Why Bother with Culture?

Managers often find the concept of culture vague and hard to pin down. They also often find the idea of managing an organization's culture to be questionable. Why bother? Especially when you are busy and your to-do list shows plenty of other more tangible items that clearly impact the bottom line in shorter timeframe.

The answer is simple but scary to some: organizational culture can affect the bottom line too, in fact, it likely already is doing so. The effects go in two directions. A "good" culture can improve performance, perhaps in ways that you cannot even imagine. A "bad" culture can debilitate action and cause performance to deteriorate. This reality makes things scary because with its recognition comes the realization that outcomes which matter to you---and for which you will be held accountable---depend on something vague that you don't really understand, let alone know how to control.

Culture affects organizational performance through two main pathways. First, when culture is aligned with an organization's strategy, it greatly facilitates execution. Walmart's low-cost retail strategy, signified by the slogan, "lowest prices every day," is reinforced by its culture of frugality---low luster corporate headquarters in Bentonville and strict controls on travel costs among myriads of other details. Alternatively, Google's strategy of innovation to solve some of the world's biggest problems is reinforced by a culture of free expression, ample resources and unbridled creativity to hire and retain some of the world's best software engineers.

The second main way culture affects organizational performance is through enhanced commitment and motivation. Cultures inspires people through intrinsic motivation, because they are encouraged to do what they see as the right thing rather than through extrinsic motivation, which pays them more in some material mode for acting in an expected way. Zappos ecommerce company pays many employees minimum wage but inspires them to work hard and serves customers by allowing them to express themselves, by allowing them to find their own ways to work best and by building strong sense of community and camaraderie. Dreyer's Grand Ice Cream built a highly committed and loyal labor force through its "I Can Make a Difference Philosophy" and its ten cultural tenets called "The Grooves." In late 1999, when the company faced a serious crisis and nearly went bankrupt, this strongly committed set of people pulled the company together by doubling down in effort and finding solutions to cost overruns.

For most managers, the possibility of organizational performance effects provides sufficient motivation to want to learn more about culture. But if want to turn up the heat, let's recognize that things can get very personal: **Ignoring or even tolerating a culture that runs off the r**ails **and causes damage to others can cost you money, get you fired, and even get you put in prison.** Really.

For instance, US courts have long held that individuals and organizations that tolerate a culture of sexual harassment and abuse---classified legally as a "hostile work environment"---are legally liable. A workplace can be judged hostile because of behaviors that are often considered cultural,

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such as language or conversations about sex acts, jokes and slurs regarded as offensive, showing pictures taken to be lurid, or making gestures that convey inappropriate messages. Many of these might be considered part of the organization's culture.

Other out-of-control behavior—even if technically legal---within an organization that is considered counter-normative can get blamed on executives. Consider the electronic sign-stealing scandal the Houston Astros baseball team got caught up in 2020. In administering discipline following an investigation, MLB Commissioner Manfred commented on this scandal and a prior one involving Assistant General Manager Brandon Taubman's remarks to female reporters. Manfred wrote in his report:

> ….it is very clear to me that the culture of the baseball operations department, manifesting itself in the way its employees are treated, its relations with other Clubs, and its relations with the media and external stakeholders, has been very problematic. At least in my view, the baseball operations department's insular culture – one that valued and rewarded results over other considerations, combined with a staff of individuals who often lacked direction or sufficient oversight, led, at least in part, to the Brandon Taubman incident, the Club's admittedly inappropriate and inaccurate response to that incident, and finally, to an environment that allowed the conduct described in this report to have occurred.

Subsequently, General Manager Jeff Luhnow and Manager A.J. Hinch were suspended and then fired.

Setting up and managing (or ignoring) organizational systems that create harm, even if the systems are well-intended and functioning positively in many respects. This is especially the case if you ignore complaints, warning signs and retaliate against whistleblowers. Longtime Wells Fargo Bank CEO John Stumpf was in charge when Wells made a big push into retail banking driven largely by an aggressive sales culture that rewarded staff based on accounts opened. It was uncovered eventually that Wells employees opened perhaps two million accounts without the consumers' knowledge; they also retaliated against people sound the alarm. The Board of Directors commissioned a report that found that, "The root cause of sales practice failures was the distortion of the Community Bank's sales culture and performance management system, which, when combined with aggressive sales management, created pressure on employees to sell unwanted or unneeded products to customers and, in some cases, to open unauthorised accounts."

In January 2020, John Stumpf made a $17.5m settlement with regulator Office of Comptroller of the Currency along with a ban from working in the banking industry. Mr. Stumpf had long left the company (he was forced out) but will still face attempted clawbacks of compensation by his former employer.

Moreover, other regulators and outside stakeholders have put executives and companies that they hold them responsible for their organization's culture. In 2016, the Financial Reporting Council of the U.K. issued a report, Corporate Culture and the Role of Boards, after conducting a long study. In it, the FRC states that: "It is the board's role to determine the purpose of the company and ensure that the company's values, strategy and business model are aligned to it. Directors

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should not wait for a crisis before they focus on company culture." The Report goes on to specify that, "Boards have a responsibility to act where leaders do not deliver… Openness and accountability matter at every level… The values of the company need to inform the behaviours which are expected of all employees and suppliers. Human resources, internal audit, ethics, compliance, and risk functions should be empowered and resourced to embed values and assess culture effectively. Their voice in the boardroom should be strengthened… Boards should devote sufficient resource to evaluating culture and consider how they report on it… The performance management and reward system should support and encourage behaviours consistent with the company's purpose, values, strategy and business model. The board is responsible for explaining this alignment clearly to shareholders, employees and other stakeholders… Effective stewardship should include engagement about culture and encourage better reporting. Investors should challenge themselves about the behaviours they are encouraging in companies and to reflect on their own culture." These directives are justified in the Report as implied by the U.K. Companies Act 2002, Section 172. The FRC claims that, "culture is closely linked to risk and risk appetite and the Code asks boards to look at the risks which might affect the company and its long-term viability."

In January 2019, investment manager behemoth State Street wrote to Board members of major corporations. The open letter says that after discovering "that few directors can adequately articulate their company's culture or demonstrate how they assess, monitor and influence change when necessary." They also announced that "we have found that boards sometimes fail to adequately ensure that the current corporate culture aligns with corporate strategy. This is especially important in times of crisis or strategic change, such as the transition of a CEO or during mergers and acquisitions or strategic turnarounds. These are critical inflection points during which a lack of focus on culture can delay, or even derail important strategic objectives and pose existential challenges for management."

By Glenn R. Carroll
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