



5 HARD TRUTHS ABOUT WORKPLACE CULTURE

A reality check and a pathway towards sustainable business

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FOREWORDS

Lyn Goodear FAHRI GAICD



The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry demonstrated that there was a widespread desire in Australia to hold individuals accountable for the cultures they oversee. It also revealed why doing so is necessary. In its wake, performance systems which have been traditionally skewed toward financial metrics are now being re-examined to

encompass non-financial measures that are essential to building sustainable value.

The findings in this report shine a light through a small window within which we have an opportunity to make a real contribution to a generational change. Typically, wholesale critiques such as those provided by a Royal Commission result in an immediate shock, worthy expressions of intention to reform, followed by a return to business as normal.

The findings in this study of 967 respondents from chief executives to team leaders examine factors affecting the capability of organisations to bring about cultural change. Included among them are obstacles encountered by larger organisations and the failure of CEOs to see cultural flaws that are glaringly apparent to employees at lower levels. In addition, despite the sharp focus provided by the Hayne Royal Commission, the findings reveal that the malaise in corporate culture is not limited to the financial sector but is widespread across industries.

In commending this report to Australian business leaders, I join with those community leaders who are calling for cultural transformation within Australian business. If organisations respond appropriately, I am confident we will become more productive and more competitive globally, and more ethically grounded in the way we operate with respect to our customers, our suppliers, our employees, and our wider stakeholders.

Lyn Goodear is the chief executive of the Australian HR Institute.

Nicholas Barnett CA, FAICD



This research is a rallying cry for leaders to role model and galvanise a much more ethical and sustainable culture in their organisations from the inside out. Only then will the recent massive loss of trust in business and business leaders start to be rebuilt.

This will require leaders to embed a much more holistic view of sustainable high performance, recognising that the long term interests of employees, customers, the community and shareholders are inseparable.

This research, APRA's recent review of CBA's culture and the recent cultural self-assessments carried out for APRA by banks and others has shown that

- despite the numerous cultural and other measurements carried out over recent decades, until very recently, most organisations haven't had a realistic and objective view of the current state of their culture
- to the extent that ethical cultural issues have been known very little substantive planning or action has been taken to transform organisations towards a more ethical and sustainable culture.

Whilst the recent temptation for many organisations has been to take more regular measurements of employee actions and behaviours, our advice is less measurement and more transformation. And for the reasons set out in this report, the transformation must be ongoing, and it must start at the top.

My hope is that this report will be a catalyst for leaders to show that they take ethics, sustainable cultural change and their employees much more seriously and in doing so also elevate the importance placed on the role of HR.

Nicholas Barnett is the chief executive of Insync.

EXECUTIVE SUMMARY

Following the massive loss of trust in the leaders of financial services and in their institutions, AHRI and Insync decided to partner together to determine whether the cultural problems of those organisations was isolated to the sector and, if not, how deep and widespread the issues are.

AHRI and Insync also wanted to determine the extent to which Australians think change is required towards more ethical and sustainable cultures.

The response was loud and clear:

- 90% said they either agree or strongly agree that their organisation's culture is critical to the successful execution of strategy
- 95% either agree or strongly agree that CEO and executive leadership behaviours have a significant impact on their organisation's culture
- 92% either agree or strongly agree that their organisation should make the best use of its human capital, yet only 20% agree or strongly agree that their culture currently reflects this

These findings are just the beginning. Our detailed survey uncovered a range of different opinions about the state of organisational culture in Australia, which we have distilled into 5 parts.

These 5 'hard truths' about workplace culture should not be viewed as separate findings. Each truth builds on the others, Together they represent a reality check for Australia.

1. **Culture problems are pervasive**
(Change is not only required in financial services)
2. **Culture problems are often immense**
(More than one-third of organisations need significant change)
3. **Larger organisations have larger culture problems**
(The bigger the organisation, the bigger the problem)
4. **CEOs have trouble seeing culture problems**
(They see a lesser need for change than other employees)
5. **Organisations need HR as a professional culture partner**
(Competent HR is needed to guide change)



Where to from here? See page 19 – 22.

Truth 1:

*Culture problems
are pervasive*



TRUTH 1:
CULTURE PROBLEMS ARE PERVASIVE
(NOT LIMITED TO FINANCIAL SERVICES)

"I don't think it has anything to do with industry, it has everything to do with leaders."

Figure 1. Short-term financial focus OR Long-term sustainability?

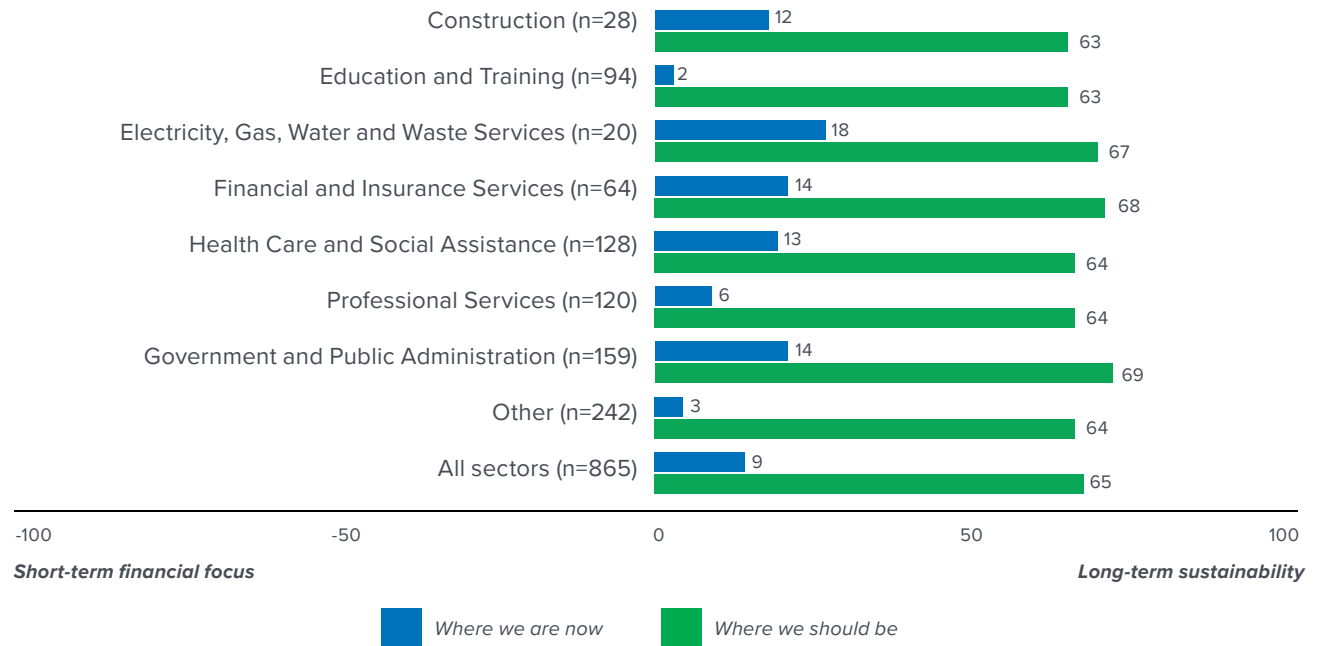
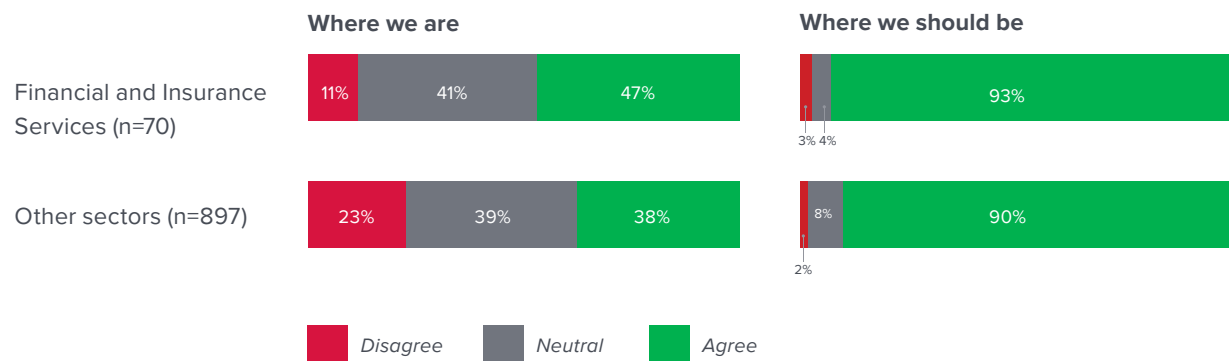


Figure 2. Our organisation's culture drives our sustainability and success



TRUTH 1:
CULTURE PROBLEMS ARE PERVASIVE
(NOT LIMITED TO FINANCIAL SERVICES)

"They don't operate within an ethical framework. I'm so disgusted by this organisation and their blatant behaviour."

The cultural problems so dramatically revealed by the royal commission are not unique to the financial services sector. This research shows that education and training, utilities, healthcare and social assistance, professional services, government and public administration, among others, also need significant cultural change and, in some areas, need even greater change. (See figures 1 and 2.)

This finding is likely to shock many Australians. The fact that just as much cultural change is required in other industries lines up with the anecdotal views of AHRI's experienced HR professional members and Insync's extensive research, including its employee engagement and culture reviews for hundreds of organisations across all industries. As one interviewee said, "I don't think it has anything to do with industries, it has everything to do with leaders."

Respondents were given a sliding scale to identify where they thought their organisation's culture was today and where they thought it should be. Most respondents had a similar view that their organisation's culture should be tilted much more towards long-term sustainability than towards short-term financial focus and that view didn't differ too much by industry segment. Many thought there was much work to be done in moving the culture from where it is to where it needs to be.

Survey respondents cited many reasons for the lack of ethics including the lack of an ethical and cultural framework, leaders not setting the right example and poor behaviours not being called out. These reasons were similar across all sectors and are typified by the following responses:

"Not prioritising culture and ethics. Some leaders acting in their own interests and setting the wrong examples."

"Lack of clarity about what an ethical culture looks like. Lack of articulated ethical standards and expectations."

"Nobody wants to be the one to say we got the sales wrong. There's very much a culture of never failing."

The tensions of having to achieve short-term financial and other outcomes but doing so in an ethical way without taking short cuts will always exist. Most of the respondents to this cultural change survey want the dial moved by a measurable amount away from short-term financial outcomes and towards long-term sustainability.

Truth 2:

*Culture problems
are often immense*



**TRUTH 2:
CULTURE PROBLEMS ARE OFTEN IMMENSE
(OVER 1/3 OF ORGANISATIONS NEED SIGNIFICANT
CHANGE)**

"We often presell products, pre-invoice... and write them off on the books. This could be months before the customer purchases it. It's very driven by share price."

Table 1. Perceptions of required change in relation to important culture-related items

	Some cultural change required	Significant cultural change required
Our organisation never compromises its ethics to achieve short-term results	23%	30%
Our organisation doesn't compromise customer outcomes to achieve short-term results	25%	28%
Our employees are never encouraged to "bend the rules" to get a result	19%	27%
Our organisation displays zero tolerance for employees who put their own success ahead of customers and shareholders	24%	43%
Our organisation doesn't tolerate "mavericks" who cut corners to achieve short-term targets	19%	41%
Overall mean	22%	34%

**TRUTH 2:
CULTURE PROBLEMS ARE OFTEN IMMENSE
(OVER 1/3 OF ORGANISATIONS NEED SIGNIFICANT
CHANGE)**

"Bad behaviour is rewarded and only punished when reputational damage happens."

Survey respondents were asked to identify where their organisation's culture was and where it should be in relation to many survey items measuring ethics and sustainability (see Table 1). Around 22% thought there needed to be some change and over one third (34%) thought that significant change was required.

Respondents were also asked to provide comments as to what factors assist and hinder leaders achieving an ethical culture. The themes that developed from around 650 comments are summarised below:

Factors that prevent leaders in helping to achieve an ethical culture include:

- Poor leadership (including unethical behaviour and self-interest)
- Lack of accountability and consequences for poor behaviour
- Limited performance and behavioural measures
- Lack of communication
- Lack of clarity and education around vision and culture
- Resource and time constraints

- A short-term results focus
- External political, stakeholder and compliance pressures

Factors that help leaders to achieve an ethical culture include:

- Ethical leadership from the top down (board, CEO and executive)
- Clear vision and mission/purpose
- Clear values and behavioural expectations
- Calling out and consequence management of poor behaviour
- Clear codes of conduct and policies
- Clear and transparent communication
- Training and tools to embed ethics
- Focus on customer needs

*Truth 3:
Larger
organisations
have larger
culture problems*



**TRUTH 3:
LARGER ORGANISATIONS HAVE LARGER CULTURE
PROBLEMS (THE BIGGER THE ORGANISATION,
THE BIGGER THE PROBLEM)**

"I think it's about the remoteness of leadership. I mean with larger organisations there seems to be a larger gap."

Figure 3. Short-term financial focus OR Long-term sustainability

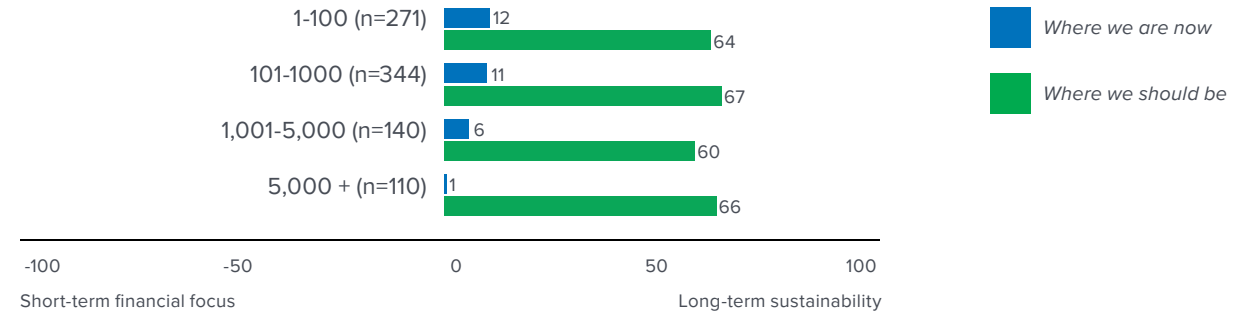


Figure 4. Our organisation displays zero tolerance for employees who put their own success ahead of customers and shareholders

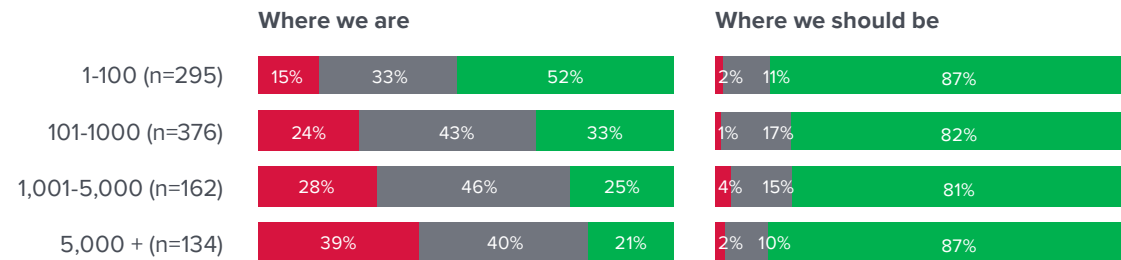
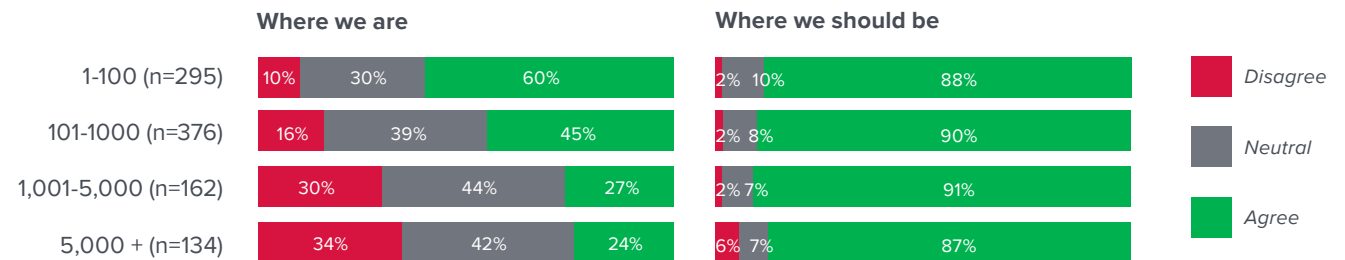


Figure 5. Our recruitment processes actively screen out people who we don't think would be ethical and live our values



**TRUTH 3:
LARGER ORGANISATIONS HAVE LARGER CULTURE
PROBLEMS (THE BIGGER THE ORGANISATION,
THE BIGGER THE PROBLEM)**

"Being able to have direct contact with people is important. Having additional layers between them makes it harder for a positive culture to permeate."

Most survey respondents had a common agreement as to where their culture needs to be in terms of most of the cultural change survey items. But those in larger organisations felt that a greater extent of change was required to reach that optimum future state. (See Figure 3)

In terms of getting the right balance between long-term sustainability and short-term financial focus, employees of larger organisations rate their current state as being quite a bit worse than employees of smaller organisations.

As shown in figure 4, 39% of survey respondents of organisations with more than 5,000 employees thought that their organisations do not display zero tolerance towards employees who put their own success ahead of customers and shareholders compared with only 15% of survey respondents of organisations with less than 100 employees. As one respondent commented, "I think it's about the remoteness of leadership. I mean with larger organisations there seems to be a larger gap."

Larger organisations seem to be less likely to screen out employees who may not be ethical or live the organisation's values. They also seem less likely to have systems and processes that are conducive to ensuring the organisation achieves an ethical culture. (See Figure 5)

It takes longer and is much more difficult to change the culture of large organisations, particularly those that are geographically dispersed. This, when compounded with the fact that larger organisations require greater cultural change, means that the boards, CEOs, department secretaries and executive teams of larger organisations will need a much greater and more sustained leadership commitment to bring about the cultural change that is required.

Truth 4:

***CEOs have
trouble seeing
culture problems***



TRUTH 4:
CEOS HAVE TROUBLE SEEING CULTURE PROBLEMS
(THEY SEE LESS NEED FOR CHANGE THAN OTHERS)

*"CEOs see a perfect world;
they've got rose-coloured
glasses on."*

Figure 6. Short-term financial focus OR Long-term sustainability

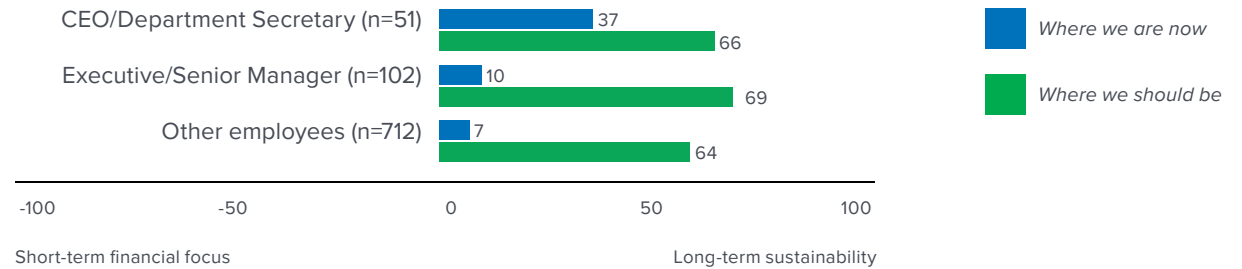


Figure 7. Our organisation doesn't tolerate "mavericks" who cut corners to achieve short-term targets

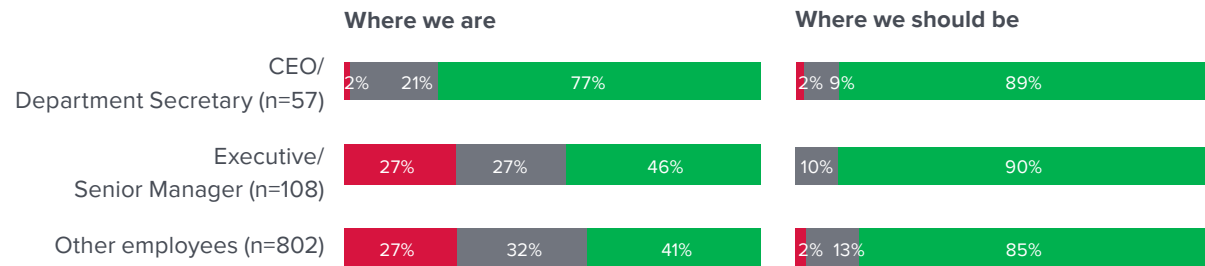
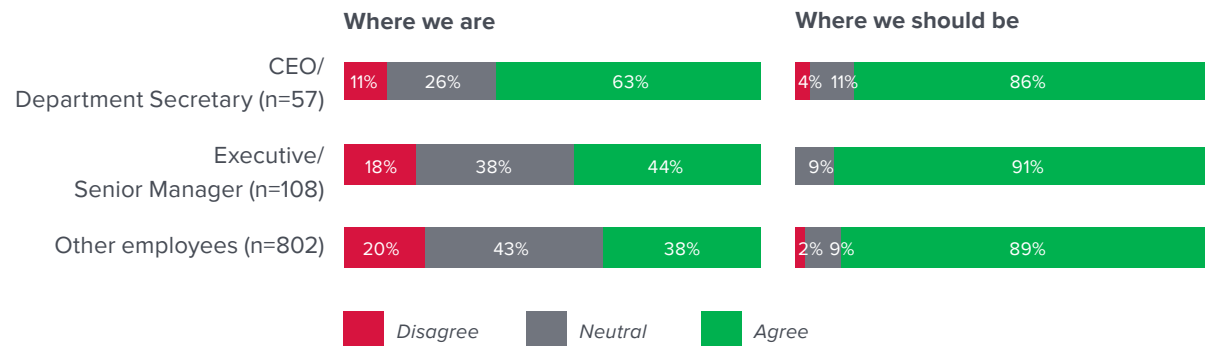


Figure 8. Our leaders regularly talk about ethics and doing the right thing



TRUTH 4:
CEOS HAVE TROUBLE SEEING CULTURE PROBLEMS
(THEY SEE LESS NEED FOR CHANGE THAN OTHERS)

"Sometimes managers don't want to feed it to the CEO because they don't know how to fix it."

This finding is one of the biggest concerns and possibly the most significant wake-up call for boards, CEOs, department secretaries and executives.

As shown in Figures 6 to 8, whilst CEOs, department secretaries, executives, senior managers and other employees had a similar view as to "Where we should be", CEOs and department secretaries sense of what represented reality for their organisation (i.e. "Where we are now") was more rosy than for executives and senior managers and significantly more rosy than for employees further down the hierarchy. This was the case for most, if not all, the survey items in the research.

For example, CEOs perceive that they regularly talk about ethics and doing the right thing but employees further down the hierarchy don't have that perception to anywhere near the same extent. (See Figure 8) And even if employees do hear the words from leaders about ethics and the importance of doing the right thing they often don't see the decisions and actions of leaders being aligned with their words. This latter view and the perception of the self-interest of leaders was expressed by numerous survey respondents and is typified by some of the following comments:

"Whilst championing diversity, fairness, etc. publicly, their own behaviours and decisions often appear less than ethical to many."

"Our leaders don't walk the talk – they do a great job at selling this amazing culture we want, but then their actions contradict what they are saying."

"Leaders in influential positions who only look to improve their own personal situation and who will use at times an unethical means to do so."

TRUTH 4:
CEOS HAVE TROUBLE SEEING CULTURE PROBLEMS
(THEY SEE LESS NEED FOR CHANGE THAN OTHERS)

"Executives operate in a bubble and are disconnected from the business."

The big question is why would CEOs see the current state, and therefore the shift that is required to be made, so differently to those further down the hierarchy? Could it be that CEOs understand the current state and that they just haven't communicated it well enough to other employees? The evidence from the survey responses suggests that this is not the case. Some employees think that some leaders are out of touch and overly focused on delivering financial and other outcomes as typified by some of the following comments:

"They are often not close to the coalface so they often don't know what happens in the day to day of the business."

"Misalignment at exec and/or board level... where instructions may be to just 'get it done.'"

"There is a requirement to meet unrealistic targets and a fear of leaders' unfavourable response (if targets aren't met)."

"Whilst the performance framework is strong, the confidence and willingness of leaders to take action on issues of behaviour and performance is often lacking."

Truth 5:

*Organisations
need HR as a
professional
culture partner*



TRUTH 5:
ORGANISATIONS NEED HR AS A PROFESSIONAL
CULTURE PARTNER
(COMPETENT HR IS NEEDED TO GUIDE CHANGE)

"I think standards are important... they provide a compass that helps guide the decisions you're making."

"The whole thing with HR, is not all people who wear the HR label are good."

Figure 9. Standards should be set for HR practice just as they are in professions like accounting



Figure 10. HR practitioners should hold an independently assessed certification from the professional body that attests to their standard of HR practice

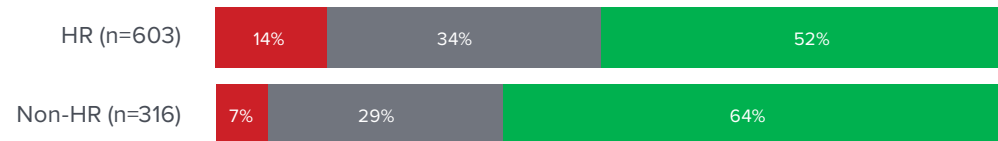
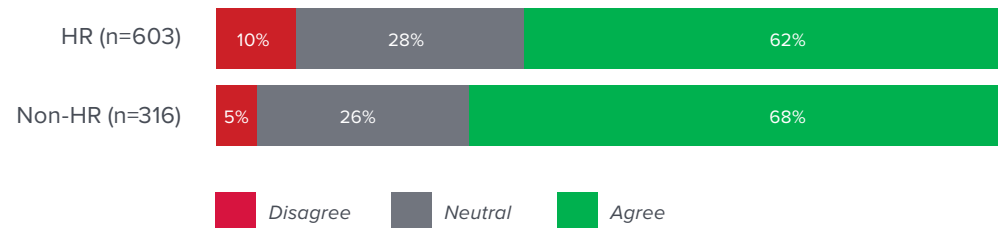


Figure 11. HR practitioners should undertake continuous professional development to maintain their standard of HR practice



Figure 12. The professional body for HR practitioners should hold members accountable to the standard of HR practice



**TRUTH 5:
ORGANISATIONS NEED HR AS A PROFESSIONAL
CULTURE PARTNER
(COMPETENT HR IS NEEDED TO GUIDE CHANGE)**

"If people are walking towards HR, it's a good sign that HR is doing the fundamentals well."

Respondents (n = 919) answered questions regarding standards and certification for HR professionals. Regarding standards for HR, independently assessed certification, continuous professional development, and a need for a professional body holding HR practitioners accountable, the majority of HR and non-HR express agreement (Figures 9 – 12; an average of 72% agreement). There was a trend of non-HR roles being more likely to agree for these items (an average agreement of 75% for non-HR roles, and an average agreement of 69% for HR roles).

The following is a sample of respondent comments on how using standards and certification for HR can help the organisation:

"CEOs and executives want more and more to get someone that knows what they're doing and has experience behind them."

"I think standards are important because I think it sets the scene. It provides a compass that help guide the decisions you're making."

"I think if people are walking towards HR, then it's a good sign that HR are doing the fundamentals well."

*Where to
from here?*



It's difficult to give broad cultural recommendations because every organisation has different resources and a different vision. That said, there are general guidelines everyone can follow that are supported by this report.

#1 ASK PENETRATING QUESTIONS

It's crucial to obtain a realistic view of the current culture, have a firm idea of the desired culture and a commitment to achieving it. The organisation should be asking itself questions such as:

- How self-aware are your organisation's CEO and executives? Do they know that, as per **Truth 4**, most employees see a greater need for cultural change than most CEOs and executives?
- Are your board and executives united in their description of the organisation's vision, expected values and behaviours, and of the culture it hopes to have (in say, three years)? Do you have a robust plan to get there?
- Do your leaders communicate, reward and role model expected values and behaviours? Do they hold each other accountable individually and as a team?

- Does the Board and CEO realise the significant impact they have on your organisation's culture and do they take accountability for the organisation's culture and for cultural change (or lack thereof)?
- Have your leaders fully engaged your HR team in a way that ensures all people, systems, incentives and communications are aligned with your vision? **Truth 5** shows there's a desire for HR to step into that role.
- Do you ensure that your senior HR team are industry certified and committed to continuous education in the same way as your financial team, for example?

#2 CONDUCT AN INTERNAL REALITY CHECK

If the answers to those questions were alarming, don't panic. While **Truth 1** shows cultural problems are pervasive, you should use this as an impetus to take action. The next step is to get qualitative and quantitative data that will give you a clear description and measurements of the current state of your culture.

There are many ways to do this, but you should keep the following in mind.

- Employee surveys – and digital tools that provide real-time or longitudinal feedback – are useful, but in isolation, are not sufficient to get true visibility. The data should serve as the motivation for change and be used as an ongoing benchmark for measuring shifts in cultural change.
- The proof that technology is no panacea comes from **Truth 3**, which shows larger organisations have larger cultural problems.
- Responsibility should be assigned to key stakeholders from all layers of the organisation, who can offer ongoing insights and champion change.
- Remember, culture is about how your employees behave. Digital tools can provide insight and evidence, but you need skilled people to understand, assess and manage the change process.
- Don't do lots of measurement unless you have the resources to deal with and are also committed to change. We suggest less measurement and more change – not the other way around.

#3 SET A VISION, COMMIT TO CHANGE

Regardless of whether you already have a vision, there are key things to keep in mind if you want it to be sustainable.

- Customers should be at the centre of your thinking and decisions.
- Aim for a worthy purpose that provides meaning and fulfillment. Don't take this for granted, find out if your staff think you have succeeded.
- Tell stories and set up signs and symbols that help reinforce your vision.
- Ensure all your systems, processes and incentives support the vision and the behaviours you expect.
- Recognise great behaviours and demonstrate visible consequence management of poor behaviours.
- Culture must be a board priority (where the board is provided with a cultural report alongside financial reports).
- **Truth 1**, which shows most people value sustainability over short-term goals, highlights that organisational purpose has to be core to cultural change.

- Measuring and role-modelling are great first steps. But a continuous and sustained leadership commitment will be required to show all staff that an ethical culture matters.
- Remember that the modern business environment is dynamic, even volatile, and can directly impact culture. There is no limited series of steps you can take to arrive at organisational success and say ‘the job is done’.

#4 MAKE SURE YOU HAVE THE RIGHT TEAM

- To achieve all of the above, you need culture partners with the right expertise working alongside organisational leaders. Skilled HR partners, who have been industry certified as professional, can positively influence and guide cultural change.
- It’s not enough to just have an HR team, it needs to have up-to-date skills and training because culture is so complex. And ultimately, as the royal commission showed, it interacts with everything and impacts the bottom line.
- Certified HR practitioners provide employers with the confidence that their HR partner has a high-level HR expertise and proven capabilities to support them in driving positive cultural change.

Methodology and Demographics



SURVEY METHODOLOGY

This research is based on a 31-item cultural change survey that was undertaken by 967 respondents from across Australia during May and June 2019, and included the views of CEOs, department secretaries, executives and other employees across numerous industries. Around 650 respondents provided comments about the factors that both prevent and help leaders to achieve an ethical culture.

Survey participants were asked to respond to 31 cultural change survey items on a 1 to 7 Likert agreement scale where 1 = strongly disagree, and 7 = strongly agree. Most of the survey items had two dimensions: Where we are, and Where we should be. In presenting the results in this report, we have aggregated survey responses into titles of Disagree, Neutral and Agree as follows:

Disagree	Neutral	Agree
Strongly disagree (1) Disagree (2) Slightly disagree (3)	Neither agree nor disagree (4) Slightly agree (5)	Agree (6) Strongly agree (7)

Two survey items were responded to on a sliding scale of culture which calibrated into a 200-point scale from a central point.

After completing the cultural change component of the survey, participants were also asked to respond to six survey items about HR standards and certification, as a 7-point agreement scale.

In addition, survey respondents were invited to comment on themes in follow-up phone interviews. Quotes from 15 phone interviews are displayed under insight sections, and are representative of sectors, roles and organisation sizes from the initial data set.

This report also identifies the extent to which respondents believe cultural change is required in their organisations. The extent of change required has been split into three categories as follows:

No change required =	Where a participant's response was the same (or a lower) response to the "Where we should be" compared to "Where we are".
Some change required =	Where a participant's response was one point higher to "Where we should be" than "Where we are".
Significant change required =	Where a participant's response was two or more points higher to "Where we should be" than "Where we are".

A more detailed description of the methodology used in this study can be provided upon request.

Contact: research@insyncsurveys.com.au or research@ahri.com.au

DEMOGRAPHICS

The majority of respondents were in an HR role (60.5%), with the title of HR Director/Manager (44.7%), as indicated in Figures 13 and 14.

Figure 13. Job Role

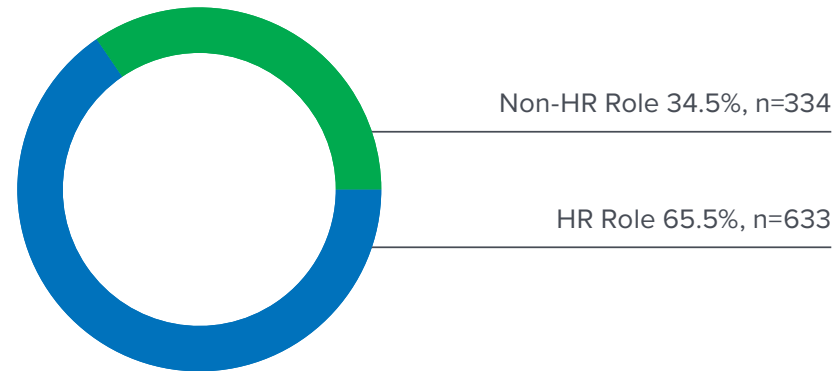
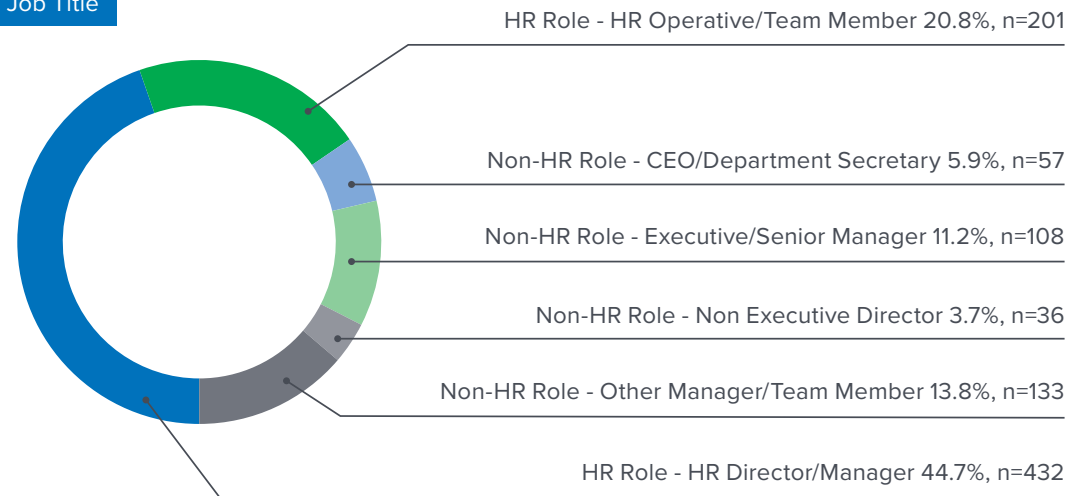


Figure 14. Job Title



DEMOGRAPHICS

Over one-third of respondents were employed in organisations with a headcount between 101-1000 (38.9%), and almost one-third were employed in organisations with a headcount between 1-100 (30.5%), as indicated by Figure 15.

The majority of respondents work in Government and Public Administration (18%), as shown in Figure 16. Many also cited “other” fields (27.1%), manufacturing, maintenance, retail, IT Technology and Telecommunications, Logistics, Tourism and Transport, Hospitality, Mining & Resources, Consulting, Arts/recreation/ media & entertainment, Real estate, Agriculture, Defence, and Research and Development. No single “other” category contributed to more than 5% of the total responses.

Figure 15. Organisation Size

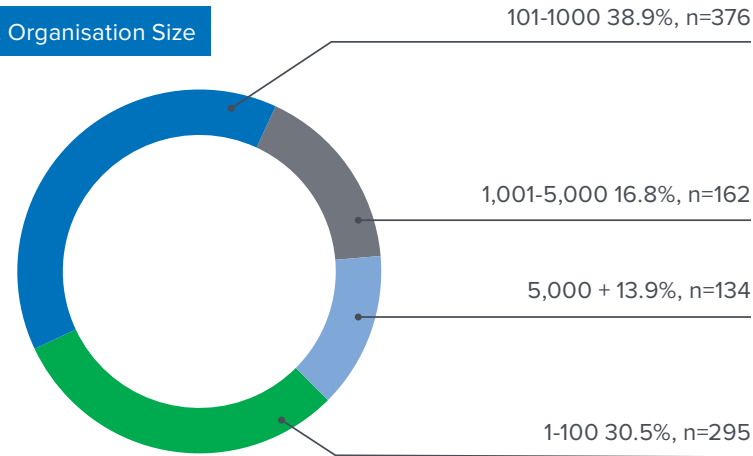
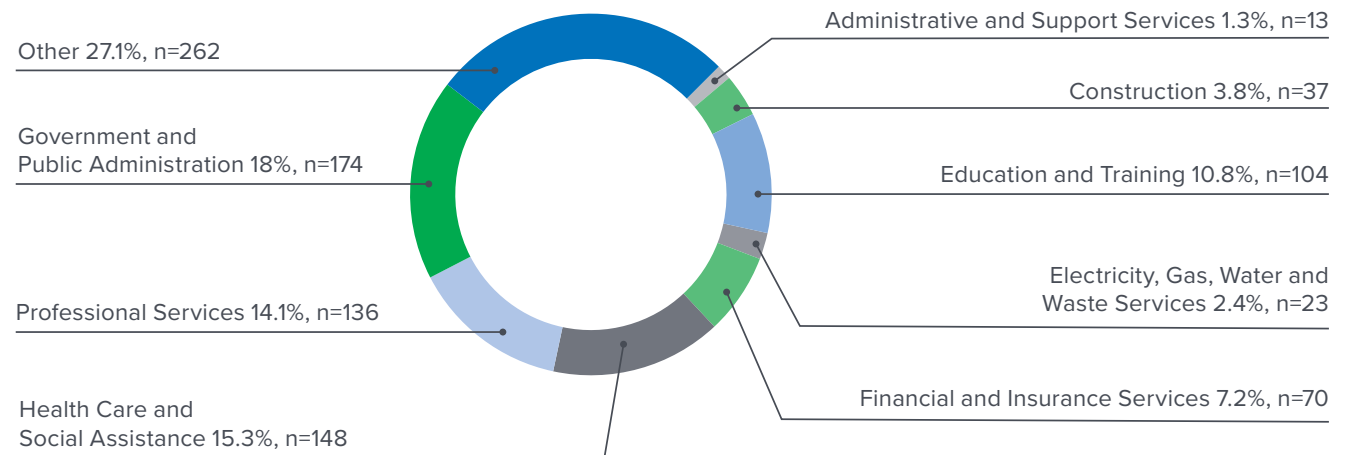


Figure 16. Sector



DEMOGRAPHICS

Nearly 7 out of 10 respondents identified themselves as female (68%), 30.4% as male, and 1.6% as preferred not to identify, as shown in Figure 17.

The majority of participants were aged between 45 and 54 years old (34%), as indicated by Figure 18.

Figure 17. Gender

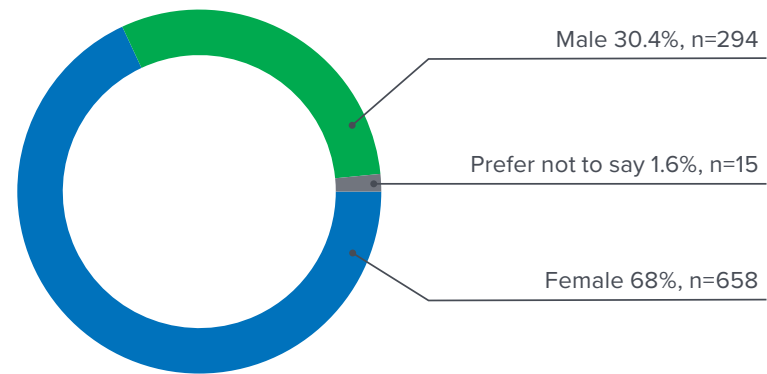


Figure 18. Age group

