. Alternative reward structures have been shown to have positive impacts on the sentiment of the workforce; therefore senior leaders, and in particular the board, must pay close attention to the level of reward and benefits they offer to the CEO. Different forms of reward that are beyond financial are potential ways in which some of the complex issues that arise from traditional financial rewards may be negated or circumvented.

An additional layer of complexity is also applied when considering the diverse needs of the multi-generational workforce. New forms of reward which apply to the needs of Generation Y workers are able to promote performance while avoiding some of the issues recognised with using financial incentives. Changing reward structures to meet the changing needs of employees is one thing that HR in collaboration with the leadership team may action – however, the change process has been shown to create sub-optimal behaviour amongst employees affected by the change, and therefore any alteration to how individuals are rewarded should be considered fully and actioned appropriately (CIPD 2015c).

'Boards looking to embed cultures of fairness, productivity and merit should look to the impact that they may be creating when rewarding high sums to CEOs without considering the rest of the workforce.'

'Research has shown that for businesses to gain competitive advantage and succeed over the long term, a culture must exist which drives performance and employee well-being, and engages the workforce to share its expertise in their roles.'

Board governance: the role of remuneration and nomination committees

The board's advisory committees play a crucial role in enabling the board to make effective decisions on remuneration and nominations to the board. In the CIPD's behavioural science research exploring pay and reward, *Show Me the Money: The behavioural science of reward* (CIPD 2015a), researchers explored with a neuroscience lens how boards manage complexity in decision-making processes, and how they can come unstuck by falling into tried-and-tested decision routines which, while providing a perceived level of comfort with effects of decisions, can mean individuals are blind to the effects of the decisions they're making. Boards themselves and the executives working with them may fall prey to one of the many detrimental heuristics which can disrupt the ability of individuals to lead and make evidence-based and long-term-focused decisions.

Independent committees, such as the remuneration committee, play an important role in holding the board to account, and championing the board's role in holding the executive to account through appropriate challenge (CIPD 2015a). One example of a social phenomenon which has been shown to impact boards at this level is group think, which can dominate the decisions that the board makes and the way in which the board views the executive of the organisation, and has been associated with some of the biggest failures in governance in the financial services sector (FRC 2014b).

Research by the High Pay Commission points to the failure of remuneration committees as being a result of their closed-shop nature and stagnant rate of turnover, whereby members are often alumni of the executive and retired senior leaders. The results of the poor quality of remuneration committee members include spiralling pay amongst senior executives, and the adverse cultural effects that come from a demoralised and low-performing workforce. Some of the changes that need to be made include empowering the remuneration committee to act with true independence and autonomy and to challenge the board with regards to remuneration and pay (High Pay Commission 2011). Additional research also shows that the processes associated with setting remuneration levels at the top tier of the organisation are not objective and highly structured, but instead are subjective in nature and characterised by divergent and often contradictory decisions and points of evidence – for there to be any movement towards better cultures of pay and reward, the senior tier of organisations must take greater notice of the role of the remuneration committee, and empower the committee to act when reward levels are deemed to be inappropriate (CIPD 2015a).

Seeking cultural alignment: the role of HR in embedding desired culture

For businesses to gain competitive advantage and succeed over the long term, a culture must exist which drives performance and employee well-being, and engages the workforce to share its expertise in their roles. Without knowledge of how people drive value-creation in the business, it is unlikely that the organisation will succeed in creating value over the long term.

Boards of larger organisations may learn a lot from how the leaders of smaller organisations develop their own unique cultures, while operating with restricted budgets and in highly target-oriented phases of the business lifecycle. In the report *Keeping Culture, Purpose and Values at the Heart of Your SME* (CIPD 2014b), many owner-managers of SMEs reflected the view that values are something which cannot be taught, and that new employees should be recruited with cultural fit in mind. Aligned recruitment and induction programmes structured around building cultural fit are designed to introduce new employees to the culture of the organisation to ensure that new employees understand how people and teams operate in the business. The organisation ensures that it puts in place early intervention to rectify cultural misalignment and this is also one way by which senior leaders could ensure issues arising are stemmed before they cause significant harm.

Recommendations for the board: what can the board do to satisfy itself that the HR activity at the organisation is enabling the desired culture of the organisation?

- **Align core values at the very top of the organisation, embed desired behaviours across the board, and apply a values lens to board decision processes.** The board must live the values and culture of the business to demonstrate their importance to the rest of the organisation, and to ensure that the culture which develops is one which is based around integrity and trust. The board should be held accountable against the values they espouse, and the correct governance to oversee this should be in place.
- **Invest in building HR and people management strategy and capability which focuses on leadership and management culture, and embedding cultural values across all levels of the organisation.** The board must work closely with the HR function to create the appropriate organisational culture through aligned strategic human resources management practices, from recruitment, induction, training initiatives, leadership development, performance management, resourcing and succession planning. Embed into this agility and resilience for future change at all levels in the organisation, and build short- and long-term business horizons with a focus on how the culture will develop and embed over the long term.
- **Align measures of reward and culture to address issues of high pay and ensure that future reward decisions take the cultural alignment dimension into account.** Aligning reward structures with values-based measures alongside performance or outcome measures helps to reinforce the desired behaviours, together with promoting other forms of recognition and reward beyond just financial. Being aware of the unintended consequences regarding reward is also important when setting and reviewing performance rewards.
- **Empower the remuneration committee to challenge and act with independence. Ensure that the board responds to the remuneration committee transparently and with full commitment.** By empowering the remuneration committee, the board can satisfy itself that it has the correct governance process in place to sense-check any divergence from pay norms, and also ensure that internal biases are not impacting the quality of decisions the board is making about executive pay.

Valuing your Talent

'Better people measures, better decisions, better business.'

Valuing your Talent is helping organisations realise the full potential of their workforce through understanding and measuring the impact and contribution of people to business performance. The programme is a collaborative project bringing together the professional bodies for finance, management and human resources. The CIPD, Chartered Institute of Management Accountants and Chartered Management Institute, supported by the UK Commission for Employment and Skills and Investors in People, is helping employers to better understand the impact their people have on the performance of their organisation.

The partnership and collaboration explores what most businesses instinctively know to be true: that there is a positive relationship between the ways in which we manage and lead our people and their capacity to drive the performance of the companies for which they work. Defining important concepts to business today such as human capital management and measurement, and the reporting of people data through narrative and integrated reports, is vital if businesses are ever going to be able to measure and report on the value of what is often their most important asset: their people.

The concept is brought to life through various new streams of content and engagement activity, all focused on enabling the business community to improve its people management, measurement and reporting practices. These include a framework, provocative and thoughtful content, and networks which connect professionals interested in the human capital measurement and management debate.

The Valuing your Talent framework
The Valuing your Talent framework enables business leaders, managers and investors to better understand an organisation's people management strategy and the ways in which it drives business performance. It provides a basis for conversation between all parts of the business to understand how best to 'join the dots' and unlock the value of their people.

Culture in the Valuing your Talent framework is located at the outcomes level, describing a significant material concept to the organisation which must be measured and reported on. The research describing the framework highlighted that culture is one of the senior executive team's major concerns, and as such requires prominence within the research framework.

Find out more at **www.valuingyourtalent.com**

Figure 2: Valuing your Talent framework

Value creation, risk and opportunity

Innovation, agility and resilience	Culture	Organisation performance

Outcomes

Leadership capability	Workforce performance and productivity	Engagement and well-being	Business operating model

Outputs

Attraction and recruitment	Performance management	Learning and development	Reward and recognition	Employee relations	Employee welfare	Knowledge management	Organisational design and development	Workforce planning

Activities Measures

Workforce composition and diversity	Workforce costs	Regulatory compliance	Workforce potential

Input Measures

Find out more

To find out more and get involved, visit www.valuingyourtalent.com
and follow the programme on twitter @ValuingTalent

2 Leadership and communication of organisational culture, values and behaviours

Within this theme we consider the importance of leadership and communication in setting and maintaining the culture, values and behaviours of the organisation. Leadership, trust and communication through transformational change are explored in more detail.

Leadership: setting the tone for all that follow(s)
Contemporary research suggests that while rhetoric points towards devolved models of leadership and increased autonomy in decision-making, there are few mechanisms being implemented in practice which enable such cultures to exist. For leaders to set the tone for the organisation and develop an effective high-performing and healthy culture, there needs to be significant change in the way that organisations view both leadership and performance. *Leadership: Easier said than done* (CIPD 2014c) studied leadership in action in today's organisation, and looked to bring to light the barriers to effective leadership and people management practice. The barriers the research uncovered were four-fold, as shown in Table 6.

Table 6: Barriers to effective leadership of business culture (adapted from CIPD 2014c)

Barrier	Description
Hierarchy and bureaucracy	While organisations are in many cases striving to devolve and provide more autonomy to middle management, traditional approaches to hierarchy and bureaucracy are undermining efforts. Existing top–down communication channels and methods are not suited to providing adequate support to staff and speeding up adaptation and learning. The miscommunication is also evident in split hierarchies of operational and strategic activity, which is creating mismatched priorities. Senior leader turnover is increasing, meaning that cultural tone from senior leaders does not have time to settle and embed into working practices and organisational culture. Coupled with a fast-moving change agenda, this means that senior leaders are not always gaining buy-in from employees, and as such can suffer from low trust and credibility amongst their workforce.
Short-term, bottom-line focus	Quality remains lower down the priority list for many leaders who are concerned with short-term gains, particularly focused on improving the bottom line. Both performance management and promotion activity within the organisation focus on task-related success, while leadership literature and performance management frameworks focus on behaviours towards performance. This shows that businesses have more to do to implement performance management practices connected to positive cultures, behaviours and values. The dearth of robust indicators of leadership behaviours and good people management means that promotions are based more on measures of performance than on leadership or behavioural measures of potential. Delivery against operational targets dominates discussion of promotion and development. Short-term focus which does not have adequate forward planning means that there is less opportunity to seek bottom–up feedback from the workforce. A culture of persistent firefighting can exist if long-term planning is not developed and enacted by senior leaders.

continued opposite

Table 6: continued

Individualism	Reward and accountability for performance is suffering from individual approaches that are hindering collaborative cultures – creating inertia in the business and raising issues for senior leaders and line managers striving to create impact. Perverse incentives which privilege individual performance over team performance refocus individuals on their own interest and set individuals against one another to perform – often with damaging effects on team culture, innovation, well-being and engagement with work. Senior managers are also sometimes under pressure to compromise team empowerment and training to protect individual opportunities for promotion and high performance ratings. Cultures of low trust and blame can create risk-averse and poor-performing teams, unable to make decisions, particularly those where there are high stakes involved, or in teams whereby the span of control is large and cross-functional. In such environments, leadership top–down lines of communication are key to set priorities, recognise autonomy and quality performance, and build consensus towards common objectives.
'Us' and 'them' mentality	Setting apart the 'leadership pool' from the 'workforce pool' dilutes the potential benefits of recognising workforce diversity at all levels. Organisations continue to use subjective measures of selection and reward which are reducing diversity and impacting on workplace culture. Prescriptive methodologies that attempt to set behaviours, or remove undesired ones, are restricting the way in which employees can use complex individual capabilities, such as situational judgement or unconventional thinking. Mechanisms which ensure managers are operating fairly and consistently are ineffective or absent. Operational measures continue to dominate as the main factor determining performance and success, with few organisations implementing true behavioural indicators to track changes in culture and behaviours.

To overcome these barriers, the research suggested that a systems approach should be applied to understanding the leadership capability of the organisation and its role in delivering on the business's strategy. A systems thinking approach is suggested as a possible way in which leaders can understand their place in the complex and changing organisation and the context in which it is operating (Tate 2013).

Building leadership capability

Building leadership capability in the organisation is a central concern of the board to enable the organisation to deliver against its objectives, and inherent in this is establishing a quality of leadership which will take forward the values the business wishes to espouse to its multiple stakeholders, which includes employees.

The research report *Cultivating Trustworthy Leaders* (CIPD 2014d), and the follow-up *Experiencing Trustworthy Leaders* (CIPD 2014e), investigated trust, the role leaders play in building cultures of trust, and how trusted leaders create the experience of trustworthy leadership for their staff. The work explored issues which may arise when embedding trust, and the barriers organisations may face when trying to create open and transparent cultures. The research found that leaders, including boards, build trust by focusing on four key leadership traits: integrity, benevolence, ability and predictability. As trust is context specific, subjective, and the result of many variables internal and external to the business, it can be difficult for leaders to appreciate exactly how their actions may be fostering or destroying a trusting culture. It summarised that for there to be a culture of trust within the organisation, leaders must define trust within their context and culture, and look to build the policies, processes and practices which build, maintain and develop leaders to behave in the desired way (CIPD 2014e).

Table 7 describes some of the important leadership behaviours required to develop trust in the organisation.

Table 7: Leadership behaviours for building trust (CIPD 2014e)

Recommendation	Description
Behavioural consistency	behaving consistently over time and situations to increase predictability
Behavioural integrity	consistency between words and deeds, or 'walking the talk'
Sharing and delegation of control	engaging in participatory decision-making with followers
Communication	communicating in a way that involves accurate information, explanations for decisions and openness
Demonstration of concern	showing consideration, acting in a way that protects employees' interests, not exploiting others
Consulting team members when making decisions	engaging and debating, sharing views and perspectives, ensuring all parties have the opportunity to share their views
Communicating a collective vision	visioning future scenarios and sharing plans to realise the vision, working with the collective to build consensus and create a future in line with the vision
Exhibiting shared values	behaving in line with shared values and beliefs

Source: adapted from Whitener et al 1998, Gillespie and Mann 2004

A two-way communication process should be developed to and from the board directly into the organisation and the senior executive team. *Leading Culture Change: Employee engagement and public service transformation* (CIPD 2012a) shows that, as with the private sector, communication by the CEO in public sector organisations is vital if the business is to embed and transform the organisation through cultural change. Leadership capability is highlighted as a vital component for organisations where there is real need for cultural change – adapting business or organisational culture without the correct top–down leadership capability means that it is unlikely that sustainable and long-term change will take hold in the organisation.

Where Has All the Trust Gone? (CIPD 2012b), the CIPD's research collaboration with Cass Business School, the Open University, and the University of Durham, found that leaders play a pivotal role in the development and maintenance of positive working cultures: leadership trust is one of five types of trust which has been measured in organisations today. In organisations where trust in leaders is high, employees look to the leadership team for guidance. Some organisation cultures in which leadership trust is very high demonstrate an 'inverted pyramid' structure, whereby senior management demonstrate downward trust in the workforce by empowering the management teams to manage autonomously. The qualities of leaders – their personal character, care and consideration of others – as well as their emotional intelligence and understanding of their employees, all impact on the ability of the leader to create trusting environments – and when trust comes into question, more-able leaders can repair broken relationships and rebuild trust with workers. However, over-reliance on leadership and a heavy burden of trust can cause leaders to make decisions which may be over and above their capability. For example, in the events leading up to the banking collapse of 2008, it may be argued that less trust should have been levelled towards the leaders of individual financial services organisations, and more scrutiny could have been placed on the decisions that some were making (CIPD 2012b). Trust also factored highly in our work with the Healthcare People Management Association: *Employee Outlook: Focus on culture change and patient care in the NHS* (CIPD 2013a) showed that leadership and line capability are vital components of an effective workplace.

Developing culture change

When a corporate culture is perceived to be misaligned or even broken, the board plays an important leadership role in recognising, reshaping and effecting change. For transformational change to be successful, the behaviours of employees, leaders and wider stakeholders must evolve, in line with the characteristics of the new desired culture. It is for this reason that boards should take keen interest in the way transformational change is enacted in their organisations. For organisations to operate against their vision and mission, and deliver against their objectives, it is important that the organisation strategy and people/human capital strategy are aligned and clearly reference the culture of the organisation.

CIPD research investigating change shows that as change is happening there are a number of moderators which vary its effect and impact, one of which is employee voice. *Landing Transformational Change* (CIPD 2014f), published by the CIPD in partnership with the University of Bath, showed that cultural alignment and employee engagement are vital at the very beginning of the change journey. As the business develops its new operating model, senior leaders must consider the new culture which the business is aspiring to achieve. Embedding interventions at this point which create both the environment and conditions for the desired culture are ways in which leaders can ensure that they are effectively managing cultural change in their business. There are numerous HR systems and processes in the business which HR and senior managers should use to align culture and create these conditions, which include recruitment, training, learning and development, reward and recognition, and performance management. Working closely with the business to use these mechanisms and measure their effectiveness is an important way that senior leaders can keep track of how the culture of the business is changing.

Sustainable Organisation Performance: What really makes the difference? (CIPD 2011) found that organisations are preparing for long-term impacts on their business in various ways, to differing degrees of success. To build cultures that weather disruptive socio-economic forces, leaders must embed processes that respond through agility, innovation and resilience. Agility, with a focus on alignment and flexibility, is required to enable collaborative leadership around a shared purpose in the business, innovation to enable alternative and new ways of moving forward to be discovered, and resilience to withstand the challenges directed at the business. People and their relationships play an important role in delivering this level of sustainability, and as such leaders must be clear about the locus of engagement for their employees: what makes employees come to work, and how can work be as fulfilling and engaging to individuals as possible? Building a culture of fairness is one way in which employee engagement can be maintained at healthy and productive levels, which may lead to improved organisational performance over the long term.

Recommendations for the board: how does the board satisfy itself that both senior and middle management promote and communicate the desired culture?

- **Build leadership capability in line with cultural and behavioural values, and communicate its importance effectively.** Research shows that leadership capability is an important lever in landing cultural change. The board must ensure that senior leaders of the organisation and the board itself have the capability to lead with the cultural values and behaviours in mind, and to hold those to account who digress from living the values of the business. Leaders must be able to communicate the value of a healthy and productive culture, and communicate this through deep understanding of their organisation's culture.

- **Lead cultural change from the top, and evidence its impact on the business.** The board must lead cultural change by working closely with their senior leadership team and the HR function. Transformational culture change can only be effective if senior leaders gain buy-in from across the business and seek to engage all employees. The board must evidence the impact that cultural transformation is having and share this transparently with all stakeholders, to gain continued buy-in, and enable long-term cultural change. The board should also focus on trust as an enabler of positive and productive cultures. There is much evidence that shows trust of the organisation's leadership is one of the most important drivers of a positive and effective organisation culture, and should be assessed and managed proactively by the board and its executive team.

3 Engagement, employee voice and employee relations

'Engagement activities help to ensure that employee ideas and concerns are shared with senior teams to steer decisions regarding the business.'

This theme explores the role of employee engagement and employee voice mechanisms in communicating perceptions and perspectives of organisation culture and employee well-being. We consider how the board uses HR systems and techniques such as employee engagement surveys to measure and understand the culture of the business, and how employee voice activity such as forums and internal social media can affect the communication of culture and values across the business, and may be used to deliver well-being benefits to employees.

Employee voice: communicating and building trust between leaders and their employees

Employee voice is the two-way communication between employees and the organisation, and includes the processes by which leaders communicate to the employee as well as listen to communications from employees (CIPD 2014g). Engagement activities help to ensure that employee ideas and concerns are shared with senior teams to steer decisions regarding the business. An appropriate culture of engagement and 'permission' is required for employees to feel safe and able to voice their ideas and concerns. Measuring the extent to which employee voice processes are enabled and used is another useful measure of culture which boards can use.

Mechanisms and channels for employee voice range from leaders and managers who listen to and encourage employees to speak up, to formal and informal internal channels of communication – such as: 'town hall' or networking meetings and use of social media; engagement of employees at all levels in projects and change initiatives – and formal structures, such as unions and employee councils, and external channels, such as whistleblowing or external social media. Whistleblowing in particular is an important mechanism to embed in the business and link to the board so to enable effective management of cultural and behavioural issues (CIPD 2013c).

A Decade of Change in Employee Voice (CIPD 2010b) showed that employee processes must add value for all employees and leaders within the organisation if they are to become embedded and function effectively. Without clear value being shown to those expected to participate in them, it is unlikely that employee voice processes will work effectively and provide insights to senior leadership when required. The form of that value will depend on the way the culture is operating, and the aspirations of the senior leadership team when building and investing in the process. *Keeping Culture, Purpose and Values at the Heart of your SME* (CIPD 2014b), which investigated communication in the SME community, shows how, as businesses grow, it is often difficult for new starters to appreciate the purpose and values of the business. Using simple methods such as regular updates from the business owners and managers, employee-owned and -managed newsletters or online discussions, and frequent off-site team-building programmes are ways through which smaller businesses invest in establishing the level of communication they deem important for their business. Some of the lessons from the small business community may be of use to larger organisations, particularly with regard to employee voice processes, which, when enacted within business, are most engaging when they are personal and individual in message, and when they use real stories and experiences from across the business.

Valued relationships: setting the agenda for effective and transparent relationships

Central to the concept of creating sustainable value are effective relationships: relationships built around trust, commitment, transparency and understanding, which are vital if employees and leaders in organisations are to work together towards a common goal or objective.

Tomorrow's Relationships: Unlocking value (Tomorrow's Company 2014), led by Tomorrow's Company in partnership with the CIPD, explored some of the ways in which trusting and effective relationships can be developed, and how they deliver value for the enterprise. The research shows that senior management and the board play a central role in creating the agenda for positive and effective relationships – recognising the importance of relationships to the success of the business.
For the board to drive effective relationships which have profound impacts on business culture, it must set the tone from the top, discuss ongoing and potential new relationships on a regular basis as part of the board agenda, foster the right environment to ensure that relationships that are important to long-term success are identified and actively nurtured, and assure themselves that the correct monitoring and reporting mechanisms are in place to report on the quality of relationships.
Four stages were illustrated in the research which create effective relationships in organisations (see Table 8).

'Research shows that senior management and the board play a central role in creating the agenda for positive and effective relationships – recognising the importance of relationships to the success of the business.'

Table 8: Building effective relationships (adapted from Tomorrow's Company 2014)

Aspects/activities	Description
Identifying key relationships	Recognising the various stakeholders of the organisation, their roles, and relationships with one another is important to map who the organisation should be engaging with. Categorising and sub-categorising without reducing to homogenous statements helps to identify the nuances of individual relationships and their potential value to the business.
Tuning in to relationships	Recognise that relationships are two-way and built on trust, and effective relationships come from tuning in to the other person's needs and wants, reasons for behaviour, what is influencing their behaviour, and their feelings towards you. To get to this leaders must actively listen, be transparent, be honest, have confidence in others' abilities and opinions, and be consistent in delivering messages and acting in line with them.
Measuring the effectiveness of relationships	Measuring relationships is two-way and includes exchanging information and research, analysis and opinions, and sharing insights both internally and externally. Using standard methods such as interviews, focus groups, field research and so on mean that data can be analysed and translated into key metrics to monitor the extent to which value is being created.
Reporting on the effectiveness of relationships	Good reporting provides the information required to win support and build the confidence and trust needed to underpin key relationships and attract new ones. Corporate reporting has traditionally focused on historical financial information, but there is growing pressure to report more widely on intangibles and non-financial information.

Recommendations for the board: how can the board better understand the employee perspective on organisational culture?

- **Build a 'speak-up' culture of engagement and voice, communicating the importance of open and transparent cultures via top–down and bottom–up engagement and communication processes.** The board must ensure that the workforce is engaged and empowered to speak up about issues within the workplace, and are able to share views and ideas about how to improve the business. The board should commit to listening to views from the organisation as well as openly sharing information on a regular basis, through clear lines of communication, and should focus on building an engaging culture that welcomes challenge and open debate.
- **Create employee voice and whistleblowing procedures that protect employees who flag cultural issues, and ensure that the board takes effective action to rectify concerns.** Processes and channels which enable employees to speak out against issues in the organisation should be encouraged by the board, and significant issues should be escalated for board consideration and action in a timely manner. Boards also need to be aware of and pay particular attention to whistleblowing channels that allow significant issues to be raised outside the normal channels.
- **Encourage surveys of employees and other means of gaining insight on how employees see the corporate culture, and their sense of support and well-being.** Regular 'pulse' surveys, employee engagement or satisfaction surveys, and other channels of feedback should be reviewed regularly by boards as means of gaining insight on employee perceptions of culture, and on issues such as stress and well-being of the workforce.

Growing the health and *well-being* agenda: From first steps to full potential

CIPD
Championing better work and working lives

'Creating a healthy culture is perhaps the greatest challenge for organisations; it requires commitment from senior leaders and managers and, for many, a reassessment of priorities and considerable changes in work culture and organisation.'

In January 2016 the CIPD published a policy positioning report, *Growing the Health and Well-being Agenda: From first steps to full potential*, in which we review how employee health and well-being has risen sharply up the public policy agenda over the past ten years, and the extent to which well-being considerations are integrated into UK organisations.

The report found that there exists a spectrum of employer practice, ranging from those organisations for which employee well-being doesn't make it onto their agenda to those that offer well-being initiatives but may not support them in an integrated way through aligned leadership, people management and organisation culture. And then there's the minority of employers that are leading the way by seeing the well-being of their workforce as the foundation for their business, taking well-being considerations into account across every facet of their business. The CIPD concludes that, despite significant advances in thinking and some evidence of forward-thinking practice, there remains an implementation gap. The CIPD provides recommendations for both employers and policy-makers to try to address this gap and turn acknowledgement of the importance of well-being into practice.

Employee well-being is at the heart of the CIPD's purpose: to champion better work and working lives by improving practices in people and organisation development for the benefit of individuals, businesses, economies and society. The CIPD believes that commitment to supporting employee well-being is one of the pillars underpinning shared value-creation in organisations – for the employer, employee and wider society. The changing nature of work, the workforce and the workplace is making a focus on individual well-being even more critical to broader organisational health and sustainability.

The CIPD believes that there is still considerable scope for wider and more integrated implementation of employee well-being initiatives in the workplace. The professional body wants to set an aspirational agenda for the future direction of workplace health and well-being. An effective employee well-being programme should be at the core of how an organisation fulfils its mission and carries out its operations and not consist of one-off initiatives. It is about changing the way business is done. As well as benefiting employees, an integrated approach to health and well-being can nurture heightened levels of employee engagement, and foster a workforce where people are committed to achieving organisational success.

To truly achieve a healthy workplace an employer needs to ensure that its culture, leadership and people management are the bedrock on which to build a fully integrated well-being approach. The CIPD view the HR profession as the key enabler in raising the profile of employee well-being and making it a practical reality in workplaces across the UK and beyond. Culture is at the heart of all organisations and employee well-being is a fundamental part of a healthy and productive workplace culture.

4 Contextual factors: economy, diversity and technology

In this final section we consider the impact of contextual and environmental factors on the board's ability to understand and manage the culture of the organisation. We investigate research which explores the role of people and culture in the business model value-creation process, and look into the importance of diverse workforces. Finally, we look to research that considers how culture and technology interact in organisations today and in the future.

Culture in the business model: how people drive value-creation

Culture is recognised by the Integrated Reporting Initiative as part of the social and relationship capital of the organisation, one of the six capitals with which the business model operates to create value. Consisting of the relationships, common values, behaviours and stakeholder networks, social and relationship capital must be understood by the board and the senior executive team if they're to successfully mobilise the organisation's resources to create sustainable value (IIRC 2013).

To better understand how the 'people capitals' of human capital and social and relationship capital interact with the business model to create value, the CIPD, the Chartered Institute of Management Accountants, the Chartered Management Institute and the UK Commission for Employment and Skills partnered to create the Valuing your Talent initiative (see page 20). Valuing your Talent is designed to help organisations realise their full potential by understanding and measuring the impact and contribution of people to business performance.

Managing the Value of Your Talent: A new framework for measuring human capital (Hesketh 2014) proposed a new approach to measuring human capital with the aim of illustrating the importance of robust measurement and reporting techniques. The research found business leaders view human capital measurement and reporting as vital to achieving sustainable business performance, and human capital analytics in particular will play an enabling role, helping organisations to better understand, develop and articulate their employee and cultural value propositions. A main finding of the research was that for senior leaders to navigate the complex and rapidly changing context their organisations are operating in, they must have a good handle on the development trajectory of their human capital over the medium and long term, as well as understand how the business's intangible assets are used to meet the needs of multiple business stakeholders. Without appropriate data on culture and performance, which is analysed and reported in an articulate and holistic way, it is unlikely that boards, and the stakeholders they work with, will get to grips with the people drivers of value.

For stakeholders external to the organisation, such as investors, regulators and customers, it can be difficult to appreciate the steps the board and executive are taking to develop high-performing, engaging and healthy workplace cultures. Without more consistent reporting and transparency, the level of insight that external stakeholders can glean from company reports is relatively low – there are few opportunities for external stakeholders to appreciate real human capital concerns that businesses face, other than through traditional reporting mechanisms. *Human Capital Reporting: Investing for sustainable growth* (CIPD 2015d), by the Valuing your Talent partnership, considered the investor perspective on human capital measurement and reporting, and the value of such data to the investment community. The research, written in collaboration with the Pensions and Investments Research Consultancy, found that investor awareness of human capital measures, including those of culture, is growing, but capability within the investment community to appreciate non-financial data is low. The lack of transparency in disclosures is also seen to be a considerable barrier, in that some people data is thought by many business leaders to be commercially sensitive, and as a result cannot be shared with the investment community. The report concluded that businesses, and the board in particular, must work closely with the investment community to raise awareness of the importance of cultural measures and to promote more consistent reporting of human capital data.

Follow-on research by the CIPD built on the investor-focused research and found that organisation reporting standards are slowly improving; however, there is little indication of the quality of key issues such as culture and employee behaviours. This means some issues risk being overlooked (CIPD 2016).

Diversity in the business and the boardroom

Representing the workforce at board level is an integral factor when making decisions which impact on worker well-being, organisational culture and overall business performance (CIPD 2010c). One such focus that has gained significant interest in recent years is that of women at board level in organisations. The CIPD's research *Gender Diversity in the Boardroom: Reach for the top* (CIPD 2015e) includes in detail the importance of achieving a diverse gender mix at the top of the organisation. The work, which consisted of a literature review and survey of HR professionals, shows that while the pace of change is increasing in some FTSE 100 organisations to meet targets set by Lord Davies in 2015, there is still a lot that can be done. The work concluded that it is vital that the board fully understands the interests of and represents the various stakeholders of the firm, including employees, to create a greater understanding of the organisation's accountability and responsibility to all stakeholders and the right culture for the business (see Table 9).

Table 9: Recommendations for improving culture through diversity interventions

Recommendation	Description
Raise awareness of the importance of board gender diversity	Raising awareness in the business community for the Women on Boards initiative, including Think, Act, Report, is needed if there is to be greater understanding and drive towards greater gender equality. Just over half of CIPD survey respondents reported that they were aware of the Lord Davies review, showing more can be done to share reports of this type.
Focus on wider diversity issues beyond gender	Gender equality should not be the only target – boards should aim for a balance of many different elements of diversity, including experience, gender, age, culture and perspective. Cultural aspects should be considered at the board, and only a diverse board that represents the makeup of the organisation, its customers and major stakeholders can achieve this.
Strive to achieve voluntary targets	Voluntary approaches play an important role in increasing boardroom diversity, particularly with regards to landing cultural change in organisations. Over half (55%) of those interviewed in the research preferred voluntary targets compared with a mandatory quota. Legislating to ensure that a certain gender diversity quota is achieved will not solve the underlying social issues that create the conditions for poor diversity at board levels. However, there is much interest in the setting of voluntary targets by government, which organisations should aspire to achieve.
Promote more transparency and consistency of reporting on human capital	Greater emphasis on transparent reporting is also needed, with more consistent measures and narrative on organisational and people measures to provide more insight and confidence to all stakeholders, and to help hold the board and executive more to account for development of people and culture as key dimensions of sustainable and responsible business over the longer term.

Another contextual challenge facing boards in many parts of the Western world is the changing demographic of the workplace towards older workers. Research into the ageing workforce shows that there is appetite for further action to create environments for age-diverse workforces to thrive. *Managing an Age-diverse Workforce: Employer and employee views* (CIPD 2014h) showed that business is recognising the value that age-diverse workforces bring, with regards to mixing skills and talent, creating inclusive cultures and knowledge-sharing through diversity of experience. Those overseeing organisations with age-diverse or older workforces are recommended to pay close attention to key performance indicators regarding succession planning, and talent pipelines for individuals across the age spectrum. Productivity challenges in the UK in particular are thought to be exacerbated by poor action on the part of senior leaders and employees in future-proofing their business and people through learning and development, and investment in diverse workforces. Accounting for the changing demographic is one way in which boards can approach the development of a strong organisation culture.

The role of technological innovation: how data and insights are driving cultural awareness at the board

The board's awareness and understanding of the business comes from the data and insights that it is presented with via the executive team and its interactions with the business. People data is inherently an indicator of the culture of the organisation, and is abundant in the very many HR and people processes in the business. Leaders and the board are now required to consider multidimensional data – data from different parts of the business, of numerous types – in the decisions that they make and must now have the skills to process, assimilate and act on data. *Talent Analytics and Big Data: The challenge for HR* (CIPD 2013b), a CIPD report written in partnership with Oracle, investigated how organisations are tackling the volume, velocity and variety of data now available to the business. The research found that silos are preventing the use and communication of data, and there is a lack of the necessary analytical skills. At the same time, many people within the business, including senior leaders, are still unsure as to how to use and act on this data to drive business decisions, a lot of which are about longer-term outcomes – too many view other priorities as more pressing for HR and business.

Recommendations: how can the board better appreciate how external and contextual factors influence and impact the culture of the organisation?

- **Improve the measurement and reporting of cultural indicators of human capital, both internally and externally, and communicate its importance to all stakeholders of the organisation using robust quantitative and qualitative data and a clear and accessible narrative.** Improving measurement and reporting capability with regard to cultural concepts will ensure that the board moves towards an evidence-based understanding of the organisation's culture, beyond judgement, by using qualitative and quantitative data.
- **Ensure that the board is diverse and representative of the organisation and community in which the business operates, while maintaining appointments based on merit and quality.** Boards should ensure a positive focus on building diversity to represent the different constituencies of the organisation and the communities it serves, and as a driver of better culture and decision-making. The board must lead by example, appointing diverse members at the senior leadership level, and ensuring that unbiased recruitment practices are implemented to ensure that diverse talent pools are used to embed talent at the top of the organisation. The board should also ensure that the nomination committee oversees appointments to the board and senior executive and is sufficiently knowledgeable of diversity and representation issues.
- **The board should understand the impact of technology on the workforce and culture, now and in the future, as a critical element of strategic planning.** Boards should ensure they understand the strategy and impact of technology firmly in the future, the impact on the workforce and capabilities, and the corporate culture. The potential cultural impacts of technology implementation should be fully mapped and quantified – for example the impact of mobile technology on working patterns and employee well-being – and the board should take full accountability for how such technologies are embedded into the business.

Discussion

Our rapid evidence assessment of CIPD research for the FRC's culture coalition project has shown that there is much out there which describes culture, its importance, and the role of leaders in business in understanding and managing it. What is less known is exactly how cultural challenges play out in business, given the unique subjective and context-specific nature of culture. The lack of consistent measures and effective methodologies of assessment, plus a misunderstanding of the concept amongst business professionals, means that while culture is recognised as important, it is often very difficult to pinpoint exactly how culture affects and is affected by organisations and the people that work for them. We also know little about the capability of boards to appreciate culture, both of the business and of the board itself. Assessing and managing culture from the board perspective is certainly an area of research which, if we are to make clear changes in organisation governance towards healthy cultures, we must seek to better understand and evidence.

What is clear, however, is that of all concepts in the organisation that are tied to people and performance, culture is one which is recognised as being vital to strategy execution and implementation. It was Peter Drucker who observed many years ago that *'culture could eat strategy for breakfast'*. There is considerable evidence from the HR perspective of the importance of considering culture in the way decisions are made for the business and the people that work for them. Senior leaders must also understand that core in their responsibilities is a 'duty of care' for their employees – to maintain a culture which protects and enhances the health of individuals, while ensuring that their other major stakeholders also benefit from the success of the business.

Recent issues in major organisations globally have in many cases been labelled as cultural in nature: the various banking scandals, manipulation of data to pass regulation tests and discrepancies in financial accounting have all in some way been caused by misalignment of behaviours to stated corporate values or toxic corporate cultures, and the inability of boards to recognise the signs of a poor culture in action. Boards in all these cases missed out on vital information which could have acted as a red flag to the impending failures and could have enabled the board to manage the situation more effectively and reduce its impact on the business, or even prevent the issue from embedding and causing harm.

If business is to move towards better understanding of culture at the board level, the board must have the right breadth of experience, a high level of awareness of the business model and the strategy of the organisation, and be able to appreciate the organisation and human dynamic. Accountability and ownership of organisation culture is also vital – senior leaders must understand their accountabilities to all stakeholders of the business, including employees. Therefore, boards must ensure that, as decisions are made, the appropriate checks and balances are applied to assess how decisions may affect business culture and vice versa. Measures and regular assessment of corporate culture and insight from the employees should be used to understand how the culture is evolving and changing.

There are a number of steps that we believe boards and senior leaders of businesses should go through to assess and understand the culture of their organisation, which are illustrated in Figure 3.

Figure 3: Steps boards can take to understand and address cultural issues

Undertake a cultural diagnosis

- Use the cultural diagnosis as a baseline assessment of workplace culture. Explore the perceptions of organisation culture by consulting employees and external stakeholders.
- Work with the HR teams to map the board's understanding of business culture: assess the board baseline and make a full assessment of culture.

Build buy-in across the top of the organisation

- Consider the need for making fundamental cultural change and build buy-in across the business.
- Describe the desired culture of the business by working closely with senior leaders and top-tier management, considering value statements and other means to express the direction.
- Create a stakeholder map to understand stakeholder perspectives on cultural issues and the plan to address them.

Plan and consult

- Consult across all levels of the business at both the development and implementation phase of the initiative. Develop a comprehensive implementation plan, including timeline for delivery and key performance indicators, which will enable the board to hold itself and the business to account for delivering the culture change programme.

Tailor interventions for different parts of the business

- Using cultural diagnostics, understand the needs of different parts of the business, and tailor interventions accordingly.
- Focus on moving all parts of the business forward to the same end goal, and map out the steps that senior managers and their teams need to go through to change to the new culture.

Communicate and engage all levels of the organisation

- Explain the purpose and objectives of the initiative and ensure that all levels of the organisation are represented and able to provide feedback on the initiative.
- Develop an engagement plan to enable employees in the business to engage with and share views on the culture programme, its impact, and the quality of the outcomes being achieved.

Reinforce and embed through all the people management practices and policies

- Ensure the values and behavioural norms that define the culture change are embedded in all the HR processes from recruitment, induction, performance management and reward, and promotion and succession planning.
- Educate and train leaders and managers at all levels in the behaviours expected, and how to coach their teams.

Evaluate and measure the return on investment of culture initiatives

- The board should look to assess the impact of the culture change programme, potentially through an independent evaluation of quality and impact, which shares the lessons learned and explores the return on investment the organisation recieves from the programme.
- The board should look to share findings from the evaluation of impact with all stakeholders, including the workforce, and ensure that feedback is gained from as many aspects in the organisation as possible to provide a true reflection of the quality and impact of the culture change initiative.
- Establish and communicate lessons learned and integrate thinking into the next generation of cultural development activity.

Conclusion and recommendations

Conclusion

Boards play a crucial role in setting the culture of the organisation and maintaining the standards for the business to operate against. The ubiquitous nature of organisational culture makes it one of the most important aspects of the organisation that the board and its senior leadership team must understand and manage. The multiple stakeholders of the business will all have an understanding of the organisation's culture, and will articulate it through their own unique lens. This complexity means that the board must pay considerable attention to understanding the culture of the organisation and ensure that it supports and emphasises the values of the organisation, and ultimately enables the business to perform financially, ethically and sustainably.

The CIPD fully supports and endorses the Financial Reporting Council's Culture Coalition Project, and believes it to be of vital importance to help the regulator establish appropriate guidance for the business community to approach the challenge of building healthy and productive workplace cultures. As our evidence suggests, a strong culture is central to the success of every enterprise, and it should therefore be of utmost concern for every leader, manager and employee, today and in the future.

Top-level recommendations

As a result of the analysis of evidence, we make the following recommendations to leaders of organisations with regards to understanding, measuring and developing corporate culture. Further information can be found throughout the body of the report.

Table 10: Top-level recommendations

Recommendation	Description
Value alignment	Align core values at the very top of the organisation, embed desired behaviours across the board, and apply a values lens to board decision processes. Focus on trust as an enabler of positive and productive cultures.
Champion change from the top	Lead cultural change from the top, and evidence its impact on the business. Ensure that the board is diverse and representative of the organisation and community in which the business operates, while maintaining appointments based on merit and quality.
Develop leadership capability	Build leadership capability in line with cultural and behavioural values, and communicate its importance effectively.
Address the reward question	Align measures of performance, reward and culture to address issues of high pay and ensure that reward decisions take cultural alignment into account.
Invest in people capability	Invest in building HR and people management strategy and capability which focuses on leadership and management culture, and embeds cultural values across all levels of the organisation.
Empower the board's committees	Empower the remuneration committee to challenge and act with integrity and independence. Ensure that the board responds to the remuneration committee transparently and with full commitment. Maintain a focus on corporate culture to challenge the board to remain accountable for cultural issues, and highlight potential issues before they arise.
Enable through voice and engagement	Build a culture of engagement and voice, communicating the importance of open and transparent values via top–down and bottom–up engagement processes.
Protect whistleblowers and those speaking up	Create employee voice and whistleblowing processes that protect employees who speak out about cultural and behavioural issues, and ensure that the board takes effective action to rectify concerns.
Measure and report	Improve the measurement and reporting of cultural indicators of human capital, both internally and externally, and communicate its importance to all stakeholders of the organisation using both qualitative and robust quantitative data and a clear and accessible narrative. This includes reporting on the quality of the board's relationships. Seek evidence that all HR processes, including recruitment, induction, training and performance management, reinforce and align with the desired behavioural norms and values.

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Issued: July 2016 Reference: 7266

ISBN 978-1-84398-449-8