



The Hidden Risks and Opportunities of Culture



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Introduction

An organisation's culture can be a tremendous asset as it can drive innovation, boost employee contribution, and enhance customer satisfaction. However, on the flip side, culture can be the greatest risk to productivity, execution of strategy, compliance, reputation, and financial sustainability. Many of the indicators of culture risk are not visible to boards who are responsible for all the associated risks and negative impacts.

It is often cited that a director can get a feel for the culture of an organisation by 'walking around'. Certainly, some things will be evident but assessing culture through observation alone will provide either a false positive or negative of the current state of culture. Culture elements that are observed can include behaviours, language, and artefacts indicating what is most important including values posters and safety signs.

What is not visible by 'walking around' is the way employees are

experiencing work, the emotions they feel when decisions are made or communicated, the value they attribute to the work they are doing, the alignment to their beliefs and personal values, and their commitment to working towards the organisation's purpose.

At a board level, the hidden risks can also take the form of lack of evidence of current culture, filtering or dilution of issues presented to the board, personal assumptions and bias, and a lack of time or awareness to even consider culture until there is a crisis.

Understanding these hidden elements is essential for fulfilment of the board's duty of care, the development of strategic priorities, ensuring legislative compliance, the implementation of change and organisation-wide projects, effective decision making, achievement of financial and non-financial results, improvement of customer experience, and the mitigation of risks from the behaviours of those within your organisation.

Businesses are revisiting their risk profiles and risk appetite statements and there's been a noticeable shift in the focus on culture at the heart of all risk discussions. – AICD paper 2021



The link between culture accountability and risk

Directors bear all the risk of culture and yet often do not have the oversight or evidence to support the effective governance of culture, the identification of culture risks, or the knowledge of how to mitigate the potential impact of culture when things go wrong. The impact of culture risks can include reputation damage, financial and legal implications, and the psychological or physical injury caused to employees.



Many boards do not proactively consider culture regularly. It is difficult when board packs are complex and focused on strategic and high impact operational issues, culture is not included on agendas, and time is limited. Many directors are not focused of the importance of culture or the need for focus and oversight from the boardroom.

In a Culture Research Study conducted in 2020, HENRY REED identified the link between culture accountability and culture risk. Directors, CEOs, Executives and HR Professionals were asked, who is accountable for culture in their organisation.

This question becomes important when those who indicated they were accountable for culture were also asked what they identified as the risks of culture.

At a board level the primary risks of culture were financial, and sustainability focused, at CEO and executive level they were financial, and reputation focused, and where the accountability for culture is the responsibility of an HR function the risk focus is almost solely on employee retention.

Where there is unclear accountability for culture, or culture is not an area of focus at a board level, there is a lost opportunity to ensure culture impact is used to mitigate financial, sustainability and reputation risks and positively impact the people within your organisation.

Alignment of culture to the frameworks of governance, strategy and risk improves decision making, implementation and execution of strategy, and sets clear expectations for leaders to positively influence culture to eliminate risks from preventable behavioural issues.

Assessing & influencing current culture

The traditional methods of understanding current culture and the controls used to manage culture are no longer effective in the current environment of changing social expectations, increased regulation and legislation, the importance of psychosocial safety and the requirement for demonstration of a proactive duty of care.



Many organisations rely on regular pulse or engagement surveys to identify indicators of current culture. These often don't address the holistic impact of culture and the elements of culture risk or dysfunction. It can be very difficult for internal HR professionals to identify and raise deep culture issues particularly in environments that may not be considered psychologically safety or where employees are hesitant to provide information relating to issues, they attribute to leadership capability or effectiveness.

The widely used governance controls relating to scope of employee tasks and responsibilities, and levels of authorisation and delegation, are no longer effective or influential when used in isolation to manage human behaviours and collective ways of working.

These controls are still important, but increasingly, so are the soft skills or human controls of leadership style, communication effectiveness, enabling employee success, recognising, and celebrating achievements, and responsiveness to employee issues and performance management.

“Organisations wanting to get serious about their culture risk need to start by understanding both their hard controls and soft controls and ensure that their risk management plans have factored in both.” BDO Australia

Given these traditional methods are not providing sufficient insights and ability to manage culture effectively, there is significant value in boards investing in independent and unbiased, evidence-based audits of culture from an expert external provider.

HENRY REED take a holistic approach to culture audit and solutions for improving culture that are guided by their proprietary Model of Organisational Effectiveness. This approach allows a comprehensive assessment all influencing factors and the identification of culture risks and opportunities. Boards are provided with an evidence-based report and recommendations that provide the business case for proactive culture improvement with identified measures to demonstrate a return on investment.

Model of Organisational Effectiveness



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Identifying the ROI of culture investment

If the importance of investing in your organisation's culture is not prioritised or you are struggling to identify the measurable benefits of working on your organisation's culture, ask yourself these four questions:

1. What would be demonstrated (behaviours, ways of working, language, etc) by all employees if we had the ideal culture for our organisation?
2. What would this enable us to achieve?
3. Who or what would benefit from this?
4. What would be the measurable impact of this?

Culture is the primary enabler of organisational effectiveness, and the impact of your organisation's culture is measurable. Often being aware of the impact of culture on the business measures you already have in place will bring a culture lens to your areas of strategic focus.

With culture enhancement comes measurable improvements in financial and non-financial outcomes providing a measurable return on investment.



Ultimately, by recognising the relationship between culture and risk, organisations can build a stronger, more resilient, and more effective risk management framework that reflects their unique culture and values and supports the achievement of strategic outcomes.

Partnering with Henry Reed



At **HENRY REED**, we add value to our clients by optimising organisational effectiveness through culture and leadership. We support boards, business owners, CEOs, and Executives to drive results, mitigate risks and create competitive advantage.

HENRY REED's customised culture and leadership solutions transform organisations and support people. Guided by our Model of Organisational Effectiveness and philosophy of turning potential into performance, our solutions focus on partnering with our clients, co-designing with employees, upskilling internal capability, and ensuring that all implemented solutions are sustainable and fit for purpose to deliver measurable return on investment.

We are specialist business consultants who focus on delivering optimal results and a significant return on investment across all projects we deliver.

Find out more at www.henryreed.com.au or call us to arrange a confidential and complimentary initial consultation on **1300 266 995**.

About BoardPro



We exist to increase boardroom productivity and create better functioning boards. We don't believe good governance processes should be left to the domain of larger companies. We know that all parties in a board/management relationship want to use their time and resources most efficiently and productively. We found that a product that helped with the processes, workflows and guidance to work on the right things was missing from the market. So we developed BoardPro in partnership with some of the best independent directors and most progressive CEOs.

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